INVESTMENT COMMENTARY

At last, hindsight is literally 2020…and as the year drew to its much anticipated close, the U.S. prepared for a change in administration, initiated the Covid-19 Coronavirus vaccine roll-out and passed a $900 billion Covid-19 Relief Package. The damage to the world economy was deep and widespread. The International Monetary Fund forecasted in the October 2020 World Economic Outlook that global growth will be -4.4% for 2020, down from their forecast at the start of the year for +3.3% global growth during 2020. The U.S. economy has bounced back from its bottom with 33.4% third quarter U.S. GDP growth and a reduction in the U.S. Unemployment Rate to 6.7%. The U.S. financial markets continued to take their cues from monetary stimulus, while looking beyond the Congressional battles over additional fiscal relief and virtually ignoring the economic impacts from the lockdown. The S&P 500 returned 18.39% in 2020, while the tech-heavy NASDAQ 100 returned 48.88%. The bond markets also did their job well, while range-bound by low interest rates and tight spreads, with the Bloomberg Barclays U.S. Aggregate index returning 7.51% in 2020.

Short-term yields remained low as the Federal Reserve projected accommodative monetary policy into 2021 and potentially beyond. The yield on the 2-year Treasury declined by 1 basis point to 0.12% during the 4th quarter. Intermediate and long-term yields climbed higher as the U.S. economy proved its resilience. The yield on the 10-year Treasury rose by 23 basis points to 0.91%, producing a (-0.83%) Treasury sector fourth quarter return. The corporate bond market performed well as investment grade corporate bonds returned (+3.05%) and high yield bonds returned (+6.45%) for the quarter. In the investment grade bond market, all sectors outperformed Treasuries: U.S. Agency Securities (+0.18%), Mortgage-backed Securities (+0.24%), Commercial MBS (+1.05%), and Asset-backed Securities (+0.36%) all posted positive returns for the quarter.

Our 2021 outlook for the U.S. economy continues to be largely contingent on the global economic impact of the Covid-19 Virus. Additionally, our 2021 interest rate outlook is clouded by several "known" unknowns that include the availability and timely distribution of a global vaccine, the transition of governmental power, the government's appetite for additional fiscal relief and the market's willingness to digest significant new debt issuance. We do know there are areas of both concern and optimism as we head into this new year. We know that there was a meaningful fourth quarter drop-off in consumption and employment, directly correlated to the increase in Covid-related illness and subsequent leisure/hospitality restrictions/closures. Additionally, there was a significant fourth quarter drop in state and local government employment that went beyond the education sector. We also know from TSA Checkpoint Travel data that 1 million or more travelers passed through U.S. airports 10 of the last 15 days in 2020, which is twice as many 1 million U.S. traveler days than the entire period dating back to mid-March. Given the correlation between heavy travel days and an increase in Covid-related illness, we are not surprised with the concerning uptick in both Covid cases and hospitalizations post-holiday. We do know the incoming administration is highly focused on health and safety measures, vaccinations, and Covid-related fiscal relief. We also know the Federal Reserve is committed to providing the liquidity and stimulus to ensure highly functional markets, and investors have responded very favorably to current monetary policy. From a bond market perspective, we know the yield on the 10-year Treasury is roughly 1% for the first time since early March 2020 and the 2-10-year Treasury yield spread ended the year at +80 basis points, near its 2020 peak and roughly 25 basis points above where it began the fourth quarter. On balance, we believe the markets continue to display optimistic expectations regarding the eradication of the Covid-19 virus but expect volatility, as we deal with the reality of this recovery. We anticipate near-full vaccine delivery will be achieved sometime around Labor Day, which should produce a roughly 80% return of socio-economic activity, with large gatherings like stadium events most likely not resuming until early 2022. While we continue to be concerned about the health, socio-economic and political hurdles we may encounter this year, we do expect the U.S. economy and labor markets to gradually improve as the year progresses. Lastly, as we navigate the ambiguity of this pandemic recovery, we continue to closely monitor economic indicators which may influence any material changes in interest rate expectations and/or credit conditions.

In the fourth quarter, PIA maintained a short portfolio duration relative to our respective benchmarks, given relative value. The 10-year Treasury yield remained range-bound, while moving higher to 0.68%-0.97% and ending the year at 0.91%. We capitalized on the relative value in the credit market by increasing our BBB Credit weighting, as we anticipate the Fed will continue to provide a backstop for risk assets to sustain the U.S. economic recovery. We currently maintain an overweight in corporate credit, with a focus on high quality issuers with strong balance sheets. Our Industrial credits provide incremental risk-adjusted yield and our Financials are senior domestic debt that we believe offer attractive compensation for their sector volatility. During the quarter, we maintained our high yield credit exposure in PIA Plus strategies, as spreads continue to offer attractive risk-adjusted valuation. The Fixed Rate MBS sector posted a positive fourth quarter excess return as the Fed continued its aggressive monthly MBS purchase program. We maintain a modest overweight to Agency Mortgage-backed Securities, as we believe the MBS sector offers long-term value on a risk-adjusted basis.

PIA Investment Strategy Group

KEY RATES

	12/31/20	9/30/20	12/31/19
Fed Funds Target Rate	**0.0-0.25%**	**0.0-0.25%**	**1.5-1.75%**
3 Month LIBOR	**0.24**	**0.23**	**1.91**
On-the-run Treasuries:			
3 Months	**0.06**	**0.09**	**1.54**
6 Months	**0.08**	**0.10**	**1.58**
2 Years	**0.12**	**0.13**	**1.57**
5 Years	**0.36**	**0.28**	**1.69**
10 Years	**0.91**	**0.68**	**1.92**
30 Years	**1.65**	**1.46**	**2.39**

Source: Bloomberg

KEY ECONOMIC INDICATORS

as of	12/31/20	12/31/19
U.S. $ (DXY)	**89.94**	**96.39**
Oil	**48.52**	**61.06**
Gold	**1,894.39**	**1,517.27**
CRB	**167.80**	**185.79**
GDP	**33.4**	**2.1**
CPI	**1.2**	**2.1**
Core (Ex - Food & Energy)	**1.4**	**1.6**
Unemployment Rate	**6.7**	**3.5**
Consumer Confidence	**88.60**	**126.50**
S&P/Case-Shiller – Comp-20	**7.95**	**2.23**

Source: Bloomberg

INDEX RETURNS

	4Q'20	YTD	1-Year
Bloomberg Barclays –			
Universal	**1.29%**	**7.58%**	**7.58%**
Aggregate	**0.67**	**7.51**	**7.51**
Gov-Credit	**0.82**	**8.93**	**8.93**
Int. Gov-Credit	**0.48**	**6.43**	**6.43**
Corporate	**3.05**	**9.89**	**9.89**
Treasury only	**-0.83**	**8.00**	**8.00**
1-3 year Gov	**0.05**	**3.14**	**3.14**
BofA Merrill – 1-yr T-Note	**0.06**	**1.82**	**1.82**
High Yield	**6.45**	**7.11**	**7.11**
International Debt	**5.09**	**10.11**	**10.11**
Emerging Markets Debt	**4.50**	**6.52**	**6.52**
S&P 500	**12.14**	**18.39**	**18.39**
DJIA	**10.73**	**9.72**	**9.72**
NASDAQ 100	**13.09**	**48.88**	**48.88**
MSCI EAFE	**16.09**	**8.39**	**8.39**

Source: Bloomberg Barclays

SECTOR RETURNS

4Q'20	Total Return	Excess Return
U.S. Treasuries	**-0.83%**	**0.00%**
Government-related U.S. Agency	**0.94**	**1.55**
Government-related Credit	**1.26**	**1.99**
Corporate	**3.05**	**4.11**
Corporate Financials	**2.69**	**3.38**
Corporate Industrials	**3.27**	**4.45**
Corporate Utilities	**2.73**	**4.22**
Corporate AAA-rated	**1.47**	**3.18**
Corporate AA-rated	**1.74**	**2.92**
Corporate A-rated	**2.22**	**3.26**
Corporate BBB-rated	**3.99**	**5.03**
Corporate High-Yield	**6.45**	**6.69**
Mortgage-backed Securities-FR	**0.24**	**0.34**
CMBS	**1.05**	**1.50**
ABS	**0.36**	**0.35**

Source: Bloomberg Barclays

Pacific Income Advisers, Inc. (PIA) is an autonomous investment management firm registered under the Investment Advisers Act of 1940. PIA manages a variety of fixed income and equity assets for primarily United States clients.

BENCHMARK DESCRIPTION

Bloomberg Barclays U.S. Universal Index represents the union of the U.S. Aggregate Index, U.S. Corporate High-Yield Index, Investment-Grade 144A Index, Eurodollar Index, U.S. Emerging Markets Index, and the non-ERISA eligible portion of the CMBS Index. The index covers USD-denominated, taxable bonds that are rated either investment-grade or below investment-grade. Some U.S. Universal Index constituents may be eligible for one or more of its contributing subcomponents that are not mutually exclusive. These securities are not double-counted in the index. You can not invest directly in an index.

Bloomberg Barclays U.S. Aggregate Bond Index is an unmanaged index that covers the investment grade fixed rate bond market with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. The issues must be rated investment grade, be publicly traded, and meet certain maturity and issue size requirements. You can not invest directly in an index.

Bloomberg Barclays U.S. Aggregate Ex-Credit Index (LB Agg (Ex-Credit)) The index covers the U.S. investment grade fixed rate bond market, with index components for government, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. You can not invest directly in an index.

Bloomberg Barclays U.S. Government/Credit Bond Index includes securities in the Government and Credit Indices. The Government Index includes treasuries (i.e., public obligations of the U.S. Treasury that have remaining maturities of more than one year) and agencies (i.e., publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government). The Credit Index includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements. You can not invest directly in an index.

Bloomberg Barclays U.S. Intermediate Government/Credit Bond Index is the Intermediate component of the U.S. Government/Credit index. The Government/Credit Index includes securities in the Government and Credit Indices. The Government Index includes treasuries (i.e., public obligations of the U.S. Treasury that have remaining maturities of more than one year) and agencies (i.e., publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government). The Credit Index includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements. You can not invest directly in an index.

Bloomberg Barclays U.S. 1-3 Year Government Bond Index consist of securities in the U.S. Government Index with a maturity from 1 up to (but not including) 3 years. Securities issued by the U.S. Government (i.e., securities in the Treasury and Agency Indices). Inclusions: Public obligations of the U.S. Treasury with a remaining maturity of one year or more. Publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government. You can not invest directly in an index.

Bloomberg Barclays U.S. Treasury Index includes public obligations of the U.S. Treasury. Treasury bills are excluded by the maturity constraint but are part of a separate Short Treasury Index. In addition, certain special issues, such as state and local government series bonds (SLGs), as well as U.S. Treasury TIPS, are excluded. STRIPS are excluded from the index because their inclusion would result in double-counting. Securities in the Index roll up to the U.S. Aggregate, U.S. Universal, and Global Aggregate Indices. You can not invest directly in an index.

Bloomberg Barclays U.S. Corporate Bond Index covers USD-denominated, investment-grade, fixed-rate, taxable securities sold by industrial, utility, and financial issuers. It includes publicly issued U.S. corporate debentures and secured notes that meet specific maturity, liquidity, and quality requirements. Securities in the index roll up to the U.S. Credit and U.S. Aggregate indices. The U.S. Corporate Index was launched on January 1, 1973. You can not invest directly in an index.

BofA Merrill Lynch 1-Year US Treasury Note Index is comprised of a single issue purchased at the beginning of the month and held for a full month. At the end of the month that issue is sold and rolled into a newly selected issue. The issue selected at each month-end rebalancing is the outstanding Treasury note that matures closest to, but not beyond, one year from the rebalancing date. To qualify for selection, an issue must have settled on or before the month-end rebalancing date. You can not invest directly in an index.

Bloomberg Barclays Corporate U.S. High Yield Index - covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (e.g., Argentina, Brazil, Venezuela, etc.) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included. The index includes both corporate and non-corporate sectors. The corporate sectors are Industrial, Utility, and Finance, which include both U.S. and non-U.S. corporations. The Yankee sector has been discontinued as of 7/1/00. The bonds in the former Yankee sector have not been removed from the index, but have been reclassified into other sectors. You cannot invest directly in an index.

Bloomberg Barclays Global Aggregate Index provides a broad-based measure of the global investment-grade fixed-rate debt markets. The Global Aggregate Index contains three major components: the U.S. Aggregate Index (USD 300 million), the Pan-European Aggregate Index (EUR 300 million), and the Asian-Pacific Aggregate Index (JPY 35 billion). In addition to securities from these three benchmarks (94.4% of the overall Global Aggregate market value), the Global Aggregate Index includes Global Treasury, Eurodollar (USD 300 million), Euro-Yen (JPY 35 billion), Canadian (CAD 300 million), and Investment-Grade 144A (USD 300 million) index-eligible securities not already in the three regional aggregate indices. The Global Aggregate Index family includes a wide range of standard and customized subindices by liquidity constraint, sector, quality, and maturity. The Global Aggregate Index is a component of the Multiverse Index. You can not invest directly in an index.

Bloomberg Barclays Global Emerging Markets Index consists of the fixed and floating-rate USD-denominated U.S. Emerging Markets Index and the primarily EUR and GBP-denominated fixed-rate Pan-European Emerging Markets Index and includes emerging markets debt from the following regions: Americas, Europe, Asia, Middle East, and Africa. For the index, an emerging market is defined as any country that has a long term foreign currency debt sovereign rating of Baa1/BBB+/BBB+ or below using the middle rating of Moody's, S&P, and Fitch. The index does not overlap with the U.S. Corporate High-Yield Index or the Pan Euro Corporate High-Yield Index, but may overlap with other investment-grade Aggregate Indices if the securities meet their index eligibility rules. You can not invest directly in an index.

S&P 500 Index – The S&P 500 index includes 500 leading companies in leading industries of the U.S. economy. 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. You can not invest directly in an index.

The NASDAQ-100 Index is a modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international issues listed on the NASDAQ. No security can have more than a 24% weighting. The index was developed with a base value of 125 as of February1, 1985. Prior to December 21, 1998 the Nasdaq 100 was a cap-weighted index. You can not invest directly in an index.

The Dow Jones Industrial Average (DJIA) is an index used to measure the performance of the U.S. financial markets. Introduced on May 26, 1896 by Charles H. Dow, it is the oldest stock price measure in continuous use. Over the past century "the Dow" has become the most widely recognized stock market indication in the U.S. and probably in the entire world. Most of the stocks included in the index are listed on the New York Stock Exchange, and are all large blue-chip companies that reflect the health of the U.S. economy. All but a handful of these have major business operations throughout the world, thus providing some insight into the economic well-being of the global economy. You can not invest directly in an index.

MSCI EAFE Index is a capitalization weighted index that monitors the performance of stocks from Europe, Australiasia, and the Far East. You can not invest directly in an index.

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