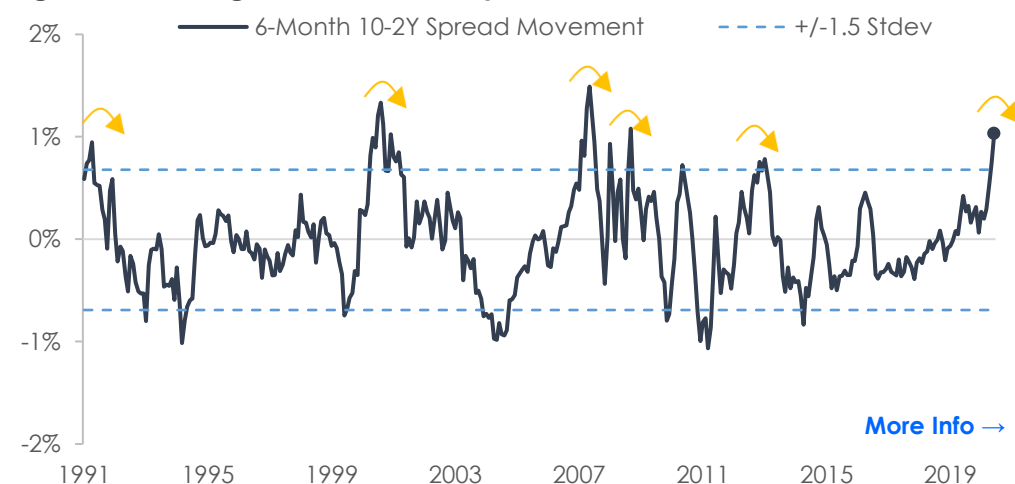


► **Start Extending Duration.** The yield curve steepened in 1Q21 as investors priced in higher inflation and economic growth. Consensus calls for the yield curve to steepen further, but history suggests steepening is overdone. We place significant weight on history but acknowledge the market will focus on inflation near-term. To balance history with the current environment, **we favor starting to extend duration over the next 3 months.**

► **Actionable Ideas:** Intermediate Duration Corp (IGIB, SPIB, VCIT), Long Duration Corp (IGLB, SPLB, VCLT)

Figure 27: Rolling 6-Month 10-2Y Spread Movement



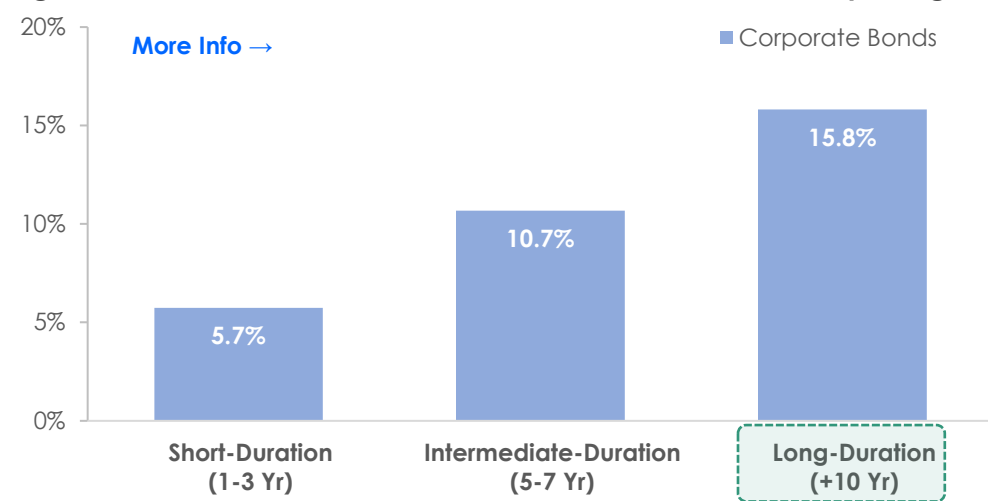
Source: MarketDesk Research

**Yield Curve Steepening Slows After a +1.5 Stdev 6-Month Steepening Move ...**

- History indicates the 10-2Y spread's steepening will slow near-term. The risk to this view is the market remains hyper focused on inflation and pushes yields higher. To balance history with the current environment, we favor starting to extend duration over the next 3 months.

- Figure 27 charts the 10-2Y spread's rolling 6-month change over the past 30-years. Positive changes indicate yield curve steepening, while negative changes represent yield curve flattening. The 10-2Y spread experienced a +2.3 stdev steepening event over the past 6-months.

Figure 28: Next 12-Month Performance After +1.5 Stdev Steepening Event



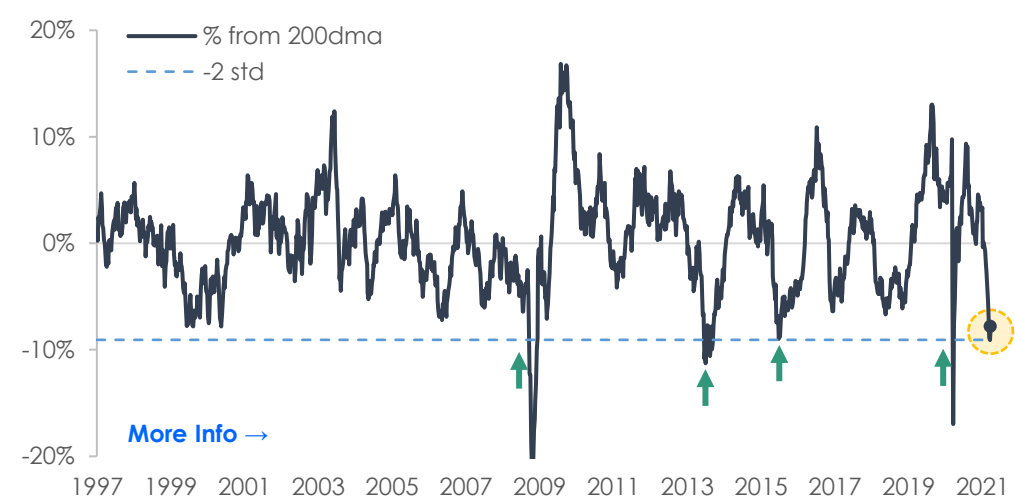
Source: MarketDesk Research

**History Favors Long Duration After 10-2Y Spread Experiences a +1.5 Stdev Event ...**

- Long-duration historically outperforms after the 10-2Y spread steepens by +1.5 stdev.

- Figure 28 shows forward 12-month corporate credit returns by duration after the 10-2Y spread experiences a +1.5stdev steepening event. Long duration outperforms mid duration, which outperforms short duration. Click "More Info" for each duration group's next 12-month performance during the prior six +1.5 stdev moves since 2000.

Figure 29: Long-Duration U.S. Corporates (+15Y) vs 200dma



Source: MarketDesk Research

**Long-Duration U.S. Corporates Currently Trade -1.7 Stdev Below Their 200dma ...**

- Long-duration corporate bonds are significantly oversold after 2021's yield curve steepening. History points to double-digit next 12-month total returns, but muted next 6-month total returns.

- Figure 29 charts the percentage long-duration (+15Y) corporate bonds trade vs their 200dma. Long-duration corporates traded -2stdev below their 200dma on 3/19/21. Click "More Info" for long-duration corporates' forward 12-month returns the prior four times the group traded -2stdev below its 200dma over the past 25yrs.