# Putnam Closed-End Funds Update: Putnam Master Intermediate Income Trust (PIM) and Putnam Premier Income Trust (PPT)

Q1 | 2023



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# Putnam Closed-End Funds Update: Putnam Master Intermediate Income Trust (PIM) and Putnam Premier Income Trust (PPT)

**Q1 | 2023**

**Albert Chan, CFA**
Head of Portfolio Construction

**Kelly M. Loughran, CFA**
Investment Product Analyst, Fixed Income

# Agenda

- Macro overview
- Investment process
- Fund performance and positioning

# Macro themes

## Global growth has been slowing and recession risks are rising

- Global growth estimates and investor sentiment have adjusted lower, while data has weakened somewhat. Lower realized growth and growth expectations are a reflection of central bank tightening, soaring inflation, supply-side bottlenecks, and geopolitical pressures. The recent bank failures, potential deposit flight, and rising funding costs will impair banks' lending capacity going forward adding to already tightening conditions. The Fed will be walking a thin line between financial stability and inflation.
- The labor market is tight and inflation is high, but the recent bank failures (Silicon Valley Bank (SVB) and Signature Bank) plus the Credit Suisse issues in the background have brought financial stability concerns to the forefront. The Federal Reserve, the U.S. Treasury, and the FDIC jointly acted to minimize further contagion to other financial institutions or markets. Given the inflationary backdrop, the Fed surely desires to separate financial market stability from the dual mandate of growth and price stability, which lately has been reduced to inflation targeting.
- How deep and long the slowdown in growth is will be dependent on actions from central banks. In the U.S., with various indicators pointing to late cycle dynamics, our team maintains the base case of a 2024 recession with an approximately 50% probability. Importantly, we believe recession is a necessary condition to take us out of this inflationary loop. The recession might be mild, but asset values need to decline a lot. Unfortunately, it still seems that only large drops in financial markets can bring back a low-inflation, low-interest-rate environment.

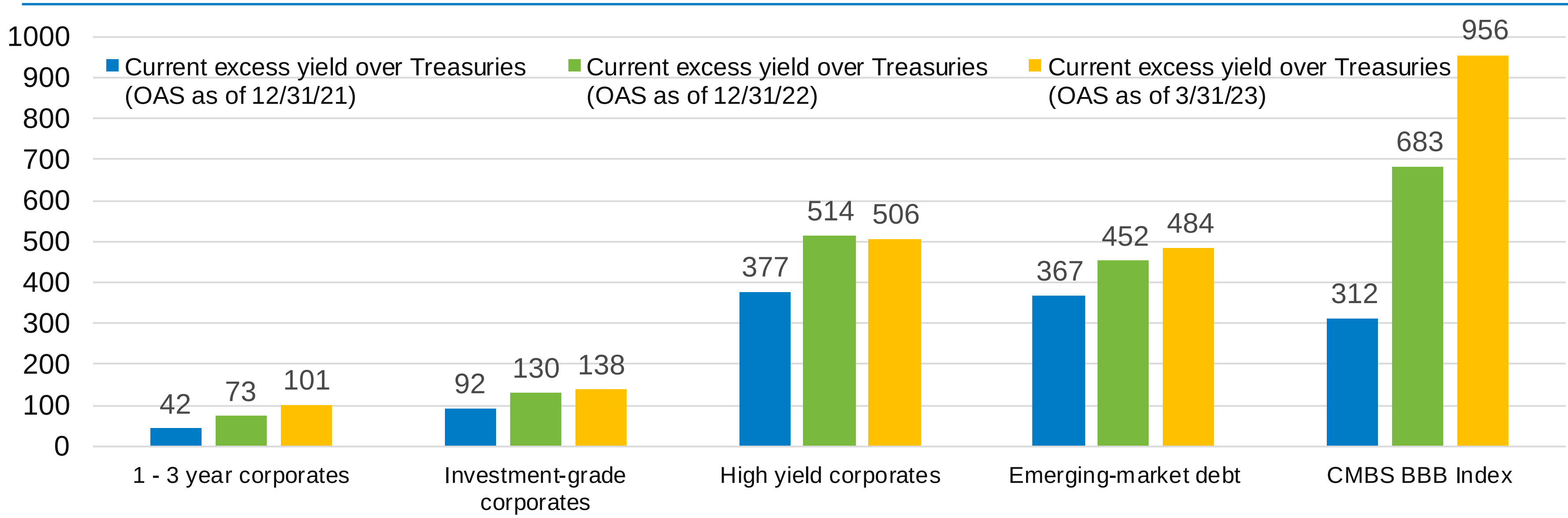
## The Fed and other central banks are nearing the end of their hiking cycles

- The Federal Reserve hiked interest rates by 25 bps at their March meeting. This hike takes the Fed Funds Rate range to 4.75% to 5.00%. The statement changed the language from “ongoing increases” to “some additional policy firming may be appropriate”. During the post-meeting press conference Powell highlighted uncertainty, committed only halfheartedly to another hike, and revealed that the Committee considered to pause, but the new DOT plot looked like the Fed committed to maintaining rates high for a long period.
- The level of uncertainty for Fed action is high. If banking issues remain controlled, one more hike in May of 25bps is likely. However, it is also possible that the March meeting could also be the end of tightening. We continue to believe rate cuts are unlikely in 2023 unless something big breaks.

Source: Putnam, as of April 2023. The views and opinions expressed are those of the Fixed Income team and are subject to change with market conditions and are not meant as investment advice.

# 2022 and Q1 2023 market performance across fixed income

| Key rate/spread levels | 12/31/21 | 12/31/22 | 3/31/23 | 2022 Change | QTD Change |
|---|---|---|---|---|---|
| 2-year Treasury | 0.73% | 4.43% | 4.03% | *+370 bps* | *-40 bps* |
| 10-year Treasury | 1.51% | 3.88% | 3.47% | *+237 bps* | *-41 bps* |
| Bloomberg 1-3 yr. Corp Index OAS | +42 bps | +73 bps | +101 bps | *+31 bps* | *+28 bps* |
| Bloomberg Corporate Index OAS | +92 bps | +130 bps | +138 bps | *+38 bps* | *+8 bps* |
| JPMorgan Developed HY Index OAS | +377 bps | +514 bps | +506 bps | *+137 bps* | *-8 bps* |
| JPMorgan EMBI Global Diversified OAS | +367 bps | +452 bps | +484 bps | *+85 bps* | *+32 bps* |
| CMBS BBB Index (OAS vs. Gov't) | +312 bps | +683 bps | +956 bps | *+371 bps* | *+273 bps* |

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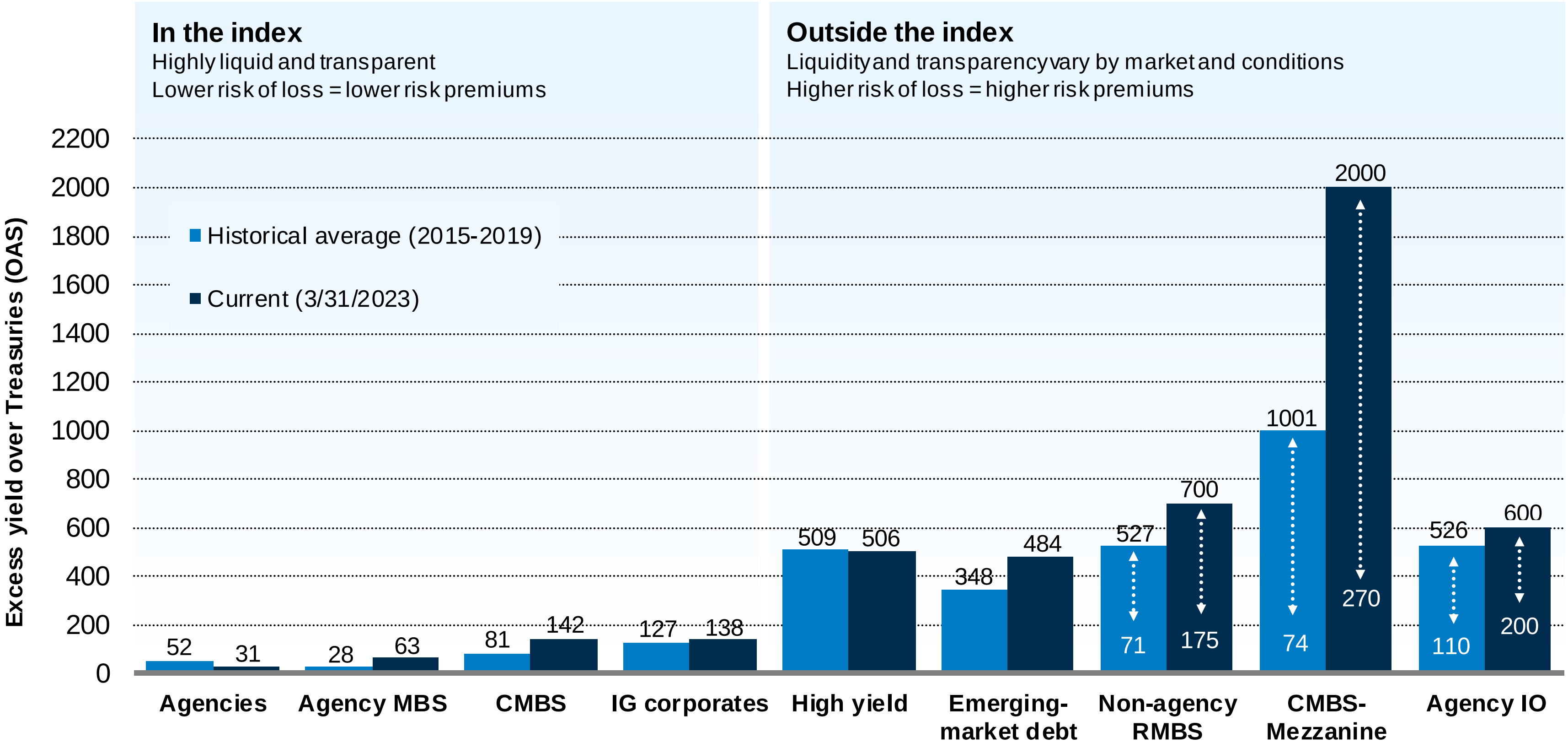
# We believe attractive opportunities exist outside of the index

- Specialized research is required to navigate less efficient and potentially higher risk markets
- We incorporate expected losses into our return expectations to identify relative value




Sources: Bloomberg, JP Morgan, Putnam as of 3/31/23. Data is provided for informational use only. Past performance is no guarantee of future results. All spreads are in basis points and measure option-adjusted yield spread relative to comparable maturity U.S. Treasuries except for high yield and emerging market debt, which are spread to worst, non-agency RMBS and mezzanine CMBS, which are loss-adjusted spreads to swaps calculated using Putnam's projected assumptions on defaults and severities, and agency IO, which is calculated using assumptions derived from Putnam's prepayment model. Agencies are represented by BBG U.S. Agency Index. Agency MBS are represented by BBG U.S. MBS Index. IG corporates are represented by BBG U.S. Corporate Index. CMBS is represented by both Agency and Non-Agency CMBS that are eligible for inclusion in the BBG U.S. Aggregate Bond Index. High yield is represented by JPMorgan Developed High Yield Index. Emerging-market debt is represented by the JPM EMBI Global Diversified Index. Non-agency RMBS is estimated using average market level of a sample of securities backed by various types of non-agency mortgage collateral (excluding prime securities) and credit risk transfer securities. Current OAS for mezzanine CMBS is estimated from a scenario-weighted average spread among baskets of Putnam-monitored CMBS securities and synthetic (CMBX) indices. Agency IO is estimated from a basket of Putnam-monitored interest-only (IO) and inverse IO securities. Option-adjusted spread (OAS) measures the yield over duration equivalent Treasuries for securities with different embedded options.

# Sectors with attractive liquidity premiums also provide diversification

- Securitized sectors have historically exhibited low correlations to corporate assets
- Low correlations between securitized sectors due to various balance sheets and structures

**Correlations of monthly duration hedged excess returns since 2009**

| | IG | HY | Loans | EM USD | S&P | MSCI World | NA RMBS | Agency IO | CMBS | Agency MBS |
|---|---|---|---|---|---|---|---|---|---|---|
| **IG** | — | | | | | | | | | |
| **HY** | 0.87 | | | | | | | | | |
| **Loans** | 0.70 | 0.80 | | | | | | | | |
| **EM USD** | 0.83 | 0.83 | 0.70 | | | | | | | |
| **S&P** | 0.63 | 0.73 | 0.55 | 0.61 | | | | | | |
| **MSCI World** | 0.69 | 0.77 | 0.60 | 0.69 | 0.97 | | | | | |
| **NA RMBS** | 0.49 | 0.49 | 0.60 | 0.45 | 0.20 | 0.26 | | | | |
| **Agency IO** | 0.26 | 0.30 | 0.39 | 0.30 | 0.09 | 0.11 | **0.28** | | | |
| **CMBS** | 0.42 | 0.43 | 0.45 | 0.38 | 0.26 | 0.29 | **0.43** | **0.28** | | |
| **Agency MBS** | 0.28 | 0.27 | 0.29 | 0.29 | 0.17 | 0.20 | **0.17** | **0.26** | **0.26** | — |

**Higher correlations > 0.6**

**Credit sectors commonly used for equity diversification do not achieve that goal**

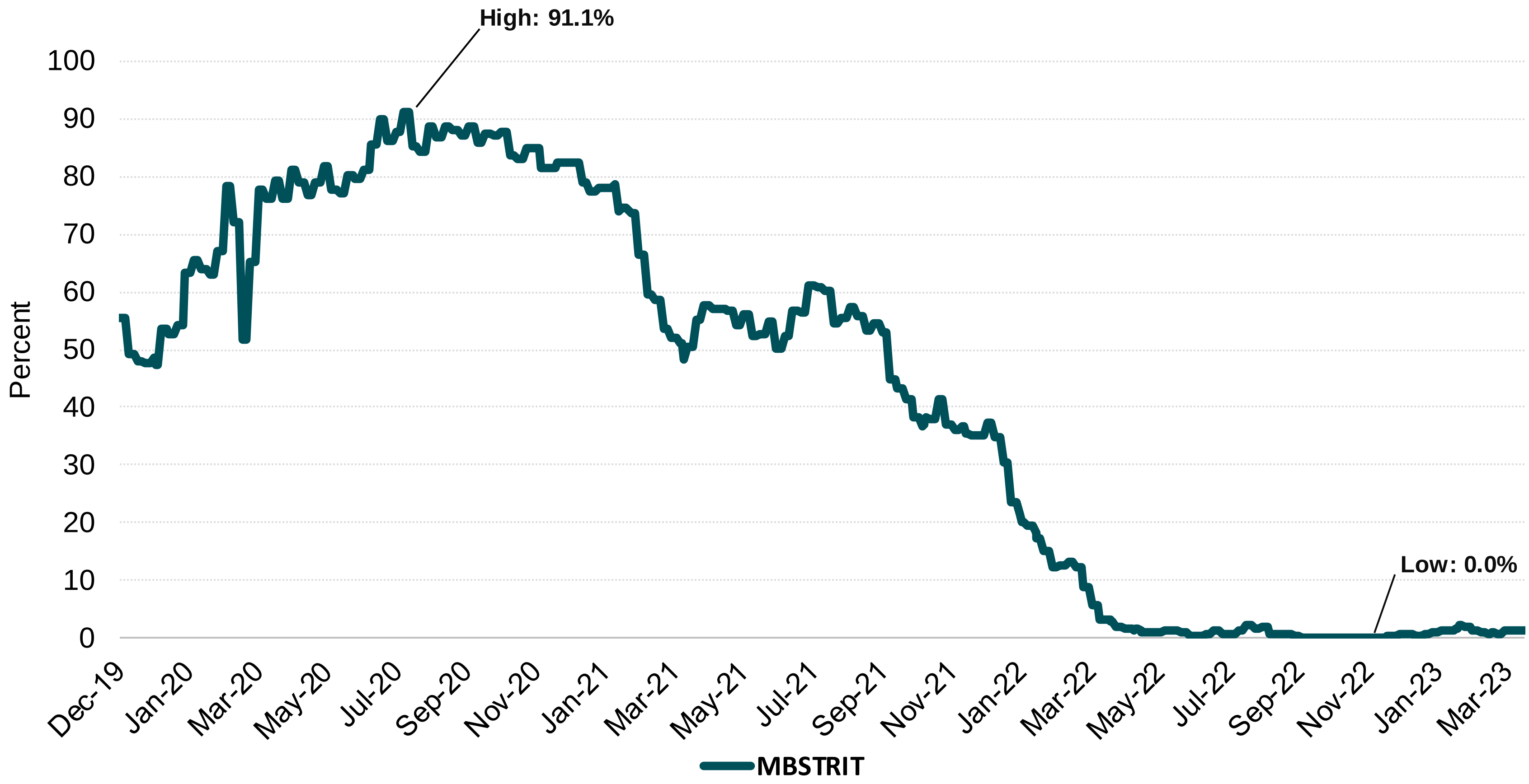
**Lower correlations ≤ 0.6**

**Lower correlations ≤ 0.6**

Source: Bloomberg, Putnam as of 3/31/23. For illustrative purposes only. Indices used in the above calculation include the BBG U.S. Corporate Index, BBG U.S. High Yield Index, S&P/LSTA Leveraged Loan Index, and the BBG EM USD Sovereign Indices. Where there is no available representative index, data is based on a universe of securities selected by Putnam that are representative of various fixed income sectors and subsectors within the mortgage market. Past performance is not a guarantee of future results. Diversification does not assure a profit or protect against loss. It is possible to lose money in a diversified portfolio.

# Share of refinanceable borrowers will take time to grow

- Morgan Stanley Truly Refinanceable Index measures the % of the universe that has at least a 25bp interest rate incentive after taking into account a variety of fees.




Source: Bloomberg, Morgan Stanley, as of 3/30/23. The Morgan Stanley Truly Refinanceable Index represents the percentage of borrowers with at least a 25 bp incentive to refinance. You cannot directly invest in an index.

# Annualized performance (fund shares) as of March 31, 2023

**Portfolio:** Master Intermediate Income Trust
**Benchmark:** ICE BofA U.S. Treasury Bill Index


| Relative performance (%): Portfolio versus benchmark | | | | |
|---|---|---|---|---|
| -0.95 | -4.44 | 0.73 | -1.70 | 0.86 |

**Past performance is not a guarantee of future results. An investment in this fund can lose value.**

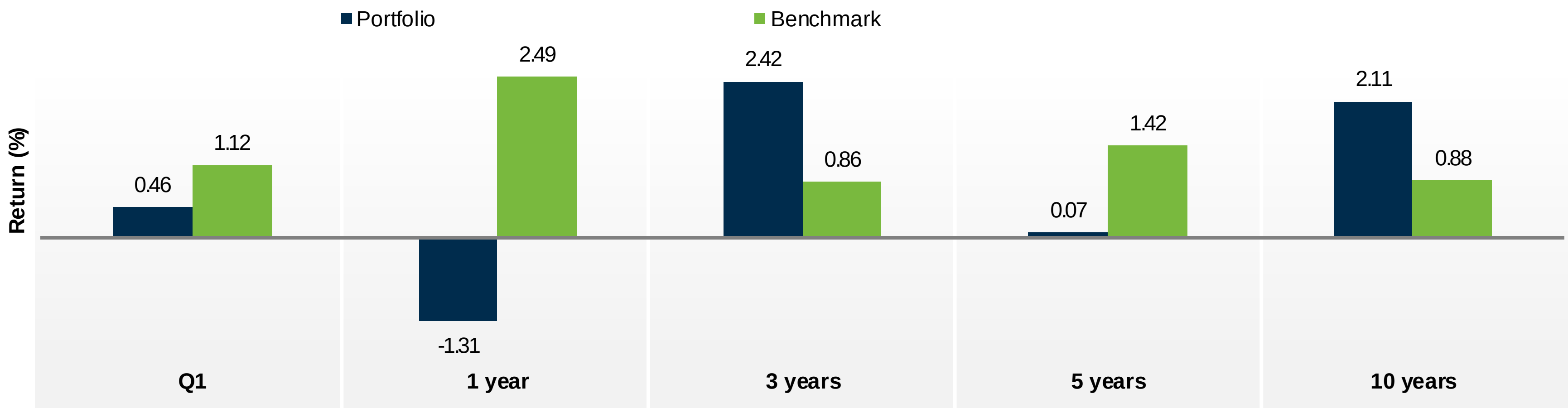
Periods less than one year are not annualized.

*Current performance may be lower or higher than the quoted past performance, which cannot guarantee future results. Investment return at both net asset value and market price as well as principal value will vary, and you may have a gain or a loss when you sell your shares. Performance at net asset value reflects the deduction of all management and administrative fees. Performance does not reflect taxes or reinvested distributions. 12b -1 (distribution) fees are not applicable to this fund.*

The ICE BofA U.S. Treasury Bill Index is an unmanaged index that tracks the performance of U.S. dollar-denominated U.S. Treasury bills publicly issued in the U.S. domestic market. ICE Data Indices, LLC (ICE BofA), used with permission. ICE BofA permits use of the ICE BofA indices and related data on an “as is” basis; makes no warranties regarding same; does not guarantee the suitability, quality, accuracy, timeliness, and/or completeness of the ICE BofA indices or any data included in, related to, or derived therefrom; assumes no liability in connection with the use of the foregoing; and does not sponsor, endorse, or recommend Putnam Investments, or any of its products or services. You cannot directly invest in an index.

# Annualized performance (fund shares) as of March 31, 2023

**Portfolio:** Premier Income Trust
**Benchmark:** ICE BofA U.S. Treasury Bill Index




| Relative performance (%): Portfolio versus benchmark | | | | |
|---|---|---|---|---|
| -0.66 | -3.80 | 1.56 | -1.35 | 1.23 |

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# Our investor website has resources for you

## putnam.com/individual

- Perspectives
- Daily updates on performance and pricing
- PM videos

For informational purposes only. Not an investment recommendation.

Duration measures the sensitivity of bond prices to interest-rate changes. A negative duration indicates that a security of fund may be poised to increase in value when interest rates increase.

**Consider these risks before investing:** Emerging market securities carry illiquidity and volatility risks. Lower-rated bonds may offer higher yields in return for more risk. Funds that invest in government securities are not guaranteed. Mortgage-backed securities are subject to prepayment risk and the risk that they may increase in value when interest rates decline and decline in value when interest rates rise. Bond investments are subject to interest-rate risk (the risk of bond prices falling if interest rates rise) and credit risk (the risk of an issuer defaulting on interest or principal payments).

Interest-rate risk is generally greater for longer-term bonds, and credit risk is generally greater for below-investment-grade bonds. Unlike bonds, funds that invest in bonds have fees and expenses. The value of investments in the fund's portfolio may fall or fail to rise over extended periods of time for a variety of reasons, including general economic, political, or financial market conditions; investor sentiment and market perceptions; government actions or geopolitical events or changes; and factors related to a specific issuer, geography, industry, or sector. These and other factors may lead to increased volatility and reduced liquidity in the fund's portfolio holdings. Funds that invest in government securities are not guaranteed. Mortgage-backed securities are subject to prepayment risk and the risk that they may increase in value less when interest rates decline and decline in value more when interest rates rise. The fund's investments in mortgage-backed securities and asset-backed securities, and in certain other securities and derivatives, may be or become illiquid. The fund's concentration in an industry group comprising privately issued residential and commercial mortgage-backed securities and mortgage-backed securities issued or guaranteed by the U.S. government or its agencies or instrumentalities may make the fund's net asset value more susceptible to economic, market, political, and other developments affecting the housing or real estate markets and the servicing of mortgage loans secured by real estate properties. The fund currently has significant investment exposure to commercial mortgage-backed securities, which, during periods of difficult economic conditions, may experience an increase in delinquencies and losses as a result of the effects of those conditions on commercial real estate markets, the ability of commercial tenants to make loan payments, and the ability of a property to attract and retain commercial tenants. International investing involves currency, economic, and political risks. The fund's shares trade on a stock exchange at market prices, which may be lower than the fund's net asset value.

The value of investments in the fund's portfolio may fall or fail to rise over extended periods of time for a variety of reasons, including general economic, political, or financial market conditions; investor sentiment and market perceptions; government actions; geopolitical events or changes; and factors related to a specific issuer, geography, industry, or sector. These and other factors may lead to increased volatility and reduced liquidity in the fund's portfolio holdings. International investing involves currency, economic, and political risks. The fund's shares trade on a stock exchange at market prices, which may be lower than the fund's net asset value.

Our investment techniques, analyses, and judgments may not produce the outcome we intend. The investments we select for the fund may not perform as well as other securities that we do not select for the fund. We, or the fund's other service providers, may experience disruptions or operating errors that could have a negative effect on the fund. You can lose money by investing in the fund.

*Shareholders who wish to receive up-to-date information about their Putnam closed-end fund may do so by calling Putnam Closed-End Fund Services toll free at 1-800-634-1587 Monday–Friday from 9 a.m. to 5 p.m. Eastern Time. Shareholders may receive daily net asset value, market prices, and the premium or discount at which their fund is selling. Month-end portfolio information is also available. Broker information is available from the Putnam Client Engagement Center at 1-800-354-4000.*

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# Putnam Closed-End Funds Update: PMM and PMO

Q1 | 2023

Not FDIC Insured | May Lose Value | No Bank Guarantee

# Putnam Closed-End Funds Update: PMM and PMO

## Q1 | 2023

**Paul M. Drury, CFA**
Portfolio Manager

**Kelly M. Loughran, CFA**
Investment Product Analyst, Fixed Income

# Agenda

- Review current market outlook
- Discuss PMO and PMM portfolio positioning
- Share insights into performance

# Municipal market overview

**We believe municipal bonds are a valuable part of a diversified portfolio and important for long-term investors in need of tax-free income, but municipal bonds are not immune to bouts of volatility.**

## Fundamentals

- Fundamentals continue to be generally stable across most muni sectors, though security selection and sector exposure matters, especially if the economy slows during 2023.
- State and local tax receipts are up +10.3% year-over-year. "Rainy Day Funds" are near their highest point in 30 years at 12% of spending.
- Even during recessions, state and local tax revenue performance is resilient, and the sector is better positioned for a recession than they have been in previous economic cycles due to unprecedented levels of reserves.
- Muni defaults ran below average in 2022 and continue to remain a very small % of the market. There were zero defaults in March 2023, and that was only the 2nd month since 2009 with no defaults.
- Putnam's municipal credit research team works closely with the Portfolio Managers to build portfolios to enhance tax-free income as well as capture upside price return.

## Technicals

- We currently have a neutral/positive technical bias for both high-yield and investment-grade muni bonds.
- So far in 2023, there have been $3bn in outflows from muni mutual funds. While muni flows have remained negative for 6 of the past 8 weeks, outflows have been and remain manageable.
- Muni market technicals were negative for both high-yield and investment-grade in 2022, with record outflows as over $120bn exited muni mutual funds.
- We continue to think stabilization of U.S. Treasury rates and reduced outflows will improve market returns.
- At the beginning of April, new issue supply was very light at -27% Y/Y, and street inventory remains below average.
- We are closely monitoring bank selling in light of the banking crisis in early March.
- Seasonals typically begin to turn more constructive in April and into the summer months.

## Valuation

- AAA Muni/UST ratios, a commonly used valuation metric, remain rich on both a short and longer-term basis.
- AAA Muni/UST ratios don't tell the entire story as credit spreads, even for highly rated AA bonds, widened during 2022. We feel A-BBB continue to represent the best opportunities in the muni market.
- Muni index taxable equivalent yield is at 5.25% (as of 4/10/23).
- After credit spread widening during the Fed hiking cycle and challenging outflow environment in 2022, spreads are flat to slightly wider YTD. We remain cautious on the lowest rated cohorts.
- Munis have performed strongly YTD, and investors should look for opportunities to tactically add exposure.

As of April 2023.

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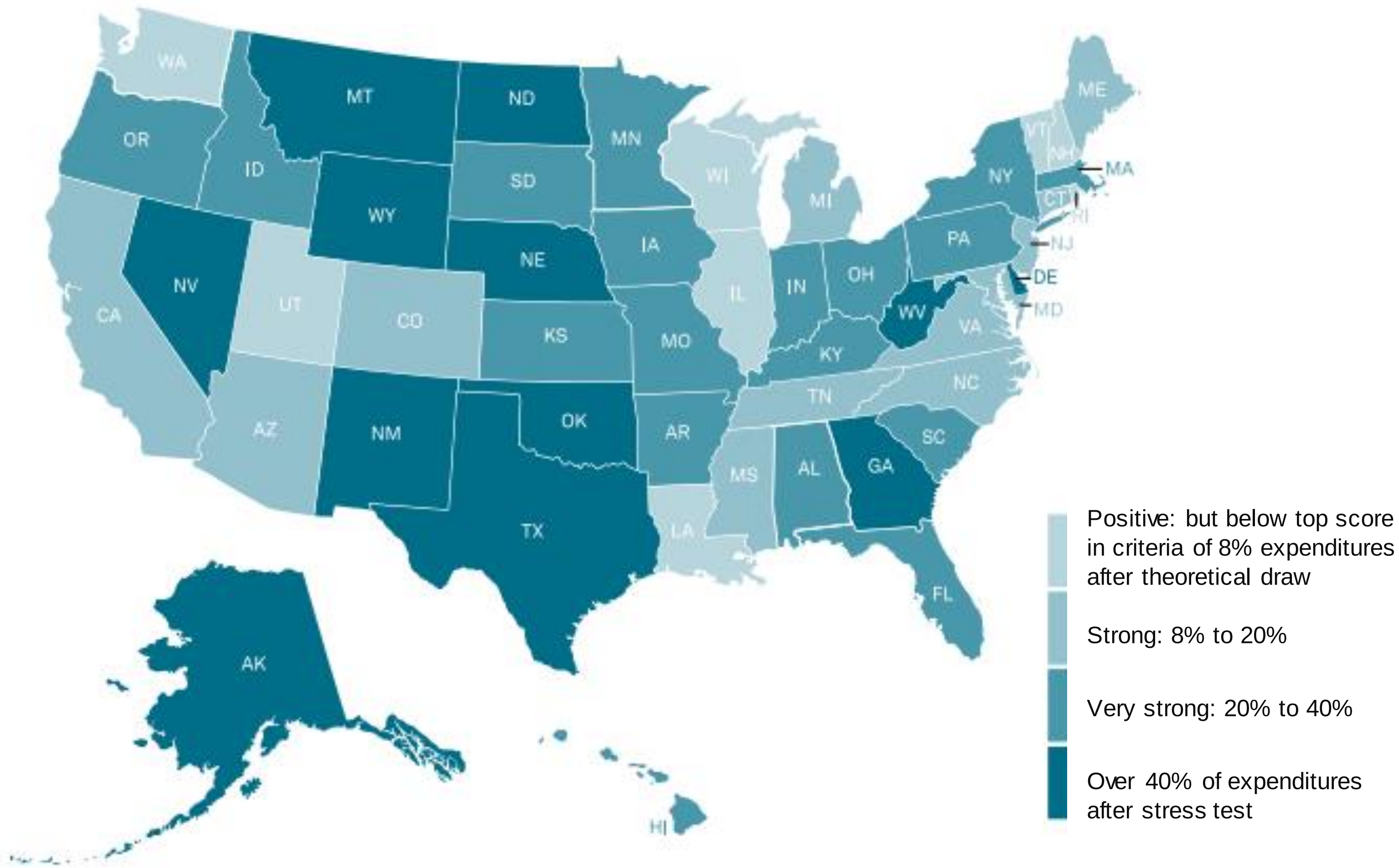
# Based on S&P analysis, reserves will help support states in a recession

- Balances in rainy day funds hit all-time highs in 37 states by the end of 2022, and overall, they are near their highest point in 30 years at 12% of spending

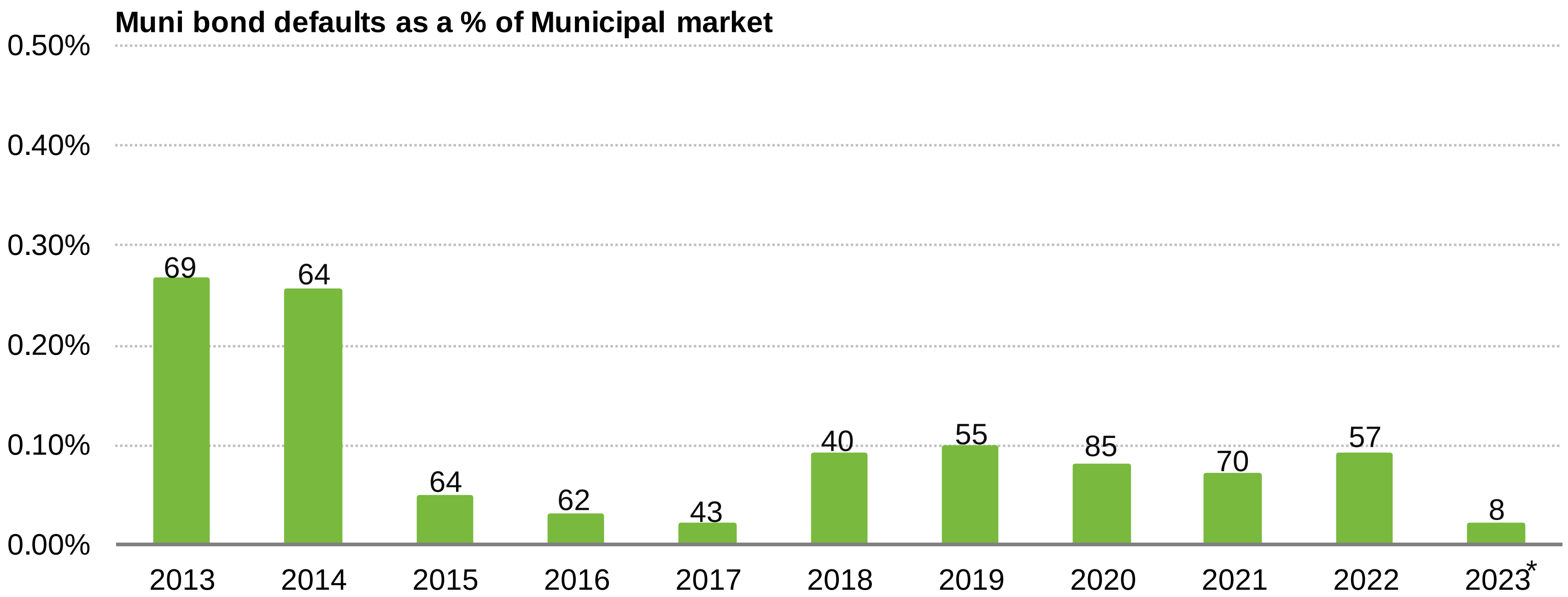
**2023 Reserves Under Base Case Stress Scenario as % of Projected Expenditures**




Source: NASBD and S&P Global Ratings January 2023.

# Municipal bond default rates remain a small percentage of the overall market

**There were zero defaults in March 2023, and that was only the 2nd month since 2009 with no defaults**




*YTD.

Sources: Municipal Market Advisors, Putnam, as of 3/31/23. Data reflects par value ex-PR.

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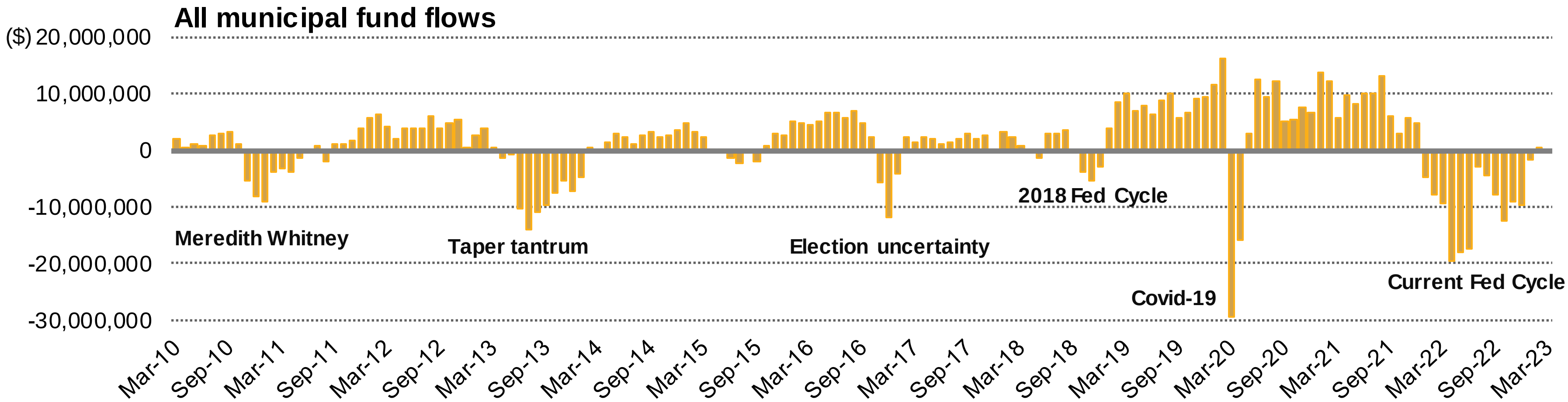
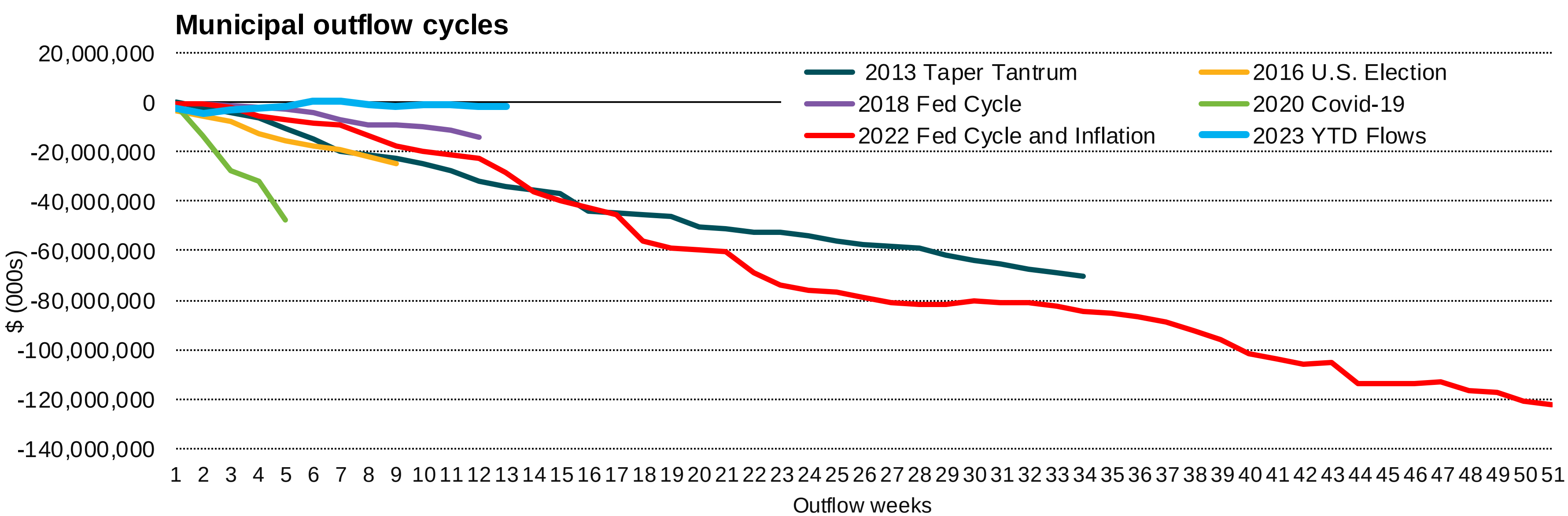
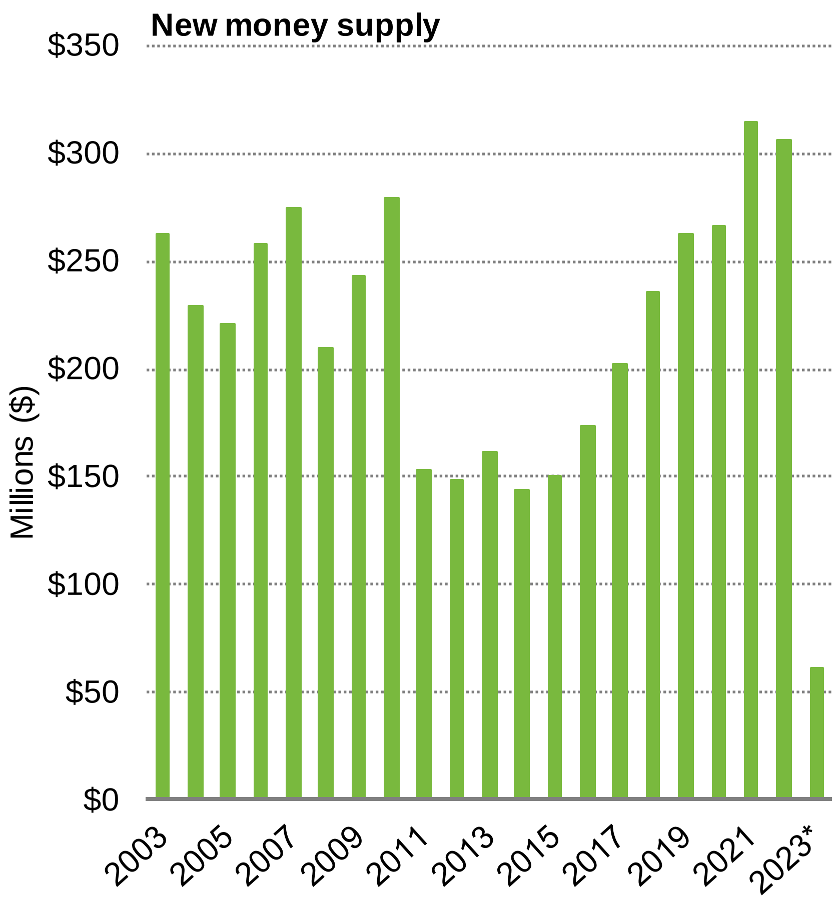
# While outflows dominated the muni market in 2022, outflows have moderated in 2023 and remain manageable

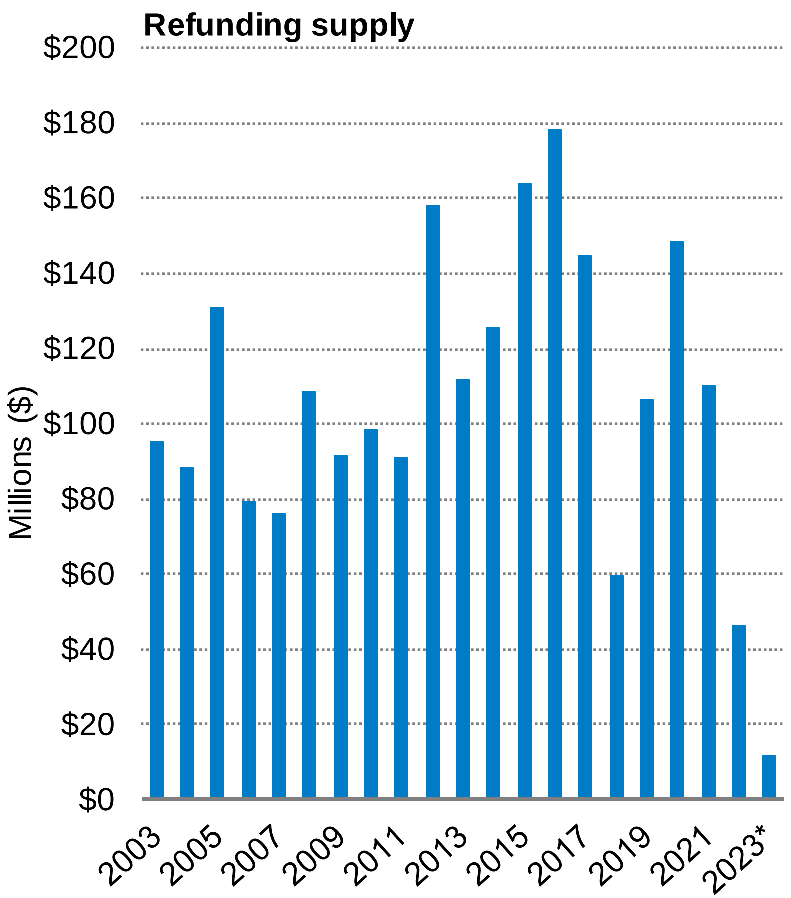



Source: JP Morgan, as of 3/31/23.

# New money supply and refunding supply are down year-over-year as both muni and Treasury rates have risen

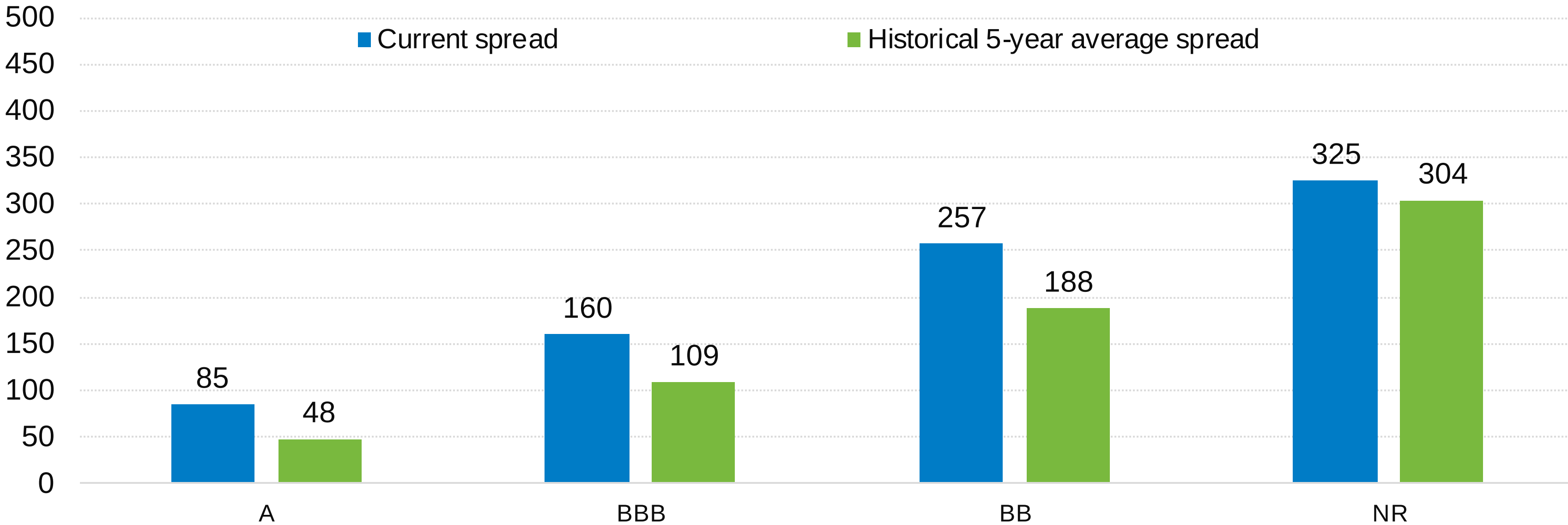



*YTD.

Source: Bond Buyer, as of 3/31/23.

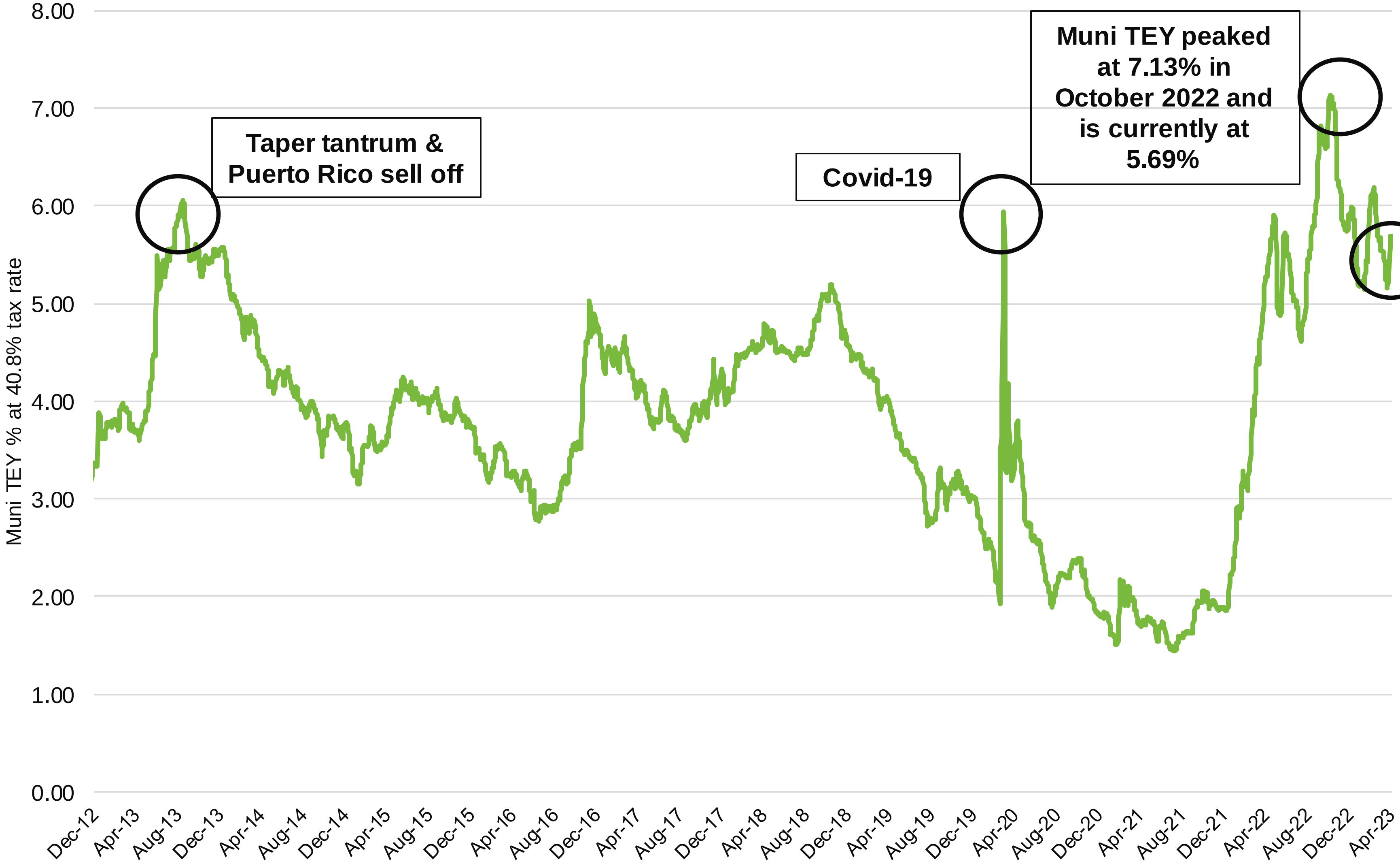
# Compared to historical averages, investment-grade credit spreads look more attractive than deep high-yield spreads




| Tax-Exempt Credit Spreads (5-year) | A | BBB | BB | NR |
|---|---|---|---|---|
| Current Spread | 85 | 160 | 257 | 325 |
| Average Spread | 48 | 109 | 188 | 304 |
| Maximum Spread | 101 | 240 | 349 | 428 |
| Minimum Spread | 15 | 52 | 110 | 251 |
| **Assessment** | **Very Cheap** | **Very Cheap** | **Very Cheap** | **Neutral** |

Source: Putnam, as of 4/28/2023.

# Muni Taxable Equivalent Yield (TEY) reached its highest point in the last 10 years during this rates driven sell-off last year




Sources: Bloomberg, Putnam 4/25/23.

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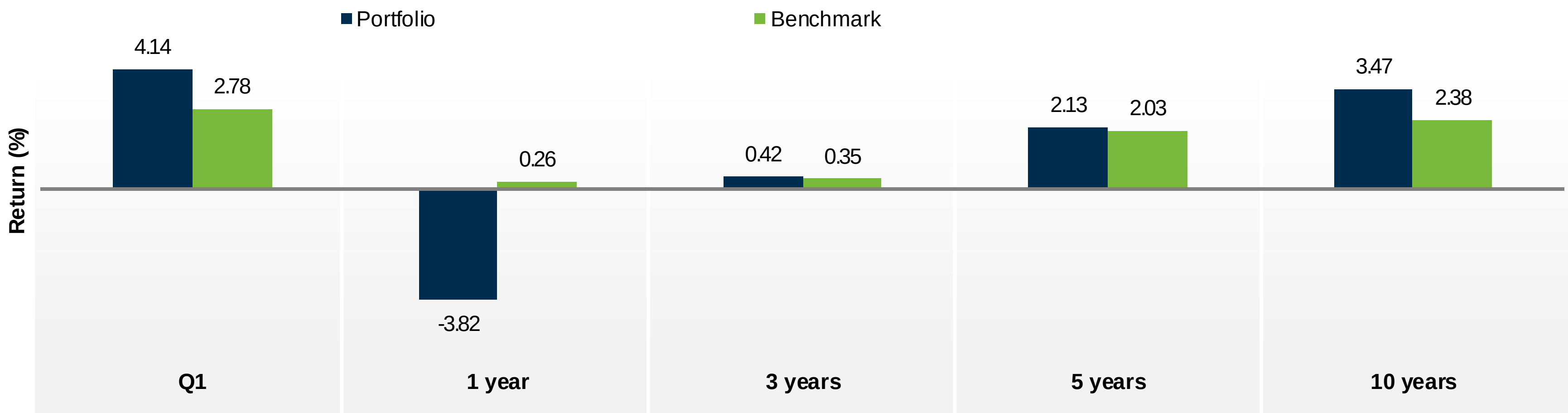
# Annualized performance (fund shares) as of March 31, 2023

**Portfolio:** Municipal Opportunities Trust
**Benchmark:** Bloomberg Municipal Bond Index




| Relative performance (%): Portfolio versus benchmark | | | | |
|---|---|---|---|---|
| 1.36 | -4.08 | 0.07 | 0.10 | 1.09 |

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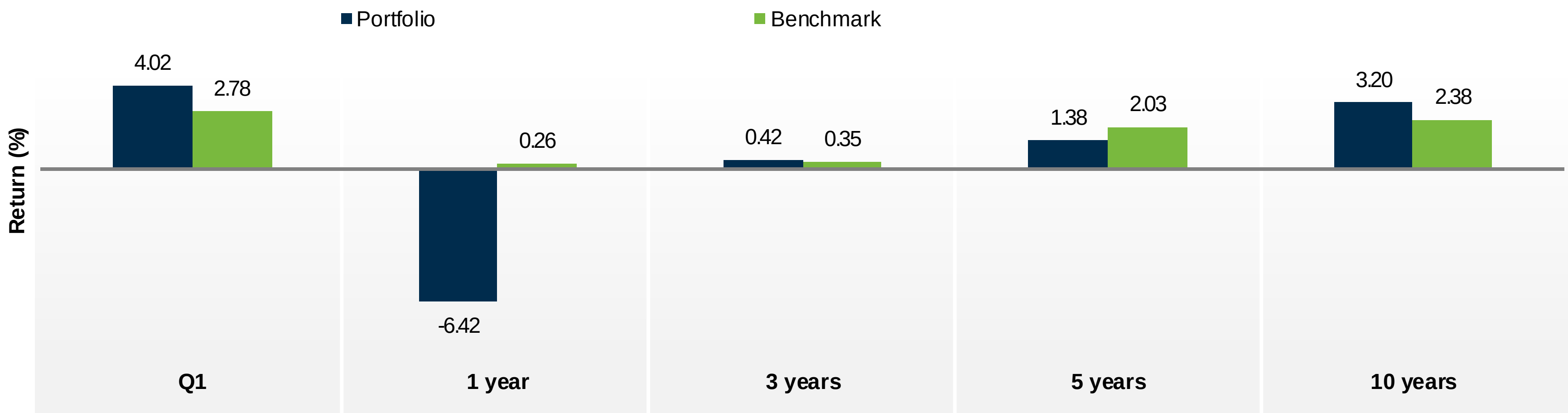
# Annualized performance (fund shares) as of March 31, 2023

**Portfolio:** Managed Municipal Income Trust
**Benchmark:** Bloomberg Municipal Bond Index




| Relative performance (%): Portfolio versus benchmark | | | | |
|---|---|---|---|---|
| 1.24 | -6.68 | 0.07 | -0.65 | 0.82 |

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- Perspectives
- Daily updates on performance and pricing
- PM videos

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Our investment techniques, analyses, and judgments may not produce the outcome we intend. The investments we select for the fund may not perform as well as other securities that we do not select for the fund. We, or the fund's other service providers, may experience disruptions or operating errors that could have a negative effect on the fund. You can lose money by investing in the fund.

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