

# Parametric TABS Short-Term Municipal Bond Fund

PARAMETRIC TABS TEAM

## Performance Review

In the quarter period ending March 31, 2024, the Portfolio's 1 shares returned -0.52% (net of fees)<sup>1</sup>, while the benchmark returned -0.37%.

The contributors to relative performance of Parametric TABS Short-Term Municipal Bond Fund (the Fund) versus the benchmark, the Bloomberg Municipal Managed Money Intermediate 1-7 Year Bond Index (the Index), were the Fund's underweight exposure to AA-rated municipals and an overweight exposure to bonds with maturities of less than one year. The detractors from relative performance included the Fund's longer duration profile relative to the Index and the Fund's allocation to U.S. Treasury securities during the quarter.

## A Word On The Markets

Financial markets in the first quarter of 2024 were marked by tension between two opposing ideas on the level and path of interest rates. On the one hand, Federal Reserve (Fed) Chairman Powell struck a cautious tone throughout the quarter as to the timing of interest rate cuts, as inflationary data surprised to the upside on more than one occasion. On the other hand, Powell and other Fed officials noted in multiple speaking engagements that the majority view of the Federal Open Market Committee (FOMC) was to lower interest rates at some point this year, to help achieve a "soft landing" of the U.S. economy. This conflicting messaging left the markets scratching its collective head at times, and returns across fixed income asset classes were muted as a result. The Bloomberg U.S. Aggregate Bond Index returned -0.72%, while the Bloomberg U.S. Treasury Index was down -0.96% on the quarter. Municipals returned -0.39%, outperforming their taxable peers, in part due to a resurgence in demand. Equities enjoyed another strong quarter, with the S&P 500 Index returning over 10%, led by the same narrow group of names that have driven overall equity index returns over the past several periods. Yields moved higher during the first quarter, as the Fed's near-term hawkishness won the day; the muni curve was higher, with increases ranging from 21 basis points (bps) to 45 bps across the curve, while the U.S. Treasury curve was also higher, with increases ranging from 26 bps to 37 bps. The muni curve remains inverted in the belly, with the spread between 2- and 10-year maturities at -46 bps, while the 2- to 30-year portion flattened modestly, to +86 bps. The Treasury curve inversion also persists, with the 2- to 10-year portion at -42 bps and the 2- to 30-year portion at -28 bps. (Source: Bloomberg L.P. Data as of March 31, 2024.)

As a whole, the flow picture for municipals was markedly positive for the first quarter of 2024. Muni mutual funds saw continued solid inflows throughout the quarter, to the tune of \$7.1 billion according to J.P. Morgan. Longer-duration segments of the market were the largest beneficiary, as participants seek to lock in elevated yields and achieve exposure to duration in advance of the Fed's guidance on rate cuts later in the year. In a reversal of fortunes from the past couple of years, the positive development in muni mutual fund flows came at the expense of their exchange-traded fund (ETF) counterparts, which have seen mild outflows on the year. Separately managed accounts (SMAs) continue to gobble up assets, as they have in previous quarters. New issuance came in at \$94 billion for the quarter. This represents the highest first quarter supply figure since 2007. (Source: Barclays. Data as of March 31, 2024.)

For the first quarter of 2024, the short end of the municipal market outperformed. The front end, proxied by the Bloomberg 1-Year Municipal Bond Index, was higher by +0.11%, while the Bloomberg Municipal 10-Year Index was down -0.54% and the Bloomberg Municipal Long Bond (22+ Year) Index was lower by -0.75%. Lower-rated segments of the muni market also outperformed, with the BBB segment of the Bloomberg Municipal Bond Index up +0.60%, whereas AAA municipals returned -0.81%. The Bloomberg High Yield Municipal Bond Index returned +1.51% during the quarter, further evidencing lower-rated segments' preeminence during the period. The Bloomberg Taxable Municipal Bond Index returned +0.10% for the period, outpacing the Bloomberg U.S. Corporate Index return of -0.40%.

<sup>1</sup> Source: Parametric. Data as of March 31, 2024.

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## Contributors

The primary contributor to the Fund's relative performance was an underweight exposure to AA-rated municipal securities, as this market segment trailed the broader Index during the quarter. In addition, the Fund's overweight exposure to bonds with maturities of less than one year proved to be a tailwind to relative performance. This market segment outperformed the broader Index as interest rates were volatile during the period.

## Detractors

The primary detractor from relative performance was the Fund's longer duration profile compared to the Index. This was due to rate volatility that was present in the market throughout the quarter. In addition, the Fund's allocation to U.S. Treasury securities proved to be a headwind to relative performance, as this asset class broadly underperformed municipals during the period.

## Investment Outlook And Fund Positioning

We continue to believe that interest rate movements will remain choppy and that municipal bonds could experience a positive 2024. Interest rates across the muni curve are at multiyear highs, but valuations continue to be rich. There remains a substantial amount of money in cash on the sidelines, some of which could find its way into the muni market if the consensus base case around interest rates plays out. 2024 is a U.S. presidential election year and taxes are always a topic, which should keep munis at the forefront of investors' minds. As the FOMC has essentially ended its rate-hiking regime and telegraphed its preference to see lower rates, we think that yields will ultimately move lower and expect fund flows to continue to remain in positive territory. Inflation coming back is a risk to look out for in the coming quarters, as is further rate and equity market volatility along with continued geopolitical tensions.

In terms of technicals, we will be keeping a close eye on muni mutual fund flows. Tax-loss harvesting was another major topic in 2023, but has mostly subsided as markets have found their footing, with the shadow of continued hikes no longer looming. Current yield levels certainly present a buying opportunity in our view, but we appreciate that volatility remains. We will also be watching the new-issue market closely. After a manageable 2023, we would not be surprised to see an uptick in issuance during the remainder of 2024, especially if rates move lower and/or the FOMC cuts rates, causing issuers to enter the market and take advantage of lower borrowing costs.

We continue to believe that municipal bond exposure may help stabilize portfolios if investor appetite shifts to relative safe-haven assets, particularly as rate volatility is expected to remain elevated in an uncertain environment. We are actively assessing ratios of tax-exempt municipals to Treasuries, taxable municipals and investment grade corporate bonds. At current yield levels, municipals appear relatively attractive for all muni buyers, which could provide continued support for the market as the year progresses. Finally, as rates remain near multiyear — and in some instances decades-long — highs, today's environment could prove worthwhile for adding to muni exposure, particularly for the longer-term-minded investor.

## Fund Facts

Class I inception	03/27/2009
Performance inception	12/31/1998
Benchmark	Bloomberg 5 Year Municipal Bond Index
Class I expense ratio	<b>0.46 %</b>

Where the net expense ratio is lower than the gross expense ratio, certain fees have been waived and/or expenses reimbursed. These waivers and/or reimbursements will continue for at least one year from the date of the applicable fund's current prospectus (unless otherwise noted in the applicable prospectus) or until such time as the fund's Board of Directors/Trustees acts to discontinue all or a portion of such waivers and/or reimbursements. Absent such waivers and/or reimbursements, returns would have been lower. Expenses are based on the fund's current prospectus.

## Performance (%)

As of March 31, 2024	MTD	QTD	YTD	1 YR	3 YR	5 YR	10 YR
Class I Shares at NAV	-0.04	-0.52	-0.52	2.13	0.05	1.52	1.54
I Shares Return After Taxes on Dist	--	--	--	1.86	-0.13	1.28	1.36
I Shares Return After Taxes on Dist & Sales of Fund Shares	--	--	--	2.22	0.36	1.45	1.48
Bloomberg 5 Year Municipal Bond Index	-0.12	-0.37	-0.37	1.95	-0.30	1.25	1.73
Bloomberg Municipal Managed Money 1-7 Year Bond Index	-0.29	-0.69	-0.69	1.34	-0.42	0.96	1.39

Performance data quoted represents past performance, which is no guarantee of future results, and current performance may be lower or higher than the figures shown. For the Fund's performance as of the most recent month-end, please refer to [eatonvance.com](http://eatonvance.com). Investment returns and principal value will fluctuate and fund shares, when redeemed, may be worth more or less than their original cost.

Returns are net of fees and assume the reinvestment of all dividends and income. Returns for less than one year are cumulative (not annualized). Performance of other share classes will vary.

After-tax returns are calculated using certain assumptions, including using the highest individual federal income tax rates in effect at the time of the distributions and do not reflect the impact of state/local taxes. Actual after-tax returns depend on a shareholder's tax situation and the actual characterization of distributions and may differ from those shown. After-tax returns are not relevant to shareholders who hold shares in tax-deferred accounts or shares held by nontaxable entities. Return After Taxes on Distributions may be the same as Return Before Taxes for the same period because no taxable distributions were made during that period. Return After Taxes on Distributions and Sale of Fund Shares may be greater than or equal to Return After Taxes on Distributions for the same period because of losses realized on the sale of Fund shares. Before-tax and after-tax returns for other classes of shares offered by the Fund are different.

**INDEX INFORMATION: Bloomberg 5 Year Municipal Bond Index** is an unmanaged index of municipal bonds traded in the U.S. with maturities ranging from 4-6 years.

**Bloomberg Municipal Managed Money 1-7 Year Bond Index** is an unmanaged, tax-exempt bond market index that measures the 1-7 year maturity component of the Bloomberg Municipal Managed Money Bond Index and such Index performance is available as of month end only.

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**S&P 500 Index** is an unmanaged index of large-cap stocks commonly used as a measure of U.S. stock market performance. **Bloomberg U.S. Aggregate Bond Index** is an unmanaged index of domestic investment-grade bonds,

including corporate, government and mortgage-backed securities. **Bloomberg Municipal Bond Index** is an unmanaged index of municipal bonds traded in the U.S. **Bloomberg Municipal Managed Money 10-Year Bond Index** is an unmanaged, tax-exempt bond market index that measures the 10+ year maturity component of the Bloomberg Municipal Managed Money Bond Index. **Bloomberg 1-Year Municipal Bond Index** is an unmanaged index of municipal bonds traded in the U.S. with maturities ranging from 1-2 years. **Bloomberg High Yield Municipal Bond Index** is an unmanaged index of non-Investment Grade Municipal bonds traded in the U.S. The **Bloomberg U.S. Corporate High Yield Index** measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. The Index excludes emerging market debt. The **Bloomberg U.S. Treasury Index** includes public obligations of the U.S. Treasury. The **Bloomberg Taxable Municipal Bond Index** is a rules-based, market-value-weighted index engineered for the long-term taxable bond market.

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