Eagle Quarterly Commentary

EAGLE | Asset Management

Fixed Income

First Quarter | 2023

James Camp, CFA
Managing Director and Portfolio Manager

Joseph Jackson, CFA
Portfolio Co-Manager

Burton Mulford, CFA
Portfolio Co-Manager

Sheila King, CFA
Portfolio Co-Manager

Past performance does not guarantee future results. The information presented is for a representative account and for illustrative purposes only. Actual account holdings will vary depending on the size of an account, cash flows within an account, and restrictions on an account. This information is intended solely to report on investment strategies as reported by Eagle Asset Management, Inc. Opinions and estimates offered constitute Eagle's judgment and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions. Under no circumstances does the information contained within represent a recommendation to buy, hold, or sell any security, and it should not be assumed that the securities, transactions, or holdings discussed were or will prove to be profitable. All holdings are subject to change daily. The Index is referred to for information purposes only; the composition of each Index is different from the composition of the accounts managed by the investment manager. An index is unmanaged and has no expenses. It is not possible to invest directly in an index.

© 2023, Eagle Asset Management, Inc. All rights reserved.

Market Overview[1,2]

The bond market, as measured by the Bloomberg U.S. Aggregate Bond Index, gained 2.96% in the first quarter, falling within the top quartile of first-quarter returns since the index's inception in January 1976. The positive return for the quarter can be largely attributed to the positive performance in January that benefited from a combination of a sharp pullback in interest rates and tightening corporate credit spreads. Performance returns in February and March largely offset one another as both months experienced elevated levels of volatility ignited by a rapid repricing of future monetary policy expectations (in both directions) and the recent banking crisis.

The yield on the benchmark 10-year U.S. Treasury note fell to 3.47%, compared to 3.88% on December 31, 2022, but the quarter-over-quarter comparison does not explain the sharp moves felt along the yield curve throughout the quarter. Treasury market volatility, measured by the ICE BofA MOVE Index, first tested rate-hike regime cycle lows only to reverse quickly, reaching new cycle highs at levels not seen since the Global Financial Crisis. The 10-year yield initially fell abruptly in January to an intra-day low of 3.32% before beginning its ascent in February to 4.00%, and briefly reaching that level in the early days of March. Then, yields along the curve moved sharply lower as investors flocked to safe-haven assets amid the fallout from the banking crisis.

Fed Update and Outlook[1]

We remain cautious on our near-term macroeconomic outlook as the recent episode within the global banking system and its forthcoming impacts on the economy have muddied what was already a challenging and uncertain backdrop. An aggressive shift in consensus beliefs would suggest investor conviction has weakened and the timeline of the inevitable recession has once again changed. Interpretations of recent bond and equity market moves are far and wide, but as we see it, both moves are precipitous and likely short-lived, at least until we get a more definitive outlook backed by official comments from U.S. Federal Reserve (Fed) officials and underlying economic data. While volatility remains elevated, the move in yields is likely overdone and we could see a reprieve to higher levels; however, the chances of retesting previous highs in yields are diminished as the backdrop has changed.

It is important to remember where the market stood just days before the onset of the banking crisis. In our February monthly commentary, we highlighted the drastic repricing of future monetary policy and at the time were calling for additional rate hikes and a persistently higher federal funds rate on the back of resilient economic and employment data. The run on the banks did not only influence a flight into quality (i.e., U.S. Treasuries), but also changed investor expectations for future monetary policy, yet again. Recent market action would suggest investors believe the recent instability within the banking system will be enough to force the Fed's hand to pivot from its aggressively restrictive monetary policy mandate. To highlight the scale of volatility and how the landscape shifted within a matter of days amid the onset of the banking fallout, the yield on the 2-year U.S. Treasury note, a broader indication of future monetary policy, fell nearly 120 bps within a span of five trading sessions. A move of such caliber has not been experienced since 1987.

Prior to the demise of a handful of financial institutions, the broader economy showed clear signs of resiliency; however, the impact of the series of bank runs and eminent concerns of future contagion risks across the global financial sector changed the landscape as we knew it. The repercussions of the stresses in the

Not FDIC Insured	May Lose Value	No Bank Guarantee

financial system could effectively pull forward the tightening cycle without additional rate hikes per se and will detract from economic activity due to tighter bank lending standards and slower loan growth. Consequently, the futures market is now pricing in that the end of the Fed's rate hike cycle is near with rate cuts possibly as early as this summer.

This sort of ideology was presented by Fed Chairman Jerome Powell in his latest remarks following the Federal Open Market Committee (FOMC) decision in March to hike the federal funds rate range by 25 bps to 4.75% to 5.00%. Regarding the tightening of credit conditions Powell stated, "Such a tightening in financial conditions would work in the same direction as rate tightening. … You can think of it as being the equivalent of a rate hike or perhaps more than that." Powell also went on to discuss that several members of the committee accounted for the potential outcomes of the banking crisis in its previous rate hike decision and did say that if credit conditions did not tighten to the magnitude originally thought, that additional policy firming (i.e., more rate hikes) would be appropriate. We are likely closer to the beginning of the end as the backdrop has changed and we have begun to see cracks within the Fed's main objectives, specifically related to employment. While we agree that the Fed's timeline for a pause has likely accelerated, we do not see cuts in the interim unless a series of bank failures continue to unravel. Powell remains tethered to the Fed's 2% inflation target, and while inflation is moderating, it is still nowhere near the Fed's mandate and will require a higher-for-longer federal funds rate.

In the past, we have called out the historic mark-to-market losses across fixed-income sectors amid what has been distinguished as the biggest and fastest rate hike regime on record. The Fed is on a breaking regimen, and while the timing and magnitude of the recent events in the banking sector may have shocked the market, the underlying outcome should not. The Fed has broken the crypto market, parts of the equity and fixed income markets, the housing market, and so forth, while investors patiently waited for the next shoe to drop. After all, the Fed's end goal is to generate enough demand destruction to restore price stability.

This is not the environment for investors to chase returns and take undue risk. Despite the aftermath of recent events, the greater economy has yet to feel the effects of the totality of previous rate hikes as it could take several quarters before the full, lagged impact flows throughout the economy. We will continue to face uncertainty as it is too early to tell the impact of contagion risks brought on by the banking crisis and that a Fed pivot amid a crisis is decidedly bearish for risk assets. There will be an environment where taking unconditional risks makes sense. Until that opportunity presents itself, however, remaining overly cautious and adopting an active risk management approach will be necessary to ride out the elevated probabilities of additional unexpected negative events.

Corporate Market Review[1,2]

Investment-grade corporate bonds, as measured by the Bloomberg U.S. Corporate Bond Index, gained 3.50% during the quarter. Again, the positive quarterly performance was predominately driven by a stellar January that captured the fall in interest rates and was further enhanced by tightening corporate credit spreads. However, the positive credit spread action in January was more than offset as credit spreads widened in February and March. The move in February was a modest seven basis points (bps) wider to 1.24%. However, credit spreads then gapped higher in March, widening to 1.63% amid the banking crisis before retracing a part of that move back lower in the final weeks of March. The average credit spread for the index widened eight basis points during the quarter to 1.38% from the 1.30% spread level at the end of December.

Corporate bonds outperformed all other major fixed-income sectors on a total return basis and outperformed relative to U.S. Treasuries on a duration-adjusted basis. Both government-related securities and securitized products (asset-backed securities and mortgage-backed securities) posted a positive total return during the quarter and posted mixed results relative to Treasuries.

Municipal Market Review[1,2]

Municipal bonds had positive performance during March, with the Bloomberg Municipal Bond Index up 2.2%, the second-best return for March since the index's inception in January 1980. This brought the first-quarter return to 2.78%. Total return performance was positive across the curve during the quarter, with the long end outperforming short and intermediate maturities. The Bloomberg Municipal Long Bond (22+) Index was up 4.27% compared to the five- and 10-year municipal indices, which were up 1.93% and 2.76%, respectively. Municipals marginally underperformed U.S. Treasuries by 0.23 percentage points over the quarter, with Treasuries up 3.01%. Overall this quarter we saw demand for municipals taper off as municipals are relatively expensive compared to their historical values, and outflows from municipal bond funds resumed, albeit at a slow pace.

In March the AAA municipal general obligation to Treasury ratios increased across the curve with the one-year, 10-year, and 30-year ratios richening by roughly 9 percentage points (pp), 2 pp, and 2 pp, ending the quarter at 54%, 65%, and 92%, respectively. Given that these values are expensive relative to their five-year averages, our approach to funding new accounts will be slow and opportunity-specific. Currently we are actively looking for opportunities in the market to sell bonds that we believe are at peak

prices and/or are showing weakness in credit fundamentals.

Net municipal bond funds were negative in March, but the pace of outflows decreased toward the end of the month. Total net outflows were $430 million in March, bringing year-to-date net inflows to $265 million. New issuance in March totaled $31.8 billion, bringing year-to-date issuance to $75.5 billion: down 30% year over year and 19% below the 10-year average. Year-to-date tax-exempt issuance of $63.3 billion is down 26% while taxable municipal issuance of $12.2 billion is down 31%. Our expectation for a supply uptick in March did not come to fruition. We now expect supply to stay at muted levels until rate volatility diminishes.

Headlines in the quarter were heavily focused on regional bank concerns and the potential for sizable liquidations of municipal bonds. Banks are the third-largest holders of municipal bonds with approximately $600 billion of municipals in direct loans and bonds. Regional banks account for $140 billion with about $70 billion characterized as available-for-sale securities. If banks need to raise cash by selling municipal bonds, there is potential for weakness in the intermediate to long end of the curve, but selling pressure will likely be offset by the lack of supply in the market. We expect that any selling of municipal bonds will continue to be easily absorbed. Given the performance disparity among credit quality, our focus on high credit quality within our programs as well as our active management has helped mitigate market volatility. For portfolios underweight fixed income, we recommend dollar-cost averaging into municipals.

1. References to specific securities are intended to illustrate the types of securities Eagle may hold in this portfolio. They are not intended as representations of specific investment recommendations that would have been profitable to an investor. Past performance is not a guarantee of future results. Opinions and estimates offered constitute Eagle's judgment and are subject to change without notice as are statements of financial-market trends, which are based on current market conditions. Investing involves risk, including the possible loss of principal.

This information is not intended to serve as investment, tax, legal, or accounting advice. It should not be considered a recommendation to engage in or refrain from taking a particular course of action and is not an endorsement, recommendation, or sponsorship of any securities, services, or other investment property. It has been prepared for informational purposes only, and you should consult your own investment, tax, legal, and/or accounting professionals before engaging in any transaction. Any discussion of tax matters contained herein is not intended or written to be used, and cannot be used, for the purpose of avoiding any penalties that may be imposed under federal tax laws. The opinions expressed are those of the author(s) and do not necessarily reflect the views of the firm, its clients, or any of its or their respective affiliates. Views expressed are as of the date indicated and may change based on market and other conditions. The accuracy of the content and its relevance to your particular circumstances is not guaranteed.

2. Sources: Investor Tools Perform and Yield Book

Investing in bonds involves risks that may adversely affect the value of your investment such as inflation risk, credit risk, call risk, interest rate risk, and liquidity risk, among others. The two most prominent factors are interest rate movements and the credit worthiness of the bond issuer. Investors should pay careful attention to the types of fixed income securities that comprise their portfolios and remember that, as with all investments, there is the risk of loss of capital. A Real Estate Mortgage Investment Conduit (REMIC) is a type of multiclass mortgage-related security in which interest and principal payments from mortgages are structured into separately traded securities. These classes are distinguished by their sensitivity to the prepayment risk of the underlying mortgage-related collateral. Therefore, they may be more or less sensitive to prepayment risk, bear different interest rates, and have various average lives and final maturities.

Investment grade refers to fixed-income securities rated BBB or better by Standard & Poor's or Baa or better by Moody's. Convertible securities and preferred stock combine the fixed income characteristics of bonds with some of the potential for capital appreciation of equities and, thus, may be subject to greater risk than pure fixed-income instruments. Unlike bonds, preferred stock and some convertible securities do not have a fixed par value at maturity, and in this respect may be considered riskier than bonds. Convertible securities may include convertible bonds, convertible preferred stocks and other fixed-income instruments that have conversion features.

Investments in high-yield bonds and convertible securities are subject to the client's authorization, as set forth in the Investment Management Agreement. Such investments may be subject to greater risks than other fixed-income investments. The lower rating of high-yield bonds (less than investment grade) reflects a greater possibility that the financial condition of the issuer or adverse changes in general economic conditions may impair the ability of the issuer to pay income and principal. Periods of rising interest rates or economic downturns may cause highly leveraged issuers to experience financial stress, and thus markets for their securities may become more volatile. Moreover, to the extent that no established secondary market exists, there may be thin trading of high-yield bonds, which increases the potential for volatility.

Definitions

In stastics, a quartile divides a particular set of data into four equal parts, each consisting of 25% of the whole.

A credit spread is the difference in yield between a U.S. Treasury bond and another debt security with the same maturity but different credit quality. Also referred to as "bond spreads" or "default spreads," credit spreads are measured in basis points, with a 1% difference in yield equaling a spread of 100 basis points. Credit spreads reflect the risk of the debt security being compared with the Treasury bond, which is considered to be risk-free. Higher quality securities have a lower chance of the issuer defaulting. Lower quality securities have a higher chance of the issuer defaulting.

A yield curve is a line that plots yields (interest rates) of bonds having equal credit quality but differing maturity dates. The slope of the yield curve gives an idea of future interest rate changes and economic activity.

The ICE BofA MOVE Index is a measure of U.S. interest rate volatility that tracks the movement in U.S. Treasury yield volatility implied by current prices of one-month over-the-counter options on 2-year, 5-year, 10-year and 30-year Treasuries.

Basis points (bps) are measurements used in discussions of interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01%.

Securitized products, such as asset-backed securities (ABS) and mortgage-backed securities (MBS), are created by pooling loans from a variety of sources and issuing bonds that are backed by these loans. Creditworthiness stems from the credit quality of the underlying loans, as opposed to corporate bonds in which creditworthiness is derived from the earning power of the issuing company. The primary risk of these securities is interest-rate risk. Rising interest rates might cause loan principal prepayments to slow, resulting in less available principal to invest at prevailing higher rates. Conversely, rate decreases might accelerate prepayments, leaving more dollars to invest at lower rates.

Retracement is a technical term that describes a minor pullback or change in the direction of a stock, index, or other financial instrument. Retracements are considered to be temporary and do not signal a shift in the larger trend.

Total return, when measuring performance, is the actual rate

of return of an investment or a pool of investments over a given period of time. Total return includes interest, capital gains, dividends, and distributions realized over the specified period. Total return accounts for two categories of return: income including interest paid by fixed-income investments, distributions, or dividends and capital appreciation, representing the change in the market price of an asset.

Duration incorporates a bond's yield, coupon, final maturity and call features into one number, expressed in years, that indicates how price-sensitive a bond or portfolio is to changes in interest rates. Bonds with higher durations carry more risk and have higher price volatility than bonds with lower durations.

A consensus estimate is a forecast of a public company's projected earnings, the expected findings of a macroeconomic report, or an expected economic trend over time based on the combined estimates of analysts and other market observers who track the stock or data in question.

The federal funds rate, known as the fed funds rate, is the target interest rate set by the Federal Open Market Committee of the U.S. Federal Reserve. The target is the Fed's suggested rate for commercial banks to borrow and lend their excess reserves to each other overnight.

A futures contract is a legal agreement to buy or sell an asset at a predetermined price at a specified time in the future, which is known as the expiration date. Futures contracts are financial derivatives that allow investors to speculate on the direction of a particular asset and are often used to hedge the price movement of the underlying asset to help prevent losses from undesired price changes.

Mark to market is a method of measuring the fair value of assets, liabilities, or other accounts that can fluctuate over time. Mark to market strives to provide a realistic appraisal of a company or institution's current financial circumstances based on current market conditions. During volatile markets, however, mark-to-market measurements may not accurately represent an asset's true value in an otherwise orderly market.

A municipal to Treasury ratio is a comparison of the current yield of municipal bonds, such as AAA municipal general obligation bonds, to U.S. Treasuries. The ratio is used to assess whether the municipal bonds in question are an attractive buy in comparison to Treasury bonds.

Available for sale securities are bought with the intent of being sold before they reach their maturity.

Credits are a generic term for fixed income securities such as corporate bonds, mortgage- or asset-backed securities, municipal bonds, or emerging market bonds.

Fund flow is the net of all cash inflows and outflows into and out of a particular financial asset. It typically is measured on a quarterly or monthly basis. Investors and others look at the direction of fund flows for indications about the health of specific securities and sectors or the overall market.

Dollar-cost averaging is an investment strategy in which in¬vestors divide the total amount to be invested across periodic purchases of a target asset in an effort to reduce the impact of volatility on the overall purchase. The purchases occur at regular intervals regardless of the asset's price.

Indices

The Bloomberg U.S. Aggregate Bond Index is composed of the total U.S. investment-grade bond market. The market-weighted index includes Treasuries, agencies, commercial mortgage-backed securities (CMBS), asset-backed securities (ABS) and investment-grade corporates. The inception date of the index is January 1, 1976.

The Bloomberg U.S. Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market.

The Bloomberg Municipal Bond Index is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market. The inception date of the index is January 31, 1980.

The Bloomberg Municipal 5-Year Bond Index is an unmanaged index comprised of investment-grade municipal bonds with maturities of four to six years.

The Bloomberg 10-Year Municipal Bond Index is an unmanaged index comprised of investment-grade municipal bonds with maturities of eight to 12 years.

The Bloomberg Long (22+ Year) Municipal Bond Index is a rules-based, market-value-weighted index comprised of investment-grade municipal bonds with maturities of more than 22 years.

"Bloomberg®" and the Bloomberg U.S. Aggregate Bond Index, Bloomberg U.S. Corporate Bond Index, Bloomberg Municipal Bond Index, Bloomberg Municipal 5-Year Bond Index, Bloomberg Municipal 10-Year Bond Index, and Bloomberg Long (22+ Year) Municipal Bond Index are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited ("BISL"), the administrator of the indices (collectively, "Bloomberg") and have been licensed for use for certain purposes by Raymond James Investment Management and Eagle Asset Management. Bloomberg is not affiliated with Raymond James Investment Management or Eagle Asset Management, and Bloomberg does not approve, endorse, review, or recommend Eagle's Fixed Income strategy. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to Eagle's Fixed Income strategy.

The views and opinions expressed are not necessarily those of any broker/dealer or any affiliates. Nothing discussed or suggested should be construed as permission to supersede or circumvent any broker/dealer policies, procedures, rules, and guidelines.

Indices are unmanaged and one cannot invest directly in the index.

© 2023, Eagle Asset Management, Inc. All rights reserved.