FIXED INCOME UPDATE: 03.13.2020

Michael Sanders, Co-Head of Fixed Income, shares his perspective on Madison's Fixed Income portfolios, our positioning and the recent volatility in the markets. The global pandemic status and recent developments within the U.S. have us all on high alert. It is our utmost priority to be the best stewards of our client capital. In an effort to to be transparent we offer you his comments.

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The severe and abrupt drop in the equity markets has somewhat overshadowed the dramatic movements within the fixed income markets:

- Long-term Treasury yields have hit all-time lows recently but have rebounded slightly over the last few days. The effectiveness of owning long-term treasuries to hedge risk assets could be diminished due to the low levels of current interest rates.
  - In response to the uncertainty, the Federal Reserve is thought to be on a path to cut the Fed Funds rate to near 0% by month's end and has announced a quantitative easing program along with expanded repurchase agreement (repo) facilities to calm the fears in the U.S. Treasury market.
- Corporate bond spreads have increased significantly as the market reassesses the amount and quality of the BBB-rated bond universe - some of these bonds could be downgraded to high yield over the next year causing further losses.
  - The volatility within the corporate bond market has also reignited concerns about liquidity of corporate bond exchange traded funds (ETF). Many large, well known, corporate bond ETFs are trading at significant discounts to net asset value (NAV) as investors rush to the exits.
- Mortgage spreads have widened significantly as well given the expectation of a massive refinance wave.
  - A significant amount of home mortgages currently in existence are refinanceable at current mortgage rates.

This period of volatility is a reminder of the risks in the fixed income markets and why it is important to understand what you hold in portfolios. In our Madison Intermediate Fixed Income strategies we continue to maintain our up-in-quality bias with respect to credit, no exposure to mortgage-backed securities and hold a more conservative duration position. We believe our strategies can continue to provide a buffer to higher-risk assets during this time of heightened volatility. We will continue to implement our disciplined philosophy and process which has served our clients well over many market environments.

We thank you for your confidence, and we remain invested alongside you for the long-term.

Bond Spread is the difference between yields on differing debt instruments of varying maturities, credit ratings, and risk, calculated by deducting the yield of one instrument from another.

Bonds are subject to certain risks including interest rate risk, credit risk and inflation risk. Equity risk is the risk that securities will fluctuate in value due to general market or economic conditions.Contact Madison for more detailed information regarding these risks.

Madison's expectation is that investors will participate in market appreciation during bull markets and be protected during bearmarkets compared with investors in portfolios holding more speculative and volatile securities.There is no assurance that Madison's expectations will be realized.