INVESTMENT COMMENTARY

In the third quarter, financial markets continued to inflict pain on U.S. investors, making 2022 the first year since the Global Financial Crisis (GFC) to produce three consecutive negative quarters across all major market indices. Pandemic-related forty-year high levels of inflation, increasing geopolitical concerns, an unyielding hawkish Fed, and the lingering Coronavirus continue to contribute to the double-digit negative year-to-date market returns that ranged from -13.2% for the ICE/BofA U.S. Treasury Index to -32.4% for the NASDAQ. The FOMC met twice during the third quarter, with both meetings resulting in 0.75% rate hikes and the target funds rate increasing to 3.00 – 3.25%. Additionally, Chairman Powell confirmed the Fed's monthly quantitative tightening program is on target to reduce the Fed balance sheet by $95 billion beginning in September, up from $47.5 billion in each of the prior three months. The Federal Reserve noted in the September FOMC statement, "Recent indicators point to modest growth in spending and production. Job gains have been robust in recent months, and the unemployment rate has remained low. Inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher food and energy prices, and broader price pressures."

U.S. Real Gross Domestic Product (GDP) was negative for the second consecutive quarter in 2Q22, declining at an annual rate of -0.6%, but GDP is forecasted to be positive during the third quarter. Inflation, as measured by the U.S. Consumer Price Index (CPI), rose by 8.3% in September. The Bureau of Labor Statistics (BLS) reported the unemployment rate ticked up slightly in August to 3.7%, while the U-6 measure of total unemployed also rose to 7.1%. The Conference Board Consumer Confidence Index rose for the second consecutive month in September to 108.

The S&P 500 declined -4.88% and the tech-heavy NASDAQ 100 continued its weak performance -4.42%. Credit spreads widened modestly, as interest rates rose across the curve. The spread between 2- and 10-year Treasuries widened more than 50 basis points (bps) from +6 bps to -45 bps, as the yield curve inverted. The 2-year Treasury yield increased 133 bps to 4.28%, while the 10-year Treasury yield increased 82 bps to finish the quarter at 3.83%. The Bloomberg U.S. Aggregate Index generated another negative return -4.75%, as Treasuries returned -4.35%. Investment grade (IG) corporate bonds were once more one of the worst performing sectors returning -5.06%. However, U.S. High Yield Corporate Bonds were a strong relative performer, helped by their shorter duration and higher yields and were only down -0.65%. All other sectors generated negative returns including U.S. Agency Securities -2.77%, Mortgage-backed Securities -5.35%, Commercial MBS -3.85% and Asset-backed Securities -1.34%.

While current job postings remain elevated, we expect unemployment claims to increase through 2023 commensurate with the Fed's efficacy to constrict consumer demand. There are signs that inflation "stickiness" is waning with a slowdown in consumption and a rebalancing of the demand for services vs goods. However, despite rising household debt levels, recent consumer confidence data has firmed, and consumer balance sheets continue to appear historically durable.

As the Fed focuses on reducing 40-year high levels of inflation and the erosion of purchasing power, while also minimizing overall economic damage and job losses, our current interest rate outlook now calls for additional rate hikes in each of the last two FOMC meetings in 2022, raising the fed Funds rate by another 125-150 bps by year-end. We anticipate the first quarter of 2023 will provide an opportunity for the Fed to pause this historic rate hike cycle to gauge the impact of raising rates roughly 4% in the 2022 calendar year. With that said, we do not anticipate the Fed will slow or halt their current monthly $95 billion drawdown of the Fed's bloated balance sheet. Interestingly, only $43.6 billion worth of Treasuries matured last month, which means the Fed needed to sell $16.4 billion worth of shorter-term Treasuries to meet their quantitative tightening (QT) program target. Additionally, the Fed may have trouble meeting their monthly reduction target for Mortgage-backed Securities (MBS), meaning the Fed may need to outright sell MBS assets for the first time in Fed history, which could add to the already dramatic increase in Mortgage lending rates.

In the third quarter, we maintained our portfolio duration modestly 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, which we believe offer attractive compensation adjusted for their sector volatility. In our Plus strategies, we maintained our high yield credit exposure, as these spreads continue to offer relative value. Our portfolios were neutral to underweight in Agency MBS, while mortgage rates substantially increased as the Fed continues to engage in quantitative tightening via balance sheet reduction.

PIA Investment Strategy Group

KEY RATES

	9/30/22	6/30/22	12/31/21
Fed Funds Target Rate	3.0-3.25%	1.5-1.75%	0.0-0.25%
3 Month LIBOR	3.75	2.29	0.21
On-the-run Treasuries:			
3 Months	3.25	1.63	0.03
6 Months	3.90	2.46	0.18
2 Years	4.28	2.95	0.73
5 Years	4.09	3.04	1.26
10 Years	3.83	3.01	1.51
30 Years	3.78	3.18	1.90

Source: Bloomberg

KEY ECONOMIC INDICATORS

as of	9/30/22	9/30/21
U.S. $ (DXY)	98.31	93.23
Oil	79.49	75.03
Gold	1,660.61	1,756.95
CRB	268.29	228.92
GDP	-0.6	2.7
CPI	8.3	5.4
Core (Ex - Food & Energy)	4.9	3.6
Unemployment Rate	3.7	4.7
Consumer Confidence	108.00	109.80
S&P/Case-Shiller – Comp-20	16.09	19.10

Source: Bloomberg

INDEX RETURNS

	3Q'22	YTD	1-Year
Bloomberg –			
Universal	-4.45%	-14.90%	-14.92%
Aggregate	-4.75	-14.61	-14.60
Gov-Credit	-4.56	-15.10	-14.95
Int. Gov-Credit	-3.06	-9.62	-10.14
Corporate	-5.06	-18.72	-18.53
Treasury only	-4.35	-13.09	-12.94
1-3 year Gov	-1.54	-4.50	-5.05
ICE BofA – 1-yr T-Note	-0.50	-1.77	-1.95
High Yield	-0.65	-14.74	-14.14
Global Aggregate	-6.94	-19.89	-20.43
Emerging Markets Debt	-4.06	-20.50	-20.92
S&P 500	-4.88	-23.87	-15.47
DJIA	-6.17	-19.72	-13.40
NASDAQ 100	-4.42	-32.35	-24.72
MSCI EAFE	-9.26	-26.71	-24.70

Source: Bloomberg

SECTOR RETURNS

3Q'22	Total Return	Excess Return
U.S. Treasuries	-4.35%	0.00%
Government-related U.S. Agency	-3.90	0.31
Government-related Credit	-4.28	-0.35
Corporate	-5.06	-0.33
Corporate Financials	-4.24	-0.41
Corporate Industrials	-5.40	-0.29
Corporate Utilities	-5.96	-0.33
Corporate AAA-rated	-7.02	-0.63
Corporate AA-rated	-5.79	-0.25
Corporate A-rated	-5.17	-0.56
Corporate BBB-rated	-4.80	-0.13
Corporate High-Yield	-0.65	2.28
Mortgage-backed Securities-FR	-5.35	-1.69
CMBS	-3.85	-0.26
ABS	-1.34	0.30

Source: Bloomberg

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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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Pacific Income Advisers

2321 Rosecrans Avenue Suite 1260 El Segundo California 90245

telephone 310.255.4453 facsimile 310.434. 0100

www.pacificincome.com