



MARKET COMMENTARY

The Economy

Economic data is showing signs of stabilization from the historic lows observed over the past three months, however, COVID-19 case resurgence both in the US and globally brings massive uncertainty. Retail sales increased 7.5% in June as consumers spent on home improvements but forward-looking consumer confidence shows heightened anxiety over job prospects and savings. The housing market has been a bright spot. With record low mortgage rates, new home sales reached pre-pandemic levels in June and low inventory levels have kept home prices stable. Business sentiment in manufacturing and services has shown a lack of growth in July following big gains in June, particularly service firms noting falling sales due to re-imposed lockdowns.

Structured Markets

CMBS spreads continue to recover. New issuance is being driven by Agency (GSE) apartment deals, with limited non-agency deals coming to market. All deals are being well received. Notably, non-agency shows rising apartment exposure, at the expense of hotel/retail given their respective fundamental outlooks. Non-agency supply will slow further into August. Overall collateral performance trends point to a leveling off in delinquency rates at levels above the last recession, as servicer forbearance and modification activity has triaged loans, for now. Eventually we expect many will transition to defaults.

Corporate Credit Market

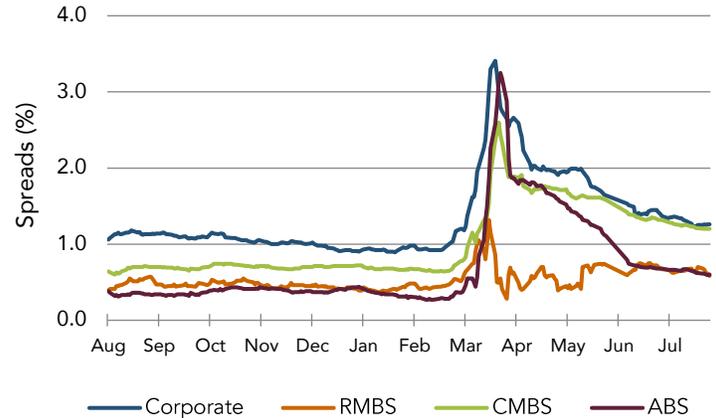
Markets looked past the deterioration in global COVID-19 trends and embraced the extension of ongoing government stimulus and positive backward-looking data releases as justifications for the march tighter in corporate bond spreads during July. The Bloomberg Barclays Corporate Index tightened another 17 basis points (bps) to end at 133 through June. Primary market slowed down significantly from the breakneck pace of prior months, with issuance topping out at \$66bn.

Government Market

The 2-yr decreased by 4 bps while the 5-yr yield decreased by 8 bps for the month of July. The 10-yr and 30-yr yields also decreased by 13 bps and 22 bps, respectively, in July.

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SPREADS TO TREASURIES



BLOOMBERG BARCLAYS BENCHMARK DATA

| | Total Return MTD |
|-------------------|------------------|
| 1-3 Yr Gov/Credit | 0.19% |
| Int. Gov/Credit | 0.75% |
| Aggregate | 1.49% |
| 1-3 Yr US Tsy | 0.09% |
| 3-5 Yr US Tsy | 0.27% |
| 5-10 Yr US Tsy | 0.69% |
| 10-20 Yr US Tsy | 2.74% |
| 20+ Yr US Tsy | 4.42% |

BLOOMBERG BARCLAYS AGGREGATE SECTOR DATA

| | Total Return MTD | Excess Return* MTD | Current YTM |
|-------------|------------------|--------------------|-------------|
| Corporates | 3.25% | 1.77% | 1.90% |
| Financials | 2.36% | 1.38% | 1.64% |
| Industrials | 3.50% | 1.86% | 2.01% |
| Utilities | 4.77% | 2.65% | 2.01% |
| RMBS | 0.18% | -0.02% | 1.07% |
| CMBS | 1.22% | 0.63% | 1.51% |
| ABS | 0.42% | 0.25% | 0.69% |
| Agencies | 0.74% | 0.23% | 0.69% |

*Month-to-date performance of spread bearing bonds versus duration-matched Treasuries