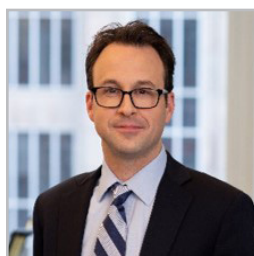


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Fixed income trading was subdued in May, with neither yields nor spreads showing much conviction in either direction. Economic data continued to show positive momentum as the reopening accelerated, while talks of further fiscal stimulus and an eager consumer further lifted sentiment. Tempering this enthusiasm, however, were fears of impending inflation and a persistent sense of unease that risk assets had perhaps run too far, too fast.

The most notable development from the FOMC was a shift in willingness to “think about thinking about” tapering the Fed’s asset-purchase program. Price pressures continued to be regarded as transitory and economic commentary remained cautious, particularly in light of weak labor market conditions. The futures market is not pricing in the first rate hike until the last quarter of 2022.

Treasury yields barely budged on the month, trading in a narrow range and grinding slightly lower. This move was entirely a result of a rally in real yields, which retreated for a second straight month following a significant first quarter selloff. Inflation breakevens rose, jumping sharply in response to high CPI and PCE prints before closing the period only slightly higher.

Corporate spreads were essentially flat and remained pinned near post-pandemic tights. Issuance continued at a brisk pace, though refinancing accounted for the majority of proceeds and helped keep net supply low. There were no defaults in May and only a single distressed exchange, leading to the most benign start to the year for credit events in a decade.

Mortgage-backed securities underperformed Treasuries despite slower prepayment speeds and a drop in rate volatility. Spreads widened during the month after hitting their lowest levels since 2012. The pullback in spreads has highlighted the appeal of higher coupons, especially given that they are less reliant on the Fed’s purchases to absorb supply.

The tension between the reopening narrative and fears of overheating appears likely to persist for at least the near term, providing little occasion for yields to break out of their recent range. The Fed has shown little inclination to deviate from its recent cautious course. And typical seasonality appears likely to dominate trading for now, further dampening volatility.

U.S. Treasury Market - May 31, 2021

Maturity	5/31/21	Yield Change (bps)			Performance		
	Yield	MTD	QTD	YTD	MTD	QTD	YTD
2-year	0.15%	-1	-1	+3	0.07%	0.08%	0.04%
5-year	0.80%	-5	-14	+44	0.44%	1.00%	-1.48%
10-year	1.60%	-3	-14	+68	0.61%	1.77%	-5.37%
30-year	2.29%	-1	-13	+64	0.65%	3.36%	-13.01%

Source: Bloomberg, FactSet

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

INDEX CHARACTERISTICS AND PERFORMANCE

May 31, 2021	CHARACTERISTICS			PERFORMANCE		
Index	Yield to Worst	OAD (Years)	OAS (bps)	MTD	QTD	YTD
Bloomberg Barclays U.S. Aggregate Bond	1.50%	6.49	30	0.33%	1.12%	-2.29%
U.S. Treasury	0.91%	6.92	-2	0.34%	1.10%	-3.20%
Bloomberg Barclays U.S. Government Related	1.35%	6.02	42	0.41%	1.11%	-1.78%
Bloomberg Barclays U.S. Corporate Investment Grade	2.11%	8.59	84	0.77%	1.88%	-2.85%
Bloomberg Barclays U.S. Mortgage-Backed Securities	1.75%	4.15	16	-0.18%	0.38%	-0.73%
Bloomberg Barclays U.S. Asset-Backed Securities	0.41%	1.99	25	0.22%	0.36%	0.20%
ICE BofAML Fixed Rate Preferred Securities	2.26%	4.49	108	0.34%	1.68%	0.63%
Bloomberg Barclays High Yield	4.03%	3.89	296	0.30%	1.39%	2.25%
Bloomberg Barclays High Yield - BB	3.31%	4.69	226	0.25%	1.35%	1.20%
Bloomberg Barclays High Yield - B	4.32%	3.10	321	0.18%	1.17%	2.34%
Bloomberg Barclays High Yield - CCC	5.95%	2.60	493	0.70%	1.95%	5.61%
Bloomberg Barclays High Yield BB 1-5 Year	2.43%	2.26	200	0.34%	1.13%	2.15%

Source: FactSet

May 31, 2021	CHARACTERISTICS		
Strategy	Yield to Worst	Current Yield	OAD (Years)
GW&K Short-Term Focused High Income Strategy	2.83	4.89	2.93
<i>Bloomberg Barclays High Yield BB 1-5 Year</i>	2.43	5.21	2.26
GW&K Corporate Bond Opportunities Strategy	3.06	4.52	5.13
<i>60% Bloomberg Barclays High Yield / 40% Bloomberg Barclays U.S. Credit</i>	3.23	4.62	5.67
GW&K Total Return Bond Strategy	2.59	4.13	5.65
<i>60% Bloomberg Barclays Govt/Credit / 40% Bloomberg Barclays High Yield</i>	2.45	3.62	6.04
GW&K Enhanced Core Bond Strategy	2.11	3.61	5.99
GW&K Core Bond Strategy	1.80	3.17	5.97
<i>Bloomberg Barclays U.S. Aggregate Bond</i>	1.50	2.44	6.49
GW&K Intermediate Taxable Bond Strategy	1.48	3.21	3.76
<i>Bloomberg Barclays U.S. Intermediate Aggregate Bond</i>	1.18	2.24	4.19
GW&K Short-Term Taxable Bond Strategy	0.78	2.78	3.00
<i>Bloomberg Barclays 1-5 Year Govt/Credit</i>	0.47	1.78	2.80

Source: Bloomberg, FactSet



Disclosures

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