INVESTMENT COMMENTARY

In the third quarter, the Conference Board Consumer Confidence Index declined three consecutive months to 109.3 from its recent peak of 128.9 set in June. Consumer optimism, driven largely by the "reopening" economy and CARES Act Unemployment Benefits, gave way to growing concerns over the Delta variant of Covid-19, while all CARES Act unemployment benefits ended by September 4th. U.S. real gross domestic product (GDP) continued to grow in the second quarter at an annual rate of 6.6%, while the Conference Board estimates 5.9% GDP growth for the 2021 calendar year, which portends a slowdown in GDP growth for the second half of 2021. The Bureau of Labor Statistics (BLS) reported continued declines in the August unemployment rate at 5.2% and U6 unemployment of 8.9%. Inflation concerns remain elevated as the August Consumer Price Index (CPI) increased to 5.3% before seasonal adjustments and the Core PCE Deflator (ex-energy and food) remained at 3.6% for the trailing three months. Against this backdrop most market measures were relatively unchanged in the third quarter. The S&P 500 returned 0.58% and the tech-heavy NASDAQ 100 generated a 1.09% gain. Interest rates and credit spreads remained range bound as the Bloomberg U.S. Aggregate index eked out a 0.05% return.

The September FOMC statement summarized current risks and thinking as follows, "With progress on vaccinations and strong policy support, indicators of economic activity and employment have continued to strengthen. The sectors most adversely affected by the pandemic have improved in recent months, but the rise in COVID-19 cases has slowed their recovery. Inflation is elevated, largely reflecting transitory factors. Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses." The belly of the yield curve was most impacted during the quarter, as the 5-year Treasury increased 8 basis points to 0.97%, while the 2-year Treasury climbed 3 basis points to 0.28% and the 10-year Treasury yield rose by 2 basis points to 1.49%. Investment grade (IG) corporate bonds were flat during the quarter (+0.00%), while high yield bonds continued to generate positive returns (+0.89%). Most other investment grade bond sectors' total returns hovered near Treasuries (+0.09%); U.S. Agency Securities (-0.15%), Mortgage-backed Securities (+0.10%), Commercial MBS (-0.03%) and Asset-backed Securities (+0.05%).

The PIA Investment Strategy Group (ISG), using the 10-year Treasury as our bond market proxy, continues to hold our 2021 calendar year interest rate range estimate at 1.40% – 2.10%. Bond market investors appear to be shifting their focus from the Fed's outlook for "transitory" inflation to the Fed's approach and timing for mitigating post-pandemic inflation. We believe the Fed has proven to be effectively transparent and, as such, we believe the Fed is "data dependent" and, therefore, reactive rather than anticipatory. The Fed stated in their recent September 22nd FOMC statement, "…with inflation having run persistently below the 2% longer-run goal, the FOMC will aim to achieve inflation moderately above 2% for some time so that inflation averages 2% over time and longer-term inflation expectations remain well anchored at 2%". Based on this statement, we are confident the Fed will "taper" well before any decision to hike rates but potentially not in advance of year-end. We also believe the Fed is now between a rock and a hard place, with heightened risk of policy errors. The Fed has stated they are well away from meeting their mandate for full employment, so the Fed needs to deftly balance their growth and employment objectives, while removing monetary accommodation to maintain price stability and dampen rising interest rates. As if this dual mandate isn't challenging enough, the Fed needs to hit both employment and inflation targets, while they're relatively volatile or "transitory" due to Covid and massive Fiscal relief.

We believe the Fed's dual mandate, as they have re-defined it, is achievable. With that being said, we anticipate the Fed will allow inflation to run its course, as they seek to achieve full employment. We believe 4-6% inflation will be transitory, as there are still global disinflationary pressures that should return U.S. inflation to the 2-3% levels by 2023. Additionally, U.S. demographics were already on a disinflationary, slower growth trend pre-Covid, as the last decade was the slowest for U.S. population growth since the 1930's and the slowest in recorded history for U.S. household growth (U.S. Census Bureau). Near-term, we will monitor the

following potential risks that could impede economic growth, while also adding to elevated inflation levels: (1) Supply chain bottlenecks appear to be far more persistent than originally anticipated; (2) Rising oil prices accompanying a strengthening US dollar; (3) Persistent increases in labor costs; and (4) Significant headwinds in the Chinese economy and consumer spending.

We believe the U.S. is in a debt super-cycle following massive Covid-driven monetary and fiscal stimulus, the doubling of the Fed balance sheet since the 2008 Financial Crisis and dramatic tax cuts. If the U.S. was at the 2-3% target inflation rate, real U.S. interest rates would still be negative. If the Fed normalized policy rates at current debt levels, they would put significant pressure on the U.S. markets and economy. We currently believe the Fed is more likely to remain accommodative, allow inflation to run hot and potentially pay down U.S. debts with inflated dollars. In the short-term, we anticipate the Fed will continue to promote growth and employment at the risk of higher inflation and potential rising interest rates with a concern towards an ultimate repricing of risk assets.

In the third quarter, PIA portfolio duration remained short relative to our respective benchmarks. We continue to overweight corporate debt, 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 we believe offer attractive compensation for their sector volatility. In our Plus strategies, we maintained our high yield credit exposure, as these spreads continue to offer relative value, given accommodative monetary policy. The Fixed Rate Mortgage-Backed Securities (MBS) sector posted a slight positive excess return during the 3rd quarter, as the Fed continued their monthly MBS purchase program. We maintain a strategic overweight to Agency MBS, as we believe the MBS sector offers long-term risk-adjusted value.

PIA Investment Strategy Group

KEY RATES

	9/30/21	6/30/21	12/31/20
Fed Funds Target Rate	**0.0-0.25%**	**0.0-0.25%**	**0.0-0.25%**
3 Month LIBOR	**0.13**	**0.15**	**0.24**
On-the-run Treasuries:			
3 Months	**0.03**	**0.04**	**0.06**
6 Months	**0.05**	**0.05**	**0.08**
2 Years	**0.28**	**0.25**	**0.12**
5 Years	**0.97**	**0.89**	**0.36**
10 Years	**1.49**	**1.47**	**0.91**
30 Years	**2.05**	**2.09**	**1.65**

Source: Bloomberg

KEY ECONOMIC INDICATORS

as of	9/30/21	9/30/20
U.S. $ (DXY)	**94.23**	**93.89**
Oil	**75.03**	**40.22**
Gold	**1,756.95**	**1,885.82**
CRB	**228.92**	**148.51**
GDP	**6.7**	**-31.4**
CPI	**5.3**	**1.3**
Core (Ex - Food & Energy)	**3.6**	**1.6**
Unemployment Rate	**5.2**	**8.4**
Consumer Confidence	**109.30**	**101.80**
S&P/Case-Shiller – Comp-20	**19.95**	**3.95**

Source: Bloomberg

INDEX RETURNS

	3Q'21	YTD	1-Year
Bloomberg –			
Universal	**0.07%**	**-1.07%**	**0.20%**
Aggregate	**0.05**	**-1.55**	**-0.90**
Gov-Credit	**0.04**	**-1.93**	**-1.13**
Int. Gov-Credit	**0.02**	**-0.87**	**-0.40**
Corporate	**0.00**	**-1.27**	**1.74**
Treasury only	**0.09**	**-2.50**	**-3.30**
1-3 year Gov	**0.07**	**-0.02**	**0.03**
ICE BofA – 1-yr T-Note	**0.02**	**0.11**	**0.17**
High Yield	**0.89**	**4.53**	**11.28**
International Debt	**-1.59**	**-5.94**	**-1.15**
Emerging Markets Debt	**-0.55**	**-1.14**	**3.31**
S&P 500	**0.58**	**15.91**	**29.98**
DJIA	**-1.46**	**12.12**	**24.15**
NASDAQ 100	**1.09**	**14.58**	**29.58**
MSCI EAFE	**-0.33**	**8.84**	**26.36**

Source: Bloomberg

SECTOR RETURNS

3Q'21	Total Return	Excess Return
U.S. Treasuries	**0.09%**	**0.00%**
Government-related U.S. Agency	**-0.10**	**-0.22**
Government-related Credit	**-0.15**	**-0.28**
Corporate	**0.00**	**-0.15**
Corporate Financials	**0.11**	**0.02**
Corporate Industrials	**-0.08**	**-0.26**
Corporate Utilities	**0.17**	**-0.05**
Corporate AAA-rated	**-0.34**	**-0.63**
Corporate AA-rated	**-0.09**	**-0.26**
Corporate A-rated	**-0.12**	**-0.27**
Corporate BBB-rated	**0.11**	**-0.04**
Corporate High-Yield	**0.89**	**0.86**
Mortgage-backed Securities-FR	**0.10**	**0.03**
CMBS	**-0.03**	**-0.03**
ABS	**0.05**	**0.03**

Source: Bloomberg

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 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 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 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 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 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 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 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 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 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 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 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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