INVESTMENT COMMENTARY

As the fourth quarter ended, the world passed the two-year mark of dealing with the Covid-19 Coronavirus, with hopes that 2022 gets us closer to normality. U.S. household balance sheets may be healthier than ever with roughly $2 trillion in checking accounts and stock market and home prices near record levels, all while M1 reached an all-time high of greater than $20 trillion in November. U.S. real gross domestic product (GDP) continued to grow at an annual rate of 2.3% and the Bureau of Labor Statistics (BLS) reported continued declines in the November unemployment rate at 4.2% and U6 unemployment of 7.40%. Against this backdrop, most equity markets produced large gains for the quarter with the S&P 500 returning 11.02% and the tech-heavy NASDAQ 100 jumping 11.28%. Long-term interest rates and credit spreads remained range bound as the Bloomberg Barclays U.S. Aggregate index eked out a 0.01% return. However, current elevated levels of inflation appear to be dampening consumer optimism, without giving pause to the "Great Resignation". Inflation concerns remain high as the Consumer Price Index (CPI) rose 0.8% in November to 6.8% year-over-year, the highest level since 1982. The Core PCE Deflator (ex-energy and food) increased 0.5% in November, to 4.9% year-over-year, also a 30-year high. In November the Conference Board Consumer Confidence Index fell to 109.5, down from its recent peak of 128.9 set in June but still well above the 88.60 reading at the end of 2020.

The December 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 continue to be affected by COVID-19. Job gains have been solid in recent months, and the unemployment rate has declined substantially. Supply and demand imbalances related to the pandemic and the reopening of the economy have continued to contribute to elevated levels of inflation. 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." Additionally, Chairman Powell stated the FOMC will begin doubling the pace of asset "tapering" previously announced at the November FOMC meeting, reducing the monthly purchases of Treasuries by $20 billion and Mortgage-backed Securities by $10 billion beginning in mid-January. The yield curve flattened significantly as the yield on the 2-year Treasury climbed 45 basis points during the quarter to 0.73%, while the 10-year Treasury yield began and ended the fourth quarter unchanged at 1.52%. U.S. Treasuries provided positive returns during the quarter (+0.18%), while outperforming most other sectors on a duration adjusted basis. Investment grade (IG) corporate bonds were also positive (+0.23%), while high yield bonds continued to generate strong positive returns (+0.71%). All other sectors were flat to negative during the quarter, including U.S. Agency Securities (0.0%), Mortgage-backed Securities (-0.37%), Commercial MBS (-0.64%) and Asset-backed Securities (-0.57%).

As if the dual mandate of striking a proper balance between full employment and price stability isn't daunting enough, many investors have questioned this Fed's credibility, which now may tenuously rest on its efficacy in returning historically high inflation to acceptable levels, while finding a solution to the "Great Resignation". Credibility is critical for the Federal Reserve, and the Powell-led Fed has recently been criticized for its decision-making. Concerns have arisen regarding the Fed allowing inflation to overshoot the 2% target, thus allowing the economy to overheat. It has also been criticized for misjudging the strength of the labor market, leading to the possibility of irretraceable wage inflation, and appearing overly concerned about disrupting the markets and creating another "taper tantrum". The Fed's tendency to pivot has caught the markets off-guard, including its recent removal of the key word "transitory" from its description of the inflationary backdrop. Lastly, the ongoing accommodative monetary policy and ballooning Fed balance sheet since the Great Financial Crisis, created under all three Fed Chairs, has persisted throughout healthy economies and markets. Nonetheless, we have an alternative and potentially more constructive outlook.

We acknowledge the "Fed Put" that markets have learned to rely on appears to have been replaced by the "Powell Pivot". However, we view this as a constructive transition replacing Fed hubris with Fed courage. The Fed's will to pivot is a will to acknowledge fallibility in the interest of public good. We believe this increases the probability the Fed will complete its asset taper sometime in March as indicated, follow through with the projected 3-4 rate increases in 2022 and potentially begin to draw down the Fed balance sheet by allowing asset runoffs that should have the effect of amplified rate hikes. However, the Fed's courage will be tested with the persistence of the pandemic, the economy already showing signs of slower growth and likely additional headwinds from monetary tightening. 2022 corporate earnings growth forecasts are below 10% and well off 2021 levels, as are GDP expectations, and ISM manufacturing and non-manufacturing recently fell well below expectations, declining month-over-month. The combination of higher rates and slower growth surely portends stock market multiple compression, which should further constrict economic activity and spending as the percentage of households that own stocks, as well as the percentage of household wealth tied to the stock market, are near all-time highs according to the Federal Reserve Board Survey of Consumer Finances.

In 2022, we expect supply chain disruptions to improve modestly, and we expect the shift in demand from goods to services will continue to normalize, helping to reduce the inflation caused by short-term inelastic demand. We anticipate that lower inflation, slower growth and tighter monetary policy will collectively contribute to a flattening of the yield curve, with short-term rates rising more than long rates. We expect 10-year Treasury yields to increase in 2022 but to face some resistance as risk assets deal with tightening policy.

In the fourth quarter, PIA portfolio duration remained short relative to our respective benchmarks. We continue to overweight corporate debt, with a focus on liquidity and high quality credits with strong balance sheets. Our Industrial credits provide incremental yield, and our Financials are senior 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 value. Lastly, we reduced our modest overweight in the Fixed Rate Mortgage-backed Securities sector to a neutral-weight, as the Fed began to scale back its monthly MBS purchase program.

PIA Investment Strategy Group

KEY RATES

	12/31/21	9/30/21	12/31/20
Fed Funds Target Rate	**0.0-0.25%**	**0.0-0.25%**	**0.0-0.25%**
3 Month LIBOR	**0.21**	**0.13**	**0.24**
On-the-run Treasuries:			
3 Months	**0.03**	**0.03**	**0.06**
6 Months	**0.18**	**0.05**	**0.08**
2 Years	**0.73**	**0.28**	**0.12**
5 Years	**1.26**	**0.97**	**0.36**
10 Years	**1.51**	**1.49**	**0.91**
30 Years	**1.90**	**2.05**	**1.65**

Source: Bloomberg

KEY ECONOMIC INDICATORS

as of	12/31/21	12/31/20
U.S. $ (DXY)	**95.67**	**89.94**
Oil	**75.21**	**48.52**
Gold	**1,829.20**	**1,894.39**
CRB	**232.37**	**167.80**
GDP	**2.3**	**33.4**
CPI	**6.8**	**1.2**
Core (Ex - Food & Energy)	**4.7**	**1.4**
Unemployment Rate	**4.2**	**6.7**
Consumer Confidence	**115.80**	**88.60**
S&P/Case-Shiller – Comp-20	**18.41**	**7.95**

Source: Bloomberg

INDEX RETURNS

	4Q'21	YTD	1-Year
Bloomberg –			
Universal	**-0.03%**	**-1.10%**	**-1.10%**
Aggregate	**0.01**	**-1.54**	**-1.54**
Gov-Credit	**0.18**	**-1.75**	**-1.75**
Int. Gov-Credit	**-0.57**	**-1.44**	**-1.44**
Corporate	**0.23**	**-1.04**	**-1.04**
Treasury only	**0.18**	**-2.32**	**-2.32**
1-3 year Gov	**-0.58**	**-0.60**	**-0.60**
ICE BofA – 1-yr T-Note	**-0.18**	**-0.07**	**-0.07**
High Yield	**0.71**	**5.28**	**5.28**
International Debt	**-1.18**	**-7.05**	**-7.05**
Emerging Markets Debt	**-0.52**	**-1.65**	**-1.65**
S&P 500	**11.02**	**28.68**	**28.68**
DJIA	**7.87**	**20.95**	**20.95**
NASDAQ 100	**11.28**	**27.51**	**27.51**
MSCI EAFE	**2.74**	**11.86**	**11.86**

Source: Bloomberg

SECTOR RETURNS

4Q'21	Total Return	Excess Return
U.S. Treasuries	**0.19%**	**0.00%**
Government-related U.S. Agency	**0.00**	**0.00**
Government-related Credit	**0.19**	**0.08**
Corporate	**0.23**	**-0.29**
Corporate Financials	**-0.20**	**-0.21**
Corporate Industrials	**0.44**	**-0.27**
Corporate Utilities	**0.31**	**-0.71**
Corporate AAA-rated	**1.12**	**-0.48**
Corporate AA-rated	**0.59**	**-0.34**
Corporate A-rated	**0.13**	**-0.33**
Corporate BBB-rated	**0.23**	**-0.24**
Corporate High-Yield	**0.71**	**1.06**
Mortgage-backed Securities-FR	**-0.37**	**-0.26**
CMBS	**-0.64**	**-0.18**
ABS	**-0.57**	**-0.12**

Source: Bloomberg

Pacific Income Advisers, Inc. (PIA) is an 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.

Investing involves the risk of loss, including the loss of principal invested. Past performance is not an indicator of future results.

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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