

Bond Market Review

January 23, 2023

Summary

- Weakening economic data and compressed valuations kept credit investors on the sidelines last week allowing the recent rally to run out of steam. The December readings for Empire manufacturing and retail sales were both well below analyst's expectations, continuing the recent trend of declining economic activity. Spreads were flat-to-slightly wider despite further inflows into bond mutual funds and much lower than expected new issue supply.
- The relentless march to lower yields continued in tax-exempt municipals driven by the familiar culprits of low supply and strong demand. 10-year AAA-rated yields were 10 basis points (bps) lower last week and have declined over 100 bps since late October. Next week looks like more of the same as expected new issue supply declines to \$4.8 billion which is below the 2022 weekly average of \$5.79 billion.

Treasury Yields			
Term	Treasury Yield	Δ MTD	Δ YTD
1 Year	4.65	-0.04	-0.04
2 Year	4.17	-0.26	-0.26
5 Year	3.56	-0.44	-0.44
10 Year	3.48	-0.40	-0.40
30 Year	3.65	-0.31	-0.31

Taxable

Supply Totals Well Below Expectations

- New issue supply came in about half of the average broker dealer estimate and about one third of the high estimates. Dealers were likely expecting more issuance from money center banks, with only Bank of America, Morgan Stanley, and PNC bringing deals. Total trade volume remained elevated as almost \$40 billion changing hands on Wednesday and flows remain in favor of buyers, particularly among exchange traded funds.

High Yield Spreads Widen on Equity Weakness

- High yield posted modest losses, widening by 10 bps, with almost all of this occurring Thursday after the equity market weakness the prior day. The move wider came with some decompression versus investment grade as BB-rated bond spreads widened versus BBB-rated bonds. However, within the asset class, lower-quality continued to outperform as CCC-rated bond spreads actually tightened by 10 bps.

Municipal Yields								
Term	Municipal Yield	Δ MTD	Δ YTD	Tax-Equivalent Yield	Tax-Equivalent Spread (bps)	Municipal/Treasury Ratio (%)	Δ MTD	Δ YTD
1 Year	2.33	-0.53	-0.53	3.58	-106.36	50.13	-10.90	-10.90
2 Year	2.17	-0.43	-0.43	3.34	-83.17	52.04	-6.71	-6.71
5 Year	2.07	-0.45	-0.45	3.18	-37.68	58.12	-4.82	-4.82
10 Year	2.21	-0.42	-0.42	3.40	-7.87	63.53	-4.34	-4.34
30 Year	3.18	-0.40	-0.40	4.89	123.76	87.01	-3.32	-3.32

Tax-Free

West Virginia Governor Proposes Income Tax Reduction

- In his FY24 budget proposal, West Virginia Governor Jim Justice proposed a 50% reduction in the state's personal income tax rate to be phased in over three years. The proposal, if passed by the legislature, would be the largest tax cut in the state's history and would bring the new tax range to 1.5%-3% from the current 3%-6.5%.

Texas Permanent School Fund Approaching Cap

- The Texas Permanent School Fund (PSF), that essentially provides a state guarantee on local school district debt, is approaching its cap forcing the state to impose restrictions on the remaining limited borrowing capacity to school districts from the least wealthy areas. Last November the PSF rejected the majority of school district applicants marking the first time in nearly a decade it turned away borrowers due to lack of capacity.

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International Yields							
	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	2.58	0.00	3.49	2.72	3.0	2.76	3.20
5 Year	2.21	0.19	3.30	2.49	3.5	2.77	3.36
10 Year	2.18	0.39	3.38	2.63	3.99	3.14	4.17
30 Year	2.14	1.56	3.72	2.92	4.2	3.59	4.26

Sectors ¹						
	Duration	Spread	Δ MTD	Δ YTD	52- Week High	52-Week Low
Investment Grade Corporate	7	123	-7	-7	165	100
▪ Financial	5	131	-9	-9	181	92
▪ Industrial	8	118	-7	-7	160	104
▪ Utility	9	125	-4	-4	161	112
High Yield	4	424	-45	-45	583	309
Securitized	6	44	-12	-12	90	21
▪ Commercial Mortgage-Backed Securities	5	108	-12	-12	133	64
▪ Asset-Backed Securities	3	65	-11	-11	103	29
▪ Mortgage-Backed Securities	6	39	-12	-12	88	18

Equity			
	Current	Δ MTD	Δ YTD
Dow Jones	33,375.49	228.24	228.24
S&P 500	3,972.61	133.11	133.11
Nasdaq	11,140.43	673.95	673.95

Volatility			
	Current	Δ MTD	Δ YTD
VIX	19.85	-1.82	-1.82
MOVE	114.76	-6.85	-6.85

Commodities			
	Current	Δ MTD	Δ YTD
CRB	278.46	0.71	0.71
Gold	1944.90	118.70	118.70
Oil	81.64	1.38	1.38
Gas	264.54	16.71	16.71

Currency			
	Current	Δ MTD	Δ YTD
U.S. Dollar	102.01	-1.51	-1.51
Euro	1.09	0.02	0.02
Pound	1.24	0.04	0.04
Yen	129.60	-1.20	-1.20
Canadian Dollar	1.34	-0.02	-0.02
Franc	0.92	-0.01	-0.01

Central Bank Rates			
	Current	Δ MTD	Δ YTD
United States	4.50	0.00	0.00
Europe	2.50	0.00	0.00
United Kingdom	3.50	0.00	0.00
Japan	0.10	0.00	0.00
Canada	4.25	0.00	0.00
TED Spread	18.74	-23.70	-23.70

Data is as of 01.20.2023. Source: Bloomberg L.P. Please refer to pages 3 for important definitions and disclosures.

¹Sectors are represented by the following indices: Investment Grade Corporate = Bloomberg U.S. Corporate Bond; Financial = Bloomberg U.S. Aggregate Investment Grade Finance; Industrial = Bloomberg U.S. Aggregate Investment Grade Industrial; Utility = Bloomberg U.S. Investment Grade Utility; High Yield = Bloomberg U.S. Corporate High Yield; Securitized = Bloomberg U.S. Securitized; Commercial Mortgage-Backed Securities = Bloomberg U.S. Aggregate CMBS; Asset-Backed Securities = Bloomberg U.S. Aggregate ABS; Mortgage-Backed Securities = Bloomberg U.S. Aggregate MBS.



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Technical Terms

Duration: a tool used in assessing the price volatility of a fixed-income security

Municipal/Treasury Ratio: a comparison of the current yield of municipal bonds to U.S. Treasuries

Tax-Equivalent Yield: the return that is required on a taxable investment to make it equal to the return on a tax-exempt investment

TED Spread: the difference between the three-month Treasury bill and the three-month LIBOR based in U.S. dollars

Yield: income-only return on investment expressed as an annual percentage

Yield Spread: the difference between the quoted rates of return between two different investment vehicles; also called the credit spread

The volatility of an index varies greatly. All indices are unmanaged and investments cannot be made directly in an index.

Dow Jones: The Dow Jones Industrial Average (DJIA) is an index that tracks 30 large, publicly-owned blue chip companies trading on the New York Stock Exchange (NYSE) and the NASDAQ.

MOVE: The MOVE Index is a well-recognized measure of U.S. interest rate volatility that tracks the movement in U.S. Treasury yield volatility implied by current prices of one-month over-the-counter options on 2-year, 5-year, 10-year and 30-year Treasuries.

Nasdaq: The Nasdaq Composite Index is the market capitalization-weighted index of over 2,500 common equities listed on the Nasdaq stock exchange. The types of securities in the index include American depositary receipts, common stocks, real estate investment trusts (REITs) and tracking stocks, as well as limited partnership interests. The index includes all Nasdaq-listed stocks that are not derivatives, preferred shares, funds, exchange-traded funds (ETFs) or debenture securities.

S&P 500®: The S&P 500 Index is widely regarded as the best single gauge of the U.S. equities market. The index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. The S&P 500 Index focuses on the large-cap segment of the market; however, since it includes a significant portion of the total value of the market, it also represents the market.

VIX: The CBOE Volatility Index, or VIX, is a real-time market index representing the market's expectations for volatility over the coming 30 days.

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