INVESTMENT COMMENTARY

The first quarter of 2021 brought renewed economic optimism with the widespread distribution of Covid-19 Coronavirus vaccines. After a relatively tumultuous political transition, the new administration looked to add to the roughly $2.8 trillion of relief and $900 billion stimulus packages passed by the outgoing administration, and the U.S. Senate passed the American Rescue Plan with $1.9 trillion of additional COVID-19 relief. Given this accommodative backdrop, the U.S. was hitting on most cylinders in the first quarter of 2021, benefitting from recoveries in several "reopening" sectors and ongoing fiscal and monetary stimulus. Real gross domestic product (GDP) grew at an annual rate of 4.3% in the fourth quarter of 2020 and, according to the Federal Reserve, is estimated to grow at 6.5% in 2021. Likewise, the Fed predicts inflation (CPI) to level out at 2.4% for 2021. Unemployment declined another 0.2% from February to March to 6.0% according to the Bureau of Labor Statistics (BLS). Crude oil prices rose again for the fourth consecutive quarter to just below $60 and the ISM Manufacturing Index jumped to 64.7 in March, the highest level since 1983. This positive backdrop led to a surge in the Consumer Confidence Index to 109.7 and resulted in the S&P 500 returning 6.17% during the quarter. There was, however, a rotation in leadership during the quarter, as the cap-weighted, tech-heavy NASDAQ 100 returned only 1.76%. Additionally, in late January many investors were introduced to the term "meme stocks", as investor platform Robinhood and social media platform Reddit fueled unprecedented price surges in specific companies, like Gamestop, with significant institutional short interest. Meanwhile, the bond market digested a significant yield curve steepening, driven by concerns about rising inflation expectations, which led to a spike in intermediate-long term interest rates. The Bloomberg Barclays U.S. Aggregate index returned -3.37% for the first quarter.

On the surface, the Fed's decision to continue their current quantitative easing (QE) program and leave interest rates unchanged, with no foreseeable rate hikes through 2023, appears to be inconsistent with the Fed's dual mandate. In spite of dramatic growth (GDP) estimates and a significant pick-up in inflation (CPI) for 2021 and into 2022, the Federal Reserve believes these near-term economic estimates are inorganic and may be transitory. The Fed remains cautious, giving meaningful consideration to the health and economic uncertainties associated with COVID. Two-year Treasury yields climbed 4 basis points to 0.16% during the 1st quarter. The yield on the 10-year Treasury rose by 83 basis points to 1.74%, the largest quarterly increase since 4Q16. Investment grade (IG) corporate bonds sold off as well, returning (-4.65%), while high yield bonds remained positive and returned (+0.85%). All investment grade bond sectors outperformed Treasuries on an excess return basis, while producing negative 1Q21 returns; U.S. Agency Securities (-2.86%), Mortgage-backed Securities (-1.10%), Commercial MBS (-2.32%), and Asset-backed Securities (-0.16%).

The PIA Investment Strategy Group (ISG), using the 10-year Treasury as a proxy for market interest rates, continues to see 2021 market yields range-bound between 1.35% – 2.05%. While a growing pool of investors are becoming increasingly perplexed by the Fed's current monetary policies, given their bullish growth and inflation outlook for 2021, PIA is atypically sanguine with the Fed's positioning. Going into 2020, PIA had de-risked our portfolios following four sequential quarters of declining 2019 corporate profits, coupled with low duration-adjusted investment grade credit spreads. Fast forward a year to the beginning of 2021 and, in spite of the COVID-19 Pandemic, duration-adjusted investment grade credit spreads are slightly tighter. We believe these spread levels are reflective of the relative risk-reward in the investment grade market, as it relates to historically high bond market durations and commensurately low yields, coupled with significant bond market demand created by historic monetary policy. Aside from what we believe is a secular digital economic shift in commerce and consumption that has and will continue to produce clear winners and losers, corporate profits have largely been supported by government intervention, both fiscal and monetary. While we do anticipate near-term inflation expectations to tick higher, we are not meaningfully concerned about runaway long-term inflation. We also believe that the current elevated levels of GDP growth will have difficulties persisting beyond the government's will to fiscally and monetarily support our economy. However, given the historically high investment grade bond market duration levels coupled with relatively tight credit spreads, we are concerned about the potential

volatility from a reaction to a material uptick in inflation expectations and any subsequent warning signs that our economy is softening.

In the first quarter, PIA's portfolios benefitted from a short duration relative to our respective benchmarks, as yields spiked higher in the intermediate-long end of the curve. We also benefitted by maintaining our BBB Credit overweight relative to our benchmarks, as monetary support and the economic recovery persist. We currently maintain an overweight in corporate credit, with a focus on high quality credits 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. For our "Plus" strategies, we maintained our high yield credit exposure, as spreads continue to offer attractive risk-adjusted valuation. 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. The Fixed Rate MBS sector posted a positive excess return during the 1st quarter, as the Fed continued its aggressive monthly MBS purchase program.

PIA Investment Strategy Group

KEY **RATES**

	3/31/21	12/31/20	12/31/19
Fed Funds Target Rate	**0.0-0.25%**	**0.0-0.25%**	**1.5-1.75%**
3 Month LIBOR	**0.19**	**0.24**	**1.91**
On-the-run Treasuries:			
3 Months	**0.02**	**0.06**	**1.54**
6 Months	**0.03**	**0.08**	**1.58**
2 Years	**0.16**	**0.12**	**1.57**
5 Years	**0.94**	**0.36**	**1.69**
10 Years	**1.74**	**0.91**	**1.92**
30 Years	**2.41**	**1.65**	**2.39**

Source: Bloomberg

KEY **ECONOMIC INDICATORS**

as of	3/31/21	3/31/20
U.S. $ (DXY)	**93.23**	**99.05**
Oil	**59.16**	**20.48**
Gold	**1,707.71**	**1,577.18**
CRB	**184.96**	**121.79**
GDP	**4.3**	**2.1**
CPI	**1.7**	**2.3**
Core (Ex - Food & Energy)	**1.4**	**1.8**
Unemployment Rate	**6.2**	**3.5**
Consumer Confidence	**109.70**	**120.00**
S&P/Case-Shiller – Comp-20	**11.10**	**3.08**

Source: Bloomberg

INDEX **RETURNS**

	1Q'21	YTD	1-Year
Bloomberg Barclays –			
Universal	**-3.05%**	**-3.05%**	**2.95%**
Aggregate	**-3.37**	**-3.37**	**0.71**
Gov-Credit	**-4.28**	**-4.28**	**0.86**
Int. Gov-Credit	**-1.86**	**-1.86**	**2.01**
Corporate	**-4.65**	**-4.65**	**8.73**
Treasury only	**-4.25**	**-4.25**	**-4.43**
1-3 year Gov	**-0.05**	**-0.05**	**0.36**
ICE BofA – 1-yr T-Note	**0.07**	**0.07**	**0.17**
High Yield	**0.85**	**0.85**	**23.72**
International Debt	**-5.29**	**-5.29**	**7.15**
Emerging Markets Debt	**-3.48**	**-3.48**	**13.58**
S&P 500	**6.17**	**6.17**	**56.33**
DJIA	**8.29**	**8.29**	**53.78**
NASDAQ 100	**1.76**	**1.76**	**68.88**
MSCI EAFE	**3.61**	**3.61**	**45.35**

Source: Bloomberg Barclays

SECTOR **RETURNS**

1Q'21	Total Return	Excess Return
U.S. Treasuries	**-4.25%**	**0.00%**
Government-related U.S. Agency	**-2.86**	**0.64**
Government-related Credit	**-3.29**	**0.82**
Corporate	**-4.65**	**0.95**
Corporate Financials	**-3.52**	**0.36**
Corporate Industrials	**-4.95**	**1.24**
Corporate Utilities	**-6.56**	**0.90**
Corporate AAA-rated	**-7.40**	**1.20**
Corporate AA-rated	**-5.36**	**0.91**
Corporate A-rated	**-5.01**	**0.45**
Corporate BBB-rated	**-4.16**	**1.36**
Corporate High-Yield	**0.85**	**2.60**
Mortgage-backed Securities-FR	**-1.10**	**0.15**
CMBS	**-2.32**	**0.46**
ABS	**-0.16**	**0.15**

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.

ICE BofA 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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