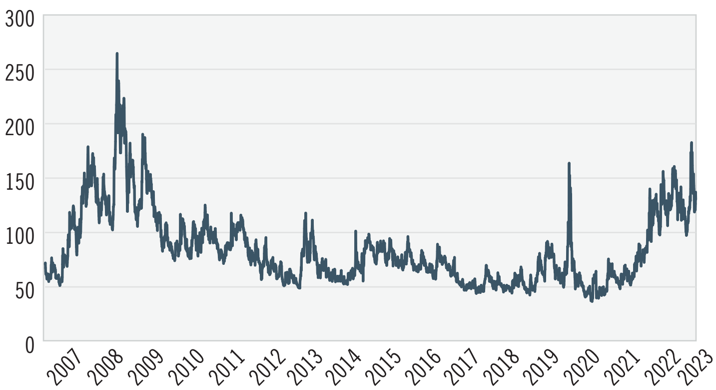
It Might Be Time to Consider Short Duration High Yield

Newfleet
ASSET MANAGEMENT
A Virtus Investment Partner

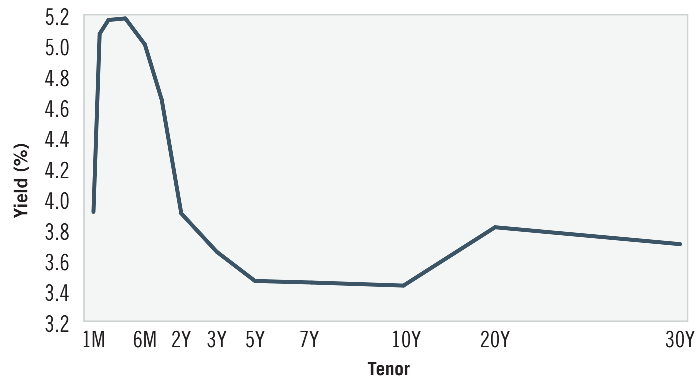
As the front end of the curve offers attractive yield, using a short duration strategy may potentially capture its value while sidestepping U.S. Treasuries price volatility. And, as inflation proves stickier than expected, a short duration focus may also provide duration diversification within high yield to help mitigate interest rate risk – and, possibly, default risk.

Bond Market Volatility Recently Hit a 15-year High



Source: ICE BofA MOVE (MOVE) Index. As of 4/26/23.

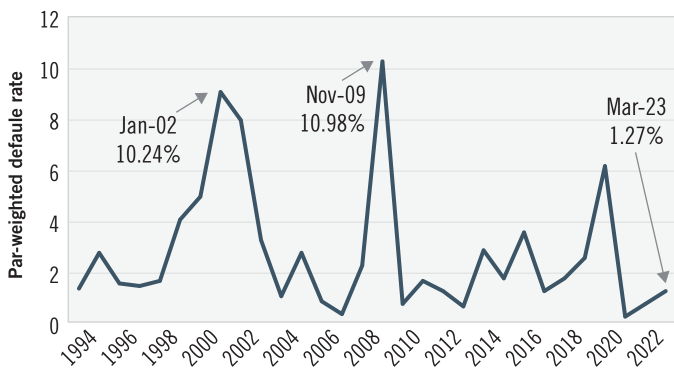
While Recession Fears Have Led to an Inverted Yield Curve



Source: U.S. Department of Treasury, St. Louis Federal Economic Data (FRED). As of 4/26/23.

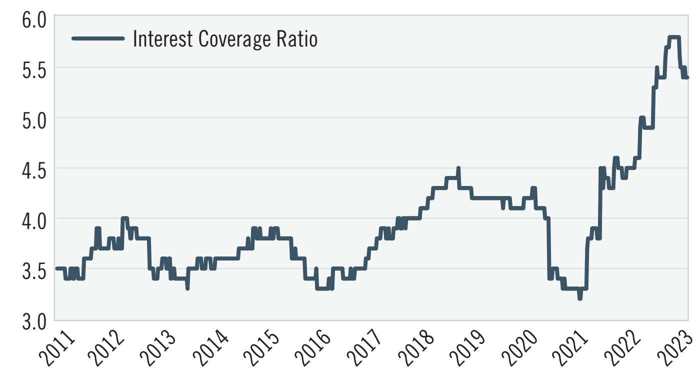
Another positive consideration is that high yield also looks healthier than in recessions past.

Default Rates Are Still Low Compared with Historical Averages



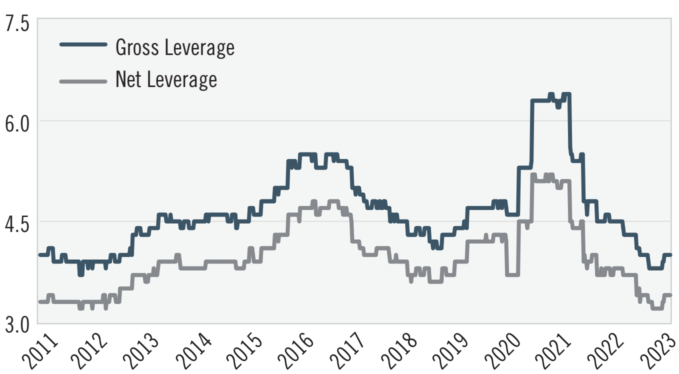
Source: J.P Morgan. As of 3/31/23.

Borrowers' Capacity to Pay Their Debts is Near Record Highs



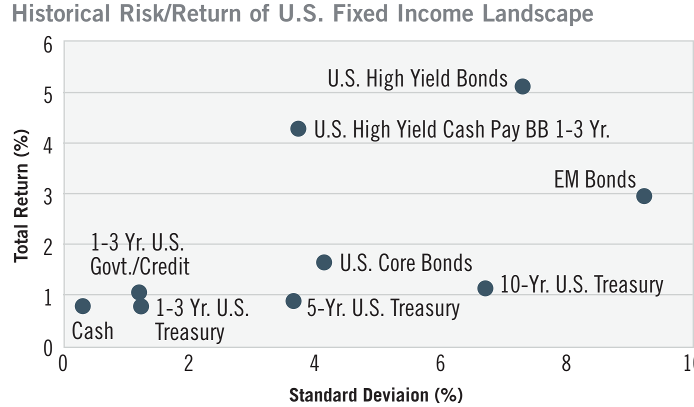
Source: Bank of America. As of 3/31/23.

Leverage – i.e., Corporate Debt – Is Low



Source: Bank of America. As of 3/31/23.

Historical Risk/Return of U.S. Fixed Income Landscape



Past performance is not indicative of future results. Data from 10/31/11-3/31/23. Source: FactSet: ICE Data Services; Morningstar. Representative indexes defined on page 2.

As credit and rate volatility pose ongoing risks, short duration high yield (represented by the ICE BofA 1-3 Year BB U.S. High Yield Cash Pay Index above right) may help generate stronger returns at lower volatility compared with other fixed income assets.

About the Newfleet Leveraged Finance Team

- $3.1 billion in leveraged finance assets under management, including $1.2 billion in loans and $1.9 billion in high yield.
- The Fund boasts an experienced portfolio management team with average industry experience of 28 years.
- The 13-person leveraged finance team has average industry experience of 22 years.
- Newfleet is comprised of 42 investment professionals, with many of its key members having worked together since the early 1990s. We have been active in the high yield market since 1992.

As of 3/31/23.

Newfleet ASSET MANAGEMENT

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To learn more about Newfleet Asset Management, please visit newfleet.com.

For information regarding our subadvised mutual funds, please visit virtus.com or call 1-800-243-4361.

Short Duration High Yield Bonds: ICE BofA 1-3Y BB US Cash Pay High Yield Index; U.S. Core Bonds: Bloomberg U.S. Aggregate Bond Index; EM Bonds: JPM EMBI Global Core Index; U.S. High Yield Bonds: ICE BofA U.S. High Yield Index; 1-3 Year Govt/Credit: ICE BofA U.S. Corp & Govt 1-3 Year Index; 10-Yr U.S Treasury: ICE BofA U.S. Treasury Current 10 Year Index; 5-Yr U.S. Treasury: ICE BofA U.S. Treasury Current 5 Year Index; 1-3 Yr U.S. Treasury: ICE BofA U.S. Treasuries 1-3 Year Index; Cash: ICE BofA 3-Mo U.S. Treasury Bill Index.

INDEX DEFINITIONS

The **Bloomberg U.S. Aggregate Bond Index** is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS. The **Bloomberg U.S. Corporate High Yield Index** is an unmanaged, U.S. dollar– denominated, nonconvertible, non-investment-grade debt index. The index consists of domestic and corporate bonds rated Ba and below with a minimum outstanding amount of $150 million. The **ICE BofA US Cash Pay High Yield Index** tracks the performance of U.S. dollar denominated below investment grade corporate debt, currently in a coupon paying period, that is publicly issued in the U.S. domestic market. The **ICE BofA 1-3 Year BB US Cash Pay High Yield Inde**x is a subset of the ICE BofA US Cash Pay High Yield Index including all securities with a remaining term to final maturity less than 3 years and rated BB1 through BB3, inclusive. The **ICE BofA U.S. High Yield Constrained Index** tracks the performance of U.S. dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market but caps issuer exposure at 2%. The **ICE BofA Euro High Yield Index** tracks the performance of Euro denominated below investment grade corporate debt publicly issued in the euro domestic or eurobond markets. Qualifying securities must have a below investment grade rating (based on an average of Moody's, S&P, and Fitch). The **ICE BofA 1-3 Year U.S. Corporate & Government Index** is a subset of ICE BofA U.S. Corporate & Government Index including all securities with a remaining term to final maturity less than 3 years. The **ICE BofA Global High Yield Corporate & Sovereign Index** tracks the performance of the below investment grade global debt markets denominated in the major developed market currencies. The **JPMorgan EMBI Global Core Index** is a broad, diverse U.S. dollar denominated emerging markets debt benchmark that tracks the total return of actively traded debt instruments in emerging market countries. The **Russell 2000® Index** is a market capitalization weighted index of the 2,000 smallest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. The **S&P 500® Index** is a free-float market capitalization-weighted index of 500 of the largest U.S. companies. The indexes are calculated on a total return basis. The indexes are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and are not available for direct investment.

IMPORTANT RISK CONSIDERATIONS

Credit Risk: If the issuer of a debt instrument fails to pay interest or principal in a timely manner, or negative perceptions exist in the market of the issuer's ability to make such payments, the price of the security may decline. **Debt Instruments:** Debt instruments are subject to greater levels of credit and liquidity risk, may be speculative and may decline in value due to changes in interest rates or an issuer's or counterparty's deterioration or default. **High Yield Fixed Income Securities:** There is a greater risk of issuer default, less liquidity, and increased price volatility related to high yield securities than investment grade securities. **Market Volatility:** The value of the securities in the portfolio may go up or down in response to the prospects of individual companies and/or general economic conditions. Local, regional, or global events such as war, terrorism, pandemic, or recession could impact the portfolio, including hampering the ability of the portfolio's manager(s) to invest its assets as intended. **Issuer Risk:** The portfolio will be affected by factors specific to the issuers of securities and other instruments in which the portfolio invests, including actual or perceived changes in the financial condition or business prospects of such issuers. **Interest Rate:** The values of debt instruments may rise or fall in response to changes in interest rates, and this risk may be enhanced for securities with longer maturities. **Prospectus:** For additional information on risks, please see the fund's prospectus.