U.S. Fixed Income Commentary

March 2020

Economic and U.S. Treasury Market Review

IN THIS ISSUE

The **U.S. manufacturing sector** contracted in March as the coronavirus outbreak continued to pressure the economy, according to the ISM Manufacturing Index. The Index recorded a reading of 49.1, which was down from 50.1 in February. Any reading above 50 signals an expansion of the manufacturing sector. Activity was driven down by a decline in new orders and production while prices within the sector also contracted.

Inflation was 2.3 percent on an annualized basis, according to the U.S. Bureau of Labor Statistics and its Consumer Price Index for All Urban Consumers (CPI-U**)**. Excluding volatile food and energy sources, prices increased 2.4% compared with a year earlier.

The **labor market** was hard-hit during the month, as U.S. employment plummeted by a degree not observed since the last recession. Payrolls fell 701,000 from the prior month, and the jobless rate jumped to 4.4%, the highest since 2017, as the coronavirus rapidly spread across the US. Employment in hospitality and leisure was hit particularly hard, falling by 459,000, almost wiping out nearly two years of job gains.

Consumer Confidence slumped in March to the lowest level since 2017, according to the Conference Board, as the index fell 12.6 points, the most since 2011, to 120. However, the cutoff date for the survey was March 19th, which was before US job cuts during the month intensified.

Yield Curve

The month of March saw a significant increase in market volatility, driven by uncertainty regarding the coronavirus and a steep decline in oil prices due to recent actions from Russia and Saudi Arabia. As such yields declined across the yield curve. During the month, 2-year U.S. Treasury yields declined 67 basis points (bps), 10-year rates fell by 48 bps, and 30-year rates dropped 35 bps.

The Federal Reserve decreased its policy rate to close to zero and announced a quantitative easing program that has included a variety of measures to help support the markets. Outside of the US, global central banks have also done their own forms of QE including at the ECB, BOJ, and RBA to name a few. While market participants expected the combined fiscal and monetary responses from governments globally to help provide liquidity in the market, the economic outlook remained unclear given the lack of clarity regarding the ultimate duration of the coronavirus. Further, suppressed economic activity due to the fallout from the virus (business closings, social distancing, etc) was expected to likely have a material impact on economic growth, although additional fiscal stimulus measures such as the recent $2 trillion US package, the largest in US history, was anticipated to help to mitigate some of these consequences.

ISM Manufacturing Index is based on data compiled from a nationwide survey of purchasing and supply management executives. The Consumer Price Index For All Urban Consumers (CPI-U) measures the changes in the price of a basket of goods and services purchased by urban consumers. The Consumer Confidence Index is a survey that measures how optimistic or pessimistic consumers are regarding their expected financial situation.

TOTAL RETURN PERFORMANCE (%)

	March 2020	YTD	2019	2018	2017	2016
Bloomberg Barclays U.S. Aggregate Bond	-0.59	3.15	8.72	0.01	3.54	2.65
Bloomberg Barclays Long Govt/Credit Bond	-2.95	6.21	19.59	-4.68	10.71	6.67
Bloomberg Barclays Int. Govt/Credit Bond	-0.44	2.40	6.80	0.88	2.14	2.08
Bloomberg Barclays 1-3 year Govt/Credit Bond	0.31	1.69	4.03	1.60	0.84	1.28
Bloomberg Barclays U.S. Credit Bond	-6.63	-3.14	13.80	-2.11	6.18	5.63
Bloomberg Barclays Global Agg (Ex-U.S. Hedged)	-1.97	0.51	7.57	3.17	2.48	4.90
10-Year Treasury	4.16	11.93	8.91	-0.03	2.05	-0.16
ICE BofA U.S. High Yield Constrained	-11.77	-13.13	14.41	-2.26	7.47	17.49
J.P. Morgan EMBI Global	-12.55	-11.76	14.42	-4.61	9.32	10.19
S&P 500	-12.35	-19.60	31.49	-4.38	21.83	11.96

YIELDS (%)

	March 2020	MTD Change	YTD Change	2019	2018	2017	2016
2-year Treasury (%)	0.25	-0.67	-1.32	-0.92	2.49	1.88	1.19
5-year Treasury (%)	0.38	-0.56	-1.31	-0.82	2.51	2.21	1.93
10-year Treasury (%)	0.67	-0.48	-1.25	-0.77	2.68	2.41	2.44
30-year Treasury (%)	1.32	-0.35	-1.07	-0.63	3.02	2.74	3.07
3-Month LIBOR (%)	1.45	-0.01	-0.46	-0.90	2.81	1.69	1.00

OPTION-ADJUSTED SPREADS (BPS)

	March 2020	MTD Change	YTD Change	2019	2018	2017	2016
U.S. Corporate	285	161	192	93	153	93	123
U.S. Credit	265	148	176	90	143	89	118
U.S. Credit AA	50	30	34	17	81	55	79
U.S. Credit A	158	88	106	52	118	73	101
U.S. Credit BBB	378	216	253	125	197	124	160
U.S. MBS	61	7	21	39	35	25	15
CMBS	208	126	128	80	95	73	87
ABS	213	177	169	44	53	36	59
U.S. High Yield	873	371	524	350	526	343	409
U.S. High Yield BB	630	301	440	191	354	211	270
U.S. High Yield B	954	441	608	346	531	343	382
U.S. High Yield CCC	1818	624	819	999	989	615	807
Leveraged Loans	910	438	474	436	502	390	450
Emerging Market Debt	660	293	354	306	343	226	301

Source: Bloomberg Barclays, as of March 31, 2020.

Investment Grade Review

Investment Grade Bonds Down in March, Earn -0.59%

The **Bloomberg Barclays U.S. Aggregate Bond Index** earned a total return of -0.59% in a market environment characterized by falling interest rates, widening yield spreads, and a higher level of volatility and uncertainty.

Corporate bonds were the worst-performing spread sector in March (on a duration-adjusted basis) and underperformed similar-duration U.S. Treasuries by 1,040 bps. Within the corporate sector, Utilities were the weakest performers, followed by Industrials and Financials.

Commercial mortgage-backed securities (CMBS) suffered a negative -633 bps of excess returns relative to similar-duration U.S. Treasuries as the markets grappled with liquidity issues and uncertainty regarding the duration of the economic shutdown.

Government-related securities (GRS), trailed similar-duration U.S. Treasuries by 574 bps. Within this sector, Sovereign bonds were the weakest performers, followed by Local Authority, Agency, and Supranational bonds.

Asset-backed securities (ABS) underperformed similar-duration U.S. Treasuries by 342 bps. Within this sector, ABS backed by utility loans fared worst followed by credit card receivables and automobile loans.

Mortgage-backed securities (MBS) faired relatively well, trailing similar-duration U.S. Treasuries by 22 bps as market participants continued to expect that the MBS market will be a primary mechanism for the Federal Reserve to relieve broader stress points in the financial system.

BLOOMBERG BARCLAYS U.S. AGGREGATE BOND INDEX PROFILE

Index Characteristics	Month End	12/19	12/18
YTW (%)	1.61	2.31	3.28
OAS	98	39	54
Modified Duration (yrs.)	5.93	6.06	5.87
# of issues	11,152	10,982	10,252

	Total Return (%)		Excess Returns (bps)*	
	MTD	YTD	MTD	YTD
U.S. Agency	0.98	4.14	-0.96	-1.06
U.S. Credit	-6.63	-3.14	-9.86	-12.72
BBgBarc Mortgage	1.06	2.82	-0.22	-0.83
BBgBarc CMBS	-3.74	0.47	-6.33	-6.45
BBgBarc ABS	-2.07	-0.21	-3.42	-3.22

	Total Return (%)		Excess Returns (BPS)*	
	MTD	YTD	MTD	YTD
U.S. Treasury	2.89	8.20	0.00	0.00
Aaa Credit	0.52	3.96	-1.84	-2.44
Aa Credit	-2.91	1.54	-6.15	-7.91
A Credit	-4.46	-0.50	-7.75	-10.30
Baa Credit	-10.34	-7.39	-13.67	-17.37

			Excess Returns (BPS)*	
Asset-backed Sector	%MV	MTD	YTD	2018
Credit Cards	39.9	-318	-301	68
Autos	58.2	-355	-333	73
Utility	1.9	-468	-428	103

* Excess returns relative to similar-duration U.S. Treasury securities.

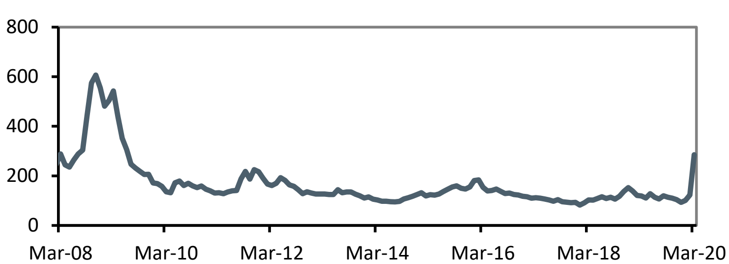
BLOOMBERG BARCLAYS CORPORATE SECTORS

			Excess Returns (BPS)*	
	%MV	MTD	YTD	2019
Banks	23.1	-689	-868	592
Consumer Noncyclical	16.8	-821	-1,149	738
Technology	9.0	-644	-908	596
Communications	9.0	-1,033	-1,341	1,032
Energy	7.2	-2,339	-2,895	718
Electric Utilities	7.0	-1,209	-1,513	463
Consumer Cyclical	7.0	-1,033	-1,341	615
Capital Goods	5.5	-1,027	-1,265	627
Basic Industry	2.9	-1,285	-1,673	755
Transportation	2.6	-1,157	-1,556	577

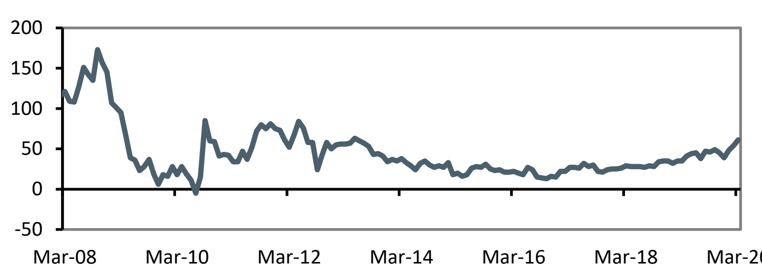
			OAS (BPS)	
	Month End	12/19	12/18	12/17
Banks	246	73	142	79
Consumer Noncyclical	230	92	147	86
Technology	211	74	124	78
Communications	259	110	183	133
Energy	563	128	188	119
Electric Utilities	253	96	144	91
Consumer Cyclical	333	92	153	85
Capital Goods	257	82	142	77
Basic Industry	359	132	185	115
Transportation	282	96	139	86

* Excess returns relative to similar-duration U.S. Treasury securities.

BLOOMBERG BARCLAYS CREDIT OPTION-ADJUSTED SPREAD (BPS)



BLOOMBERG BARCLAYS MBS OPTION-ADJUSTED SPREAD (BPS)



Source: Bloomberg Barclays, as of March 31, 2020.

Money Market Review

Fed Responds Aggressively to the Coronavirus Outbreak

- In an effort to reduce the negative impact to the economy, the Federal Reserve cut interest rates on two separate occasions during the month of March. The first emergency rate cut occurred on March 3rd, which lowered the target range for the Effective Fed Funds Rate (EFFR) by 50 basis points to 1.00-1.25%. The second emergency rate cut occurred on March 15th, when the Federal Reserve lowered interest rates to zero, reducing the target range for the EFFR by 100 basis points to 0 – 0.25%.
- In addition to the rate cuts, the Fed reduced the rate of emergency lending at the discount window for banks by 125 basis points to 0.25%, and launched a quantitative easing program to buy both Treasuries and Mortgages in an effort to improve market liquidity.
- Interest rates on one-month and three-month Treasury bills turned negative for a period of time at the end of March, challenging certain funds ability to get invested.

Fed Establishes Facility to Buy Securities from Money Market Funds

- The Money Market Mutual Fund Liquidity Facility (MMLF) was announced on March 18th and provides liquidity to money market funds by providing non-recourse loans to banks to purchase eligible assets from money market funds. The program will be available to prime money market funds through September 30, 2020.
- The US Treasury is providing a $10 billion backstop in the event any securities purchased from money market funds default.
- As of April 1st, the MMLF program has been used for $53 billion in money market transactions.

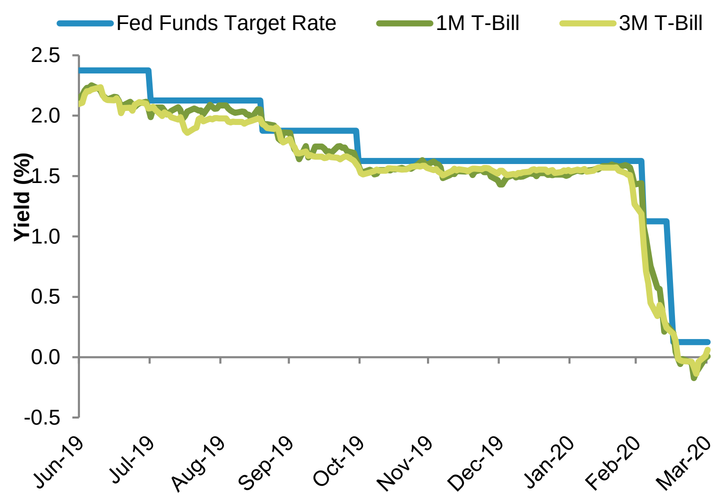
CARES Act to Usher in a Period of Record Treasury Supply

- In order to provide the funding required for the various economic support programs, the U.S. Treasury is expected to add approximately $500 billion in net Bill issuance during the month of April and as much as $1 trillion in net new Bill issuance during the 2nd quarter.
- For the week ending Friday, April 3, net issuance of Treasury bills totaled $319 billion, setting a new record high for weekly issuance. The previous record was $190 billion from October 2008.
- The added Bill supply helped bring the front-end of the Bill curve back into positive territory.

Taxable MMF Assets Surge to Over $4 Trillion

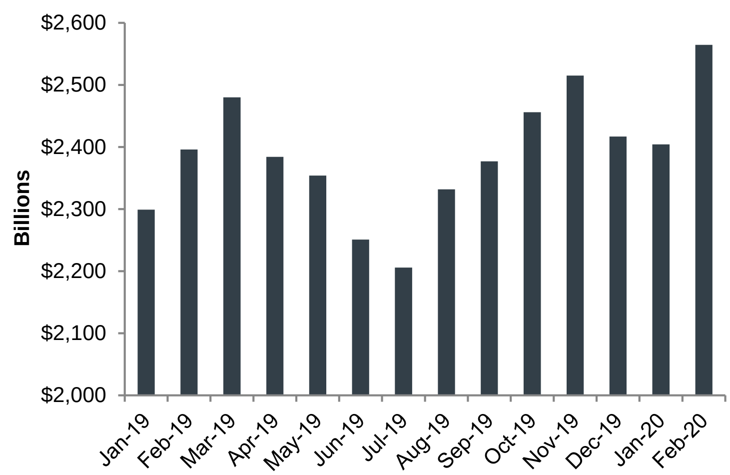
- Through March 31, prime MMF assets have decreased by $122 billion, while Government and Agency MMF assets are higher by $502 billion, and Treasury MMF assets have increased by $320 billion.

Short-Term Rates



Source: Bloomberg as of 3/31/2020.

U.S. Treasury Bills Outstanding

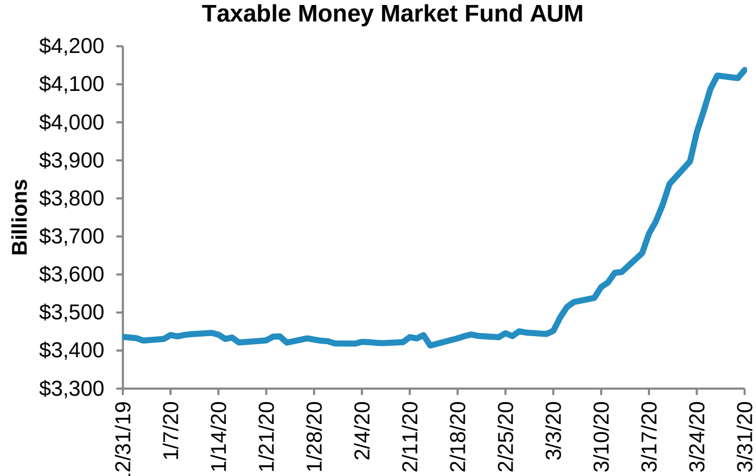


Source: SIFMA, U.S. Treasury, and Thomson Reuters as of 2/29/2020.

KEY INTEREST RATES

Rates (%)	January	February	March
Fed Funds Effective	1.59	1.58	0.08
1M Bill	1.52	1.43	0.01
3M Bill	1.54	1.27	0.06
6M Bill	1.52	1.15	0.14
12M Bill	1.42	1.01	0.15
SOFR	1.60	1.60	0.01
1M LIBOR	1.66	1.52	0.99
3M LIBOR	1.75	1.46	1.45
SIFMA	0.94	1.15	4.71
Treasury Only MMF*	1.25	1.25	0.34
Treasury MMF*	1.28	1.28	0.15
Gov't & Agencies MMF*	1.31	1.30	0.26
Prime MMF*	1.52	1.50	0.83

Taxable Money Market Fund AUM



Source: iMoneyNet as of 3/31/2020.

* 7-Day Yield average for institutional category. Source: Bloomberg and iMoneyNet as of 3/31/2020.

You could lose money by investing in a money market fund. An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Before investing, always read a money market fund's prospectus for policies specific to that fund.

High Yield Review

High Yield Returns -11.77% in March

High yield bonds, as measured by the ICE BofA US HY Constrained index, fell -11.77% for the month of March. High yield bonds suffered the second most severe loss in history as the COVID-19 pandemic ignited an economic crisis, prompting policymakers to take unprecedented measures to support the financial markets and the economy. The Treasury and the Federal Reserve launched and expanded multiple facilities aimed to provide liquidity and support the flow of credit to consumers and businesses. Additionally, President Trump signed a historic $2T stimulus package to provide relief to beleaguered American workers and businesses. Market volatility, as measured by the VIX, hit a record high of 82 on March 16 and remained at significantly elevated levels during the entire month. Oil prices dropped 54% to $20.48 per barrel from $44.76 at the end of February due to fallout from the coronavirus and the price war between Saudi Arabia and Russia. Lipper reported the second largest monthly outflow on record, totaling $13.0 billion, driven mostly by outflows in actively managed funds ($9.8 billion). In March, bond issuance activity skidded to a near-halt, totaling $4.2 billion, as markets endured a massive sell-off. Investors rotated to higher quality, shorter duration asset classes. As measured by the ICE BofA US High Yield Constrained credit quality indices, each rating tier sustained losses with the double-B rated credit index holding up the best, returning -9.58% in March. The single-B and triple-C and lower rated bonds suffered heavier losses, posting -12.99% and -19.53%, respectively.

The price of high yield bonds declined to $85.79 from $98.24, at the end of February. Spreads widened 370 basis points to 877 basis points at month-end. Yields increased to 9.25% from 6.25% at the end of February. The forecasted default rate for the U.S. high yield market as calculated by Moody's is expected to increase to the mid-4% range for the next twelve months.

ICE BofA U.S. HIGH-YIELD CONSTRAINED INDEX PROFILE

	Month End	12/19	12/18
YTW (%)	9.25	5.41	7.95
Modified Duration (yrs)	4.30	4.58	4.43
OAS (bp)	877	360	533
# of Issues	1,792	1,775	1,838

TOTAL RETURN (%)

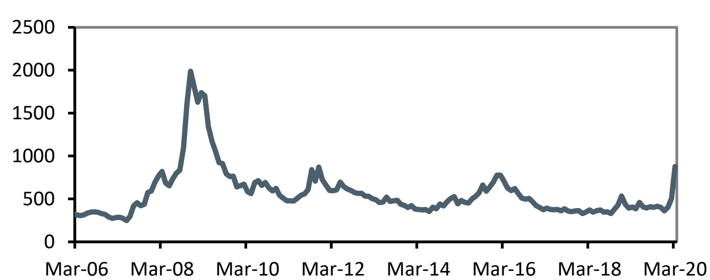
	%MV	MTD	YTD	2019	2018
ICE BofA U.S. High-Yield Constrained	100.0	-11.88	-13.28	14.52	-2.27
Cash Pay	99.5	-11.81	-13.21	14.47	-2.26
BB-rated	52.6	-9.37	-10.35	15.74	-2.46
B-rated	37.2	-12.59	-14.19	14.48	-1.54
CCC-rated	10.3	-20.77	-23.09	9.21	-4.15

ICE BofA HIGH-YIELD CORPORATE SECTORS

	%MV	OAS (BPS)	MTD	YTD	2019	2018
Healthcare	10.8	716	-6.74	-6.47	15.51	1.53
Telecom	10.6	847	-8.30	-7.28	14.11	1.08
Energy	8.8	2013	-33.96	-40.03	5.73	-6.37
Technology	7.7	748	-8.13	-8.70	15.57	-1.50
Cable TV	5.8	470	-2.93	-3.12	18.59	-1.37
Gaming	4.0	920	-16.36	-18.23	17.23	-1.83
E. Utilities	2.8	618	-3.95	-5.65	14.93	0.94
Chemical	2.5	793	-8.95	-10.21	15.62	-3.05
Autos	1.9	905	-13.52	-14.45	16.57	-8.31
Paper	0.5	887	-11.13	-12.82	11.74	-1.22

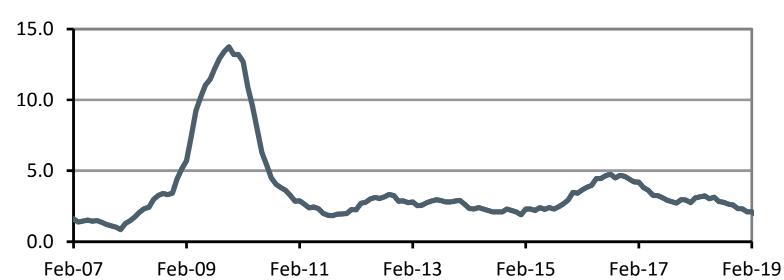
Source: ICE BofA, March 31, 2020.

HIGH-YIELD BOND SPREADS (OAS BPS)



Source: ICE BofA; Bloomberg Barclays, as of March 31, 2020.

MOODY'S TRAILING 12-MONTH DEFAULT RATE (%)

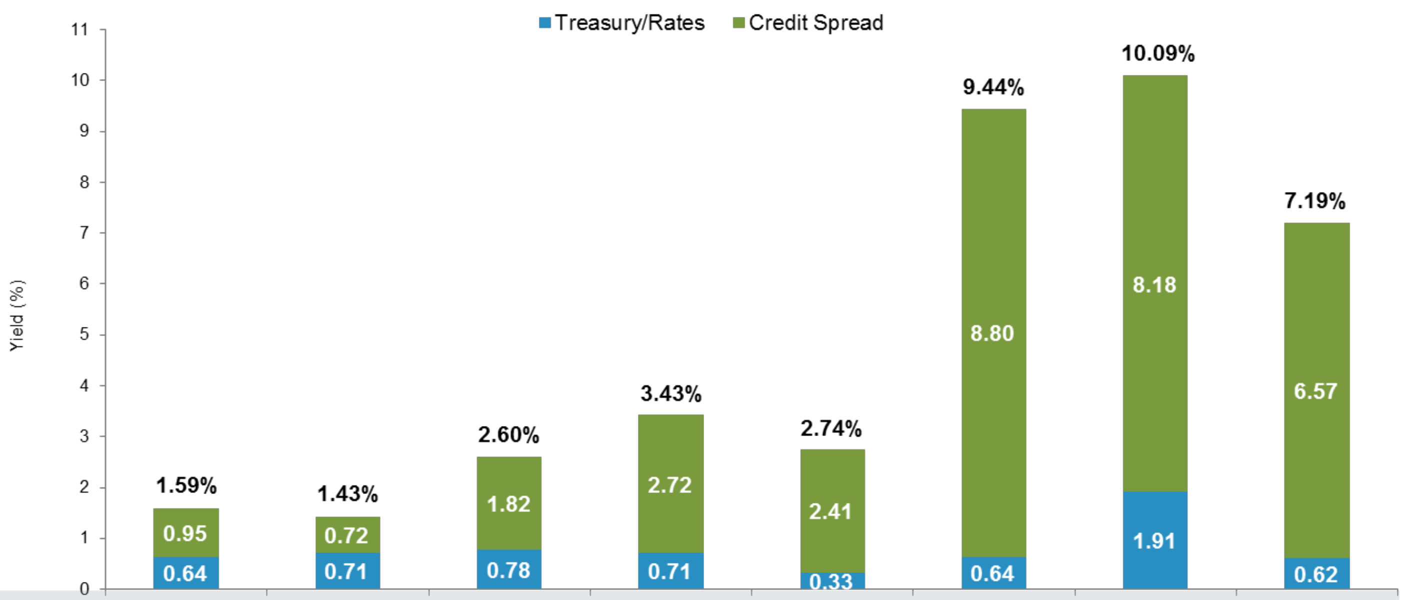


Source: Moody's Investor Services, Inc. as of February 29, 2020 (latest available).

Chart of the Month

Due to the widening in March, yield spreads for credit sensitive assets have increased significantly across the board.

The Fixed Income Opportunity Set as of March 31, 2020



Percentile Rank	U.S. Aggregate	Securitized	Local Authorities	U.S. Corp IG	International Credit	U.S. Corp HY	Lev Loan	EMD
Yield Rank	0	0	2	57	51	91	96	94
Spread Rank	96	84	95	96	94	96	96	98

Source: Bloomberg L.P. and Standard & Poor's, Inc. as of March 31, 2020.

Note: the blue portion of the leveraged loan bar represents 3-month USD LIBOR.

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INDEX DEFINITIONS:
Bloomberg Barclays U.S. Mortgage Backed Securities Index: Tracks agency mortgage-backed pass-through securities (both fixed-rate and hybrid ARM) guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). The index is constructed by grouping individual TBA-deliverable MBS pools into aggregates or generics based on program, coupon and vintage.
Bloomberg Barclays Long Govt/Credit Bond Index: Measures the investment return of all medium and larger public issues of U.S. Treasury, agency, investment-grade corporate, and investment-grade international dollar-denominated bonds with maturities longer than 10 years.
Bloomberg Barclays Int. Govt/Credit Bond Index: measures the performance of U.S. dollar-denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year and less than ten years.
Bloomberg Barclays 1-3 year Govt/Credit Bond Index: A market value-weighted index of fixed-rate investment-grade debt securities with maturities from one to three years from the U.S. Treasury, U.S. Government-Related, and U.S. Corporate Indexes.
Bloomberg Barclays Global Aggregate Index: Flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.
Bloomberg Barclays U.S. Aggregate Bond Index: Broad-based, market-value-weighted benchmark that measures the performance of the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. Sectors in the index include Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS.
Bloomberg Barclays U.S. Credit Bond Index: Measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the U.S. Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.
Bloomberg Barclays U.S. Government/Credit Index: A broad-based flagship benchmark that measures the non-securitized component of the U.S. Aggregate Index. It includes investment grade, U.S. dollar-denominated, fixed-rate Treasuries, government-related and corporate securities.
Bloomberg Barclays U.S. Treasury Index: Unmanaged index of public obligations of the U.S. Treasury with remaining maturity of one year or more.
ICE BofA U.S. High Yield Constrained Index: Modified market capitalization–weighted index of U.S. dollar-denominated below-investment-grade corporate debt publicly issued in the U.S. domestic market. Qualifying securities must have a below-investment-grade rating (based on an average of Moody's, S&P, and Fitch). The country of risk of qualifying issuers must be an FX-G10 member, a Western European nation, or a territory of the U.S. or a Western European nation.
J.P. Morgan Emerging Markets Bond Index Global (JPM EMBI Global): Includes U.S. dollar denominated Brady bonds, Eurobonds, traded loans and local market debt instruments issued by sovereign and quasi-sovereign entities.
S&P 500 Index: An index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

Certain data and other information in this report was supplied by outside sources and is believed to be reliable as of the date presented. However, FIAM has not and cannot verify the accuracy of such information, and such information is subject to change without notice.

In general the bond market is volatile, and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities.) Unlike individual bonds, most bond funds do not have a maturity date, so holding them until maturity to avoid losses caused by price volatility is not possible. Fixed income securities also carry inflation risk and credit and default risks for both issuers and counterparties. Lower-quality debt securities generally offer higher yields, but also involve greater risk of default or price changes due to potential changes in the credit quality of the issuer.

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