Securitized Outlook 3Q2023

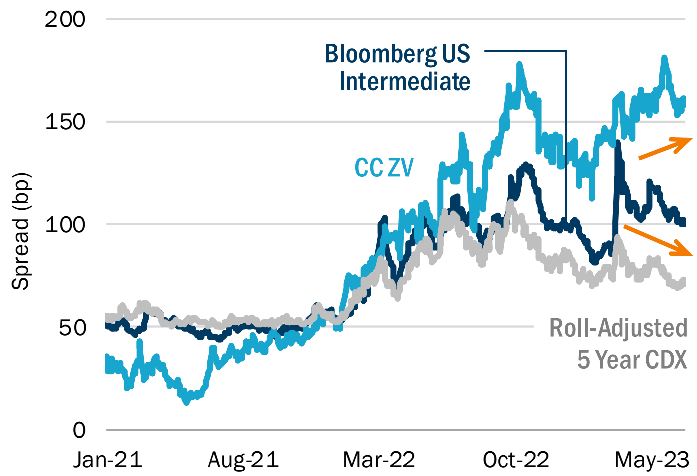
We find Agency Mortgage backed securities to be attractive from an historical as well as relative value perspective.

After spending the prior two years at historically rich valuations driven by accommodative Federal Reserve policy dominating the market, the combined effects of reduced bank buying, increased interest rate volatility, poor technicals associated with FDIC selling and the historic inversion of the treasury yield curve have in our view left mortgages at their most attractive level in years. We maintain that mortgage-backed securities (MBS) have become an attractive relative value alternative to investment grade (IG) credit in the face of increased economic uncertainty and the direction of Federal Reserve interest rate policy.

Supply concerns remain muted. Recent trading has been dominated by the supply technical of the FDIC's liquidation of Silicon Valley Bank's and Signature Bank's portfolios. While sales went better than expected, concern over additional forced bank liquidations have not fully dissipated. Conversely, elevated mortgage rates and the associated constraint on housing affordability are likely to limit new origination and refinancing supply.

Mortgage performance contrasts sharply with IG credit, which is trading well inside the recent wide supporting relative value considerations when considering MBS as an alternative (See Figure 1).

FIGURE 1: MBS CURRENT COUPON SPREAD AGAINST THE US INTERMEDIATE INDEX



Data as of June 27, 2023
CC ZV = Current Coupon Zero Volatility Spread.
See disclosures for index description.
Source: Barclays.

Additionally, a future steepening of the yield curve would likely benefit MBS while pressuring IG credit given the economic slowing such a move would imply.

The rise in interest rates over the past 18 months has extended mortgage duration and improved the convexity profile of the asset class, though an uptick in volatility remains a risk to the sector.

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ABOUT RISK

The principal risk of mortgage-related and asset-backed securities is that the underlying debt may be prepaid ahead of schedule, if interest rates fall, thereby reducing the value of the fund's investment. If interest rates rise, less of the debt may be prepaid and the fund may lose money

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The following indices may be referred to in this document:

BLOOMBERG US INTERMEDIATE INDEX

The Bloomberg US Intermediate Index measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government-related bond markets with a maturity greater than 1 year and less than 10 years. It is composed of the US Corporate Index and a non-corporate component that includes non-US agencies, sovereigns, supranational and local authorities constrained by maturity.

CURRENT ZERO VOLATILITY SPREAD

The Zero-volatility spread (Z-spread) is the constant spread that makes the price of a security equal to the present value of its cash flows when added to the yield at each point on the spot rate Treasury curve where cash flow is received.

ROLL-ADJUSTED 5 YEAR CDX

The credit default swap index (CDX), formerly the Dow Jones CDX, is a benchmark financial instrument made up of credit default swaps that have been issued by North American or emerging market companies.