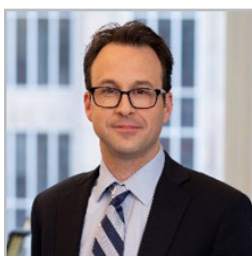




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GW&K CURRENT OUTLOOK AND POSITIONING

We are constructive on the underlying strength of the economy, but recognize the potential for elevated volatility in the near term. Tighter financial conditions, persistent COVID threats, and ongoing challenges in the labor market could test the resilience and pace of the recovery. Rates seem poised to continue their grind higher as the Fed begins hiking. Spreads are set to be driven by technicals, given relatively limited uncertainty with respect to fundamentals.

NOVEMBER 2021 REVIEW

The fixed income market posted a small positive return in November after a volatile month. Inflation at multi-decade highs and broadly improving economic data weighed on rates for much of the period. But sentiment turned sharply in the closing days on renewed COVID-19 variant concerns and indications of less accommodative monetary policy.

Monetary Policy

Testimony from FOMC Chair Powell struck an unexpectedly hawkish tone and signaled an accelerated pace of tapering. Powell acknowledged potential downside risks from the Omicron variant, but also highlighted the threat of persistently higher (i.e. not “transitory”) inflation. Tapering is expected to be concluded “a few months” earlier than the original June target, and the futures market shows nearly three hikes in 2022.

Interest Rates

The Treasury yield curve flattened for a fourth straight month and reached its lowest level since March 2020. Short rates pushed marginally higher in response to commentary from the Fed. The long end experienced a more substantial rally in response to lower growth expectations and more subdued inflation breakevens.

Credit

Volatility rose across the credit quality spectrum. Spreads bounced from near-historic lows as both Investment Grade and High Yield experienced their worst month since the start of the pandemic. Rate volatility and heavy new issue supply created a challenging technical environment and kept pressure on spreads. The fundamental picture was little changed, as the default outlook remains benign due to ample liquidity.

Mortgages

MBS spreads widened on the prospect of an accelerated pace of tapering. Low-coupon pools in particular underperformed, given that the Fed has been most active in that segment of the mortgage market. Technicals otherwise were positive, as originations continued to slow.

U.S. Treasury Market - November 30, 2021

Maturity	11/30/21	Yield Change (bps)			Performance		
	Yield	MTD	QTD	YTD	MTD	QTD	YTD
2-year	0.57%	+7	+29	+45	-0.01%	-0.31%	-0.34%
5-year	1.16%	-3	+19	+80	0.30%	-0.57%	-2.48%
10-year	1.45%	-11	-4	+53	1.39%	1.08%	-3.21%
30-year	1.80%	-14	-25	+15	3.36%	6.90%	-2.61%

Source: Bloomberg, FactSet

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

INDEX CHARACTERISTICS AND PERFORMANCE

November 30, 2021	CHARACTERISTICS			PERFORMANCE		
Index	Yield to Worst	OAD (Years)	OAS (bps)	MTD	QTD	YTD
Bloomberg U.S. Aggregate Bond	1.69%	6.78	39	0.30%	0.27%	-1.29%
U.S. Treasury	1.12%	7.21	0	0.77%	0.69%	-1.82%
Bloomberg U.S. Government Related	1.55%	6.10	46	0.20%	0.13%	-1.16%
Bloomberg U.S. Corporate Investment Grade	2.29%	8.73	99	0.06%	0.31%	-0.96%
Bloomberg U.S. Mortgage-Backed Securities	1.94%	4.63	34	-0.09%	-0.28%	-0.95%
Bloomberg U.S. Asset-Backed Securities	0.98%	2.31	39	-0.07%	-0.41%	-0.18%
ICE BofA Fixed Rate Preferred Securities	3.35%	5.00	174	-1.82%	-1.93%	0.24%
Bloomberg High Yield	4.80%	4.06	337	-0.97%	-1.14%	3.34%
Bloomberg High Yield - BB	3.78%	4.78	241	-0.91%	-1.05%	2.74%
Bloomberg High Yield - B	5.26%	3.34	374	-0.96%	-1.11%	2.83%
Bloomberg High Yield - CCC	7.51%	2.95	612	-1.13%	-1.33%	6.56%
Bloomberg High Yield BB 1-5 Year	3.18%	2.39	227	-0.65%	-0.60%	2.82%

Source: FactSet

Disclosures

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