

BOND MARKET OVERVIEW

About Us

Penn Mutual Asset Management (PMAM) is focused on risk-based institutional asset management, advisory and investment operation services. We are fixed-income specialists committed to applying our diverse expertise, delivering tailored investment strategies and solutions and balancing our repeatable, value-driven approach with seasoned investment judgment to drive performance and create value.

We believe:

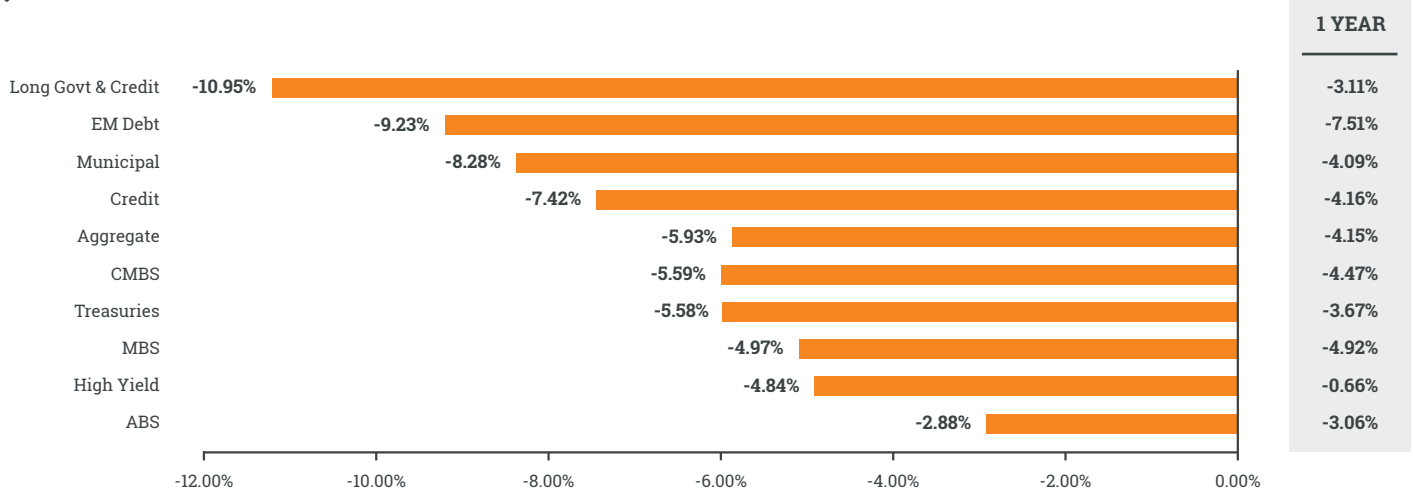
- Valuation drives decisions to help generate strong performance
- Diversification is the best form of risk management
- Being nimble and opportunistic creates value for investors
- Focus, discipline, teamwork and accountability enable results

With over \$33 billion in total assets under management, Penn Mutual Asset Management is dedicated to executing on its core asset management competencies, which include total return-based investing, advisory services and expertise in alternative asset investing.

We tailor our proven approach to generate solid risk-adjusted returns, while balancing the need for capital preservation to achieve each client's strategy and goals.

Asset Class Returns¹

First Quarter



¹ Bloomberg data as of March 31, 2022

First Quarter Headlines

The bond market suffered its worst quarterly performance in more than four decades with the Bloomberg U.S. Aggregate Bond Index declining by nearly 6%...

After the Federal Reserve (Fed) lifted rates off the zero level with a 25-basis-point hike in March, the bond market repriced to larger and more frequent hikes for the balance of the year. The Fed is also likely to announce a plan for winding down its nearly \$9 trillion balance sheet during the May Federal Open Market Committee meeting.

Investment-grade (IG) and high-yield corporate bond spreads widened materially to begin the year but posted a snapback rally during the latter half of March. IG corporate bonds underperformed duration-matched Treasuries by 131 basis points (bps) in the first quarter while the high-yield market performance was down nearly 5%...

Agency mortgage-backed securities (MBS) performance also remains challenged by the prospect of Fed balance sheet reduction and higher Treasury rates. The MBS market posted a loss of 5% during the quarter, underperforming duration-matched Treasuries by more than 100 bps.

Inflation continues to run at the hottest pace in more than four decades, with the Russian invasion of Ukraine likely to keep cost pressures elevated...

Labor market conditions in the U.S. remain very tight with the unemployment rate near record-low levels and five million more job openings than the number of unemployed seeking employment.

Outlook

Financial markets are likely to remain challenged by stubbornly high inflation and intensifying commodity price pressures arising from the war in Ukraine. The Fed will likely be forced to combine balance sheet reduction with rate hikes as the dramatic yield curve flattening this year raises investor concerns of an economic slowdown.

Index Definitions:

Bloomberg U.S. Aggregate ABS Total Return Index – An index that is the ABS component of the U.S. Aggregate Index and has three subsectors: credit and charge cards, autos and utility. The index includes pass-through, bullet and controlled amortization structures and includes only the senior class of each ABS issue and the ERISA-eligible B and C tranche.

Bloomberg U.S. Aggregate Bond Index – An index that is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

Bloomberg U.S. CMBS Index – An Index that measures the investment-grade market of U.S. Agency and U.S. Non-Agency conduit and fusion CMBS deals with a minimum current deal size of \$300mm that are ERISA eligible.

Bloomberg U.S. Corporate High Yield Bond Index – An index that measures the USD-denominated, high yield, fixed-rate corporate bond market.

Bloomberg U.S. Credit Index – An index that measures the investment grade, U.S. dollar-denominated, fixed-rate, taxable corporate and government-related bond markets.

Bloomberg Emerging Markets USD Aggregate Index – A flagship hard currency Emerging Markets debt benchmark that includes fixed and floating-rate U.S. dollar-denominated debt issued from sovereign, quasi-sovereign and corporate EM issuers.

Bloomberg U.S. Long Government/Credit Index – An index that is a broad-based flagship benchmark that measures the non-securitized component of the U.S. Aggregate Index with 10 or more years to maturity. The index includes investment grade, U.S. dollar-denominated, fixed-rate treasuries, government-related and corporate securities.

Bloomberg U.S. Mortgage Backed Securities (MBS) Index – An index that tracks agency mortgage backed pass-through securities (both fixed-rate and hybrid ARM) guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA) and Freddie Mac (FHLMC).

Bloomberg U.S. Municipal Index – An index that covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligations bonds, revenue bonds, insured bonds and prerefunded bonds.

Bloomberg U.S. Treasury Index – An index that measures U.S. dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury.

Disclosures:

The views expressed in this material are the views of PMAM through the quarter ending March 31, 2022 and are subject to change based on market and other conditions.

This material contains certain views that may be deemed forward-looking statements. The inclusion of projections or forecasts should not be regarded as an indication that PMAM considers the forecasts to be reliable predictors of future events. Any forecasts contained in this material are based on various estimates and assumptions, and there can be no assurance that such estimates or assumptions will prove accurate. Actual results may differ significantly.

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