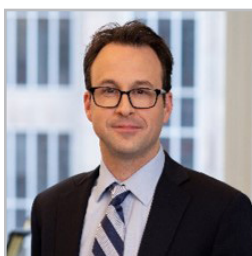


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Fixed income markets posted solid returns in June in a reflection of investors' concerns about the pace and durability of the recovery. Signs continued to emerge in the labor market, the industrial sector, and the consumer space that growth may have peaked, while hopes of fiscal stimulus were significantly pared back. Also weighing on sentiment was the ascendancy of the delta variant of COVID-19, which further threatened the foundation of the reopening thesis.

The most prominent takeaway from the FOMC's June meeting was a slight upward revision to the Committee's median rate forecast for 2023 (from none to two), even as economic projections otherwise saw little change. Despite Chair Powell's efforts to de-emphasize the revision, it was widely interpreted as evidence of a shift toward a less dovish posture. The futures market promptly followed suit, shifting its expectations for hikes through the end of 2023 from three to four.

The Treasury sector rallied amid a sharp flattening of the yield curve. Short rates ticked higher in anticipation of an accelerated pace of hikes, while intermediate and long rates declined on lower expectations for growth and inflation. Notably, breakevens collapsed following the Fed meeting in a reflection of investors' skepticism that the Fed would be able to achieve its long-term inflation target.

Corporate spreads continued to grind tighter, reaching a new post-Great Financial Crisis low amid a solid operating backdrop and accommodative credit conditions. Issuance remained robust with companies continuing to refinance debt, while M&A-driven volumes declined from already subdued levels. The technical picture was also constructive, as the credit rating agencies were extremely active in upgrading issuers across the Investment Grade market after a massive wave of downgrades last year and an unexpectedly rapid rebound since.

Mortgage-backed securities underperformed Treasuries on news that the FOMC had discussed tapering asset purchases at its June meeting. The initial reaction saw spreads push wider, though some of this move was retraced when it became clear that the Fed would continue to take out the majority of near term issuance. The Fed's intervention remains concentrated in lower coupon pools, which experienced the most volatility, while higher coupons benefited from lower prepayment speeds and less Fed sponsorship.

The peak-growth narrative and the implications of a less dovish Fed are likely to dominate bond trading in the months ahead. Sentiment will be further influenced by COVID-19 variant developments and fiscal stimulus progress. As a result, the recovery story is becoming a less prominent driver and traders must begin to grapple with the state of the underlying economy beyond the benefits of recent stimulus.

U.S. Treasury Market - June 30, 2021

Maturity	6/30/21	Yield Change (bps)			Performance		
	Yield	MTD	QTD	YTD	MTD	QTD	YTD
2-year	0.25%	+10	+9	+13	-0.17%	-0.09%	-0.13%
5-year	0.89%	+9	-5	+53	-0.30%	0.69%	-1.78%
10-year	1.47%	-13	-27	+55	1.27%	3.06%	-4.17%
30-year	2.09%	-20	-33	+44	4.33%	7.83%	-9.25%

Source: Bloomberg, FactSet

Performance represents total returns of the Bloomberg Barclays U.S. Treasury Bellwethers Index for the maturities shown

INDEX CHARACTERISTICS AND PERFORMANCE

June 30, 2021	CHARACTERISTICS			PERFORMANCE		
Index	Yield to Worst	OAD (Years)	OAS (bps)	MTD	QTD	YTD
Bloomberg Barclays U.S. Aggregate Bond	1.50%	6.58	32	0.70%	1.83%	-1.60%
U.S. Treasury	0.95%	7.01	0	0.64%	1.75%	-2.58%
Bloomberg Barclays U.S. Government Related	1.38%	6.15	43	0.60%	1.72%	-1.19%
Bloomberg Barclays U.S. Corporate Investment Grade	2.04%	8.72	80	1.63%	3.55%	-1.27%
Bloomberg Barclays U.S. Mortgage-Backed Securities	1.77%	4.16	27	-0.04%	0.33%	-0.77%
Bloomberg Barclays U.S. Asset-Backed Securities	0.47%	2.04	22	-0.02%	0.34%	0.18%
ICE BofAML Fixed Rate Preferred Securities	1.84%	4.51	85	1.35%	3.06%	1.99%
Bloomberg Barclays High Yield	3.75%	3.84	268	1.34%	2.74%	3.62%
Bloomberg Barclays High Yield - BB	3.04%	4.65	200	1.49%	2.86%	2.71%
Bloomberg Barclays High Yield - B	4.06%	3.00	294	0.98%	2.16%	3.35%
Bloomberg Barclays High Yield - CCC	5.65%	2.54	462	1.51%	3.49%	7.20%
Bloomberg Barclays High Yield BB 1-5 Year	2.14%	2.23	163	0.71%	1.84%	2.87%

Source: FactSet

June 30, 2021	CHARACTERISTICS		
Strategy	Yield to Worst	Current Yield	OAD (Years)
GW&K Short-Term Focused High Income Strategy	2.84	4.95	3.05
<i>Bloomberg Barclays High Yield BB 1-5 Year</i>	2.14	5.18	2.23
GW&K Corporate Bond Opportunities Strategy	2.91	4.46	5.36
<i>60% Bloomberg Barclays High Yield / 40% Bloomberg Barclays U.S. Credit</i>	3.04	4.54	5.69
GW&K Total Return Bond Strategy	2.43	4.09	5.75
<i>60% Bloomberg Barclays Govt/Credit / 40% Bloomberg Barclays High Yield</i>	2.34	3.56	6.09
GW&K Enhanced Core Bond Strategy	2.04	3.56	6.04
GW&K Core Bond Strategy	1.82	3.24	6.22
<i>Bloomberg Barclays U.S. Aggregate Bond</i>	1.50	2.40	6.58
GW&K Intermediate Taxable Bond Strategy	1.53	3.19	3.92
<i>Bloomberg Barclays U.S. Intermediate Aggregate Bond</i>	1.22	2.22	4.19
GW&K Short-Term Taxable Bond Strategy	0.88	2.73	3.09
<i>Bloomberg Barclays 1-5 Year Govt/Credit</i>	0.57	1.77	2.79

Source: Bloomberg, FactSet



Disclosures

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