

Bond Market Review

January 30, 2023

Summary

- Another solid week of relative performance for tax-exempt municipals as yield declined by 2 basis points (bps) between 5 and 10-years. The recent stretch of outperformance has led to muni-to-treasury ratios of 52% in 2-years, 57% in 5-years, and 62% in 10-years which are the lowest levels of the last 12 months. While supply remains scarce, we still believe an adjustment is in order to return valuations to a more normal level.
- It was more of the same for investment grade corporates as spreads tightened on the strength of the technical environment. Light dealer positioning, inflows into retail mutual funds, and a manageable new issue calendar resulted in more demand than supply with most segments of the market benefitting. Higher beta sectors and BBB-rated bonds outperformed as we are starting to see the lagging areas participate in this rally.

Treasury Yields

Term	Treasury Yield	Δ MTD	Δ YTD
1 Year	4.64	-0.04	-0.04
2 Year	4.20	-0.23	-0.23
5 Year	3.61	-0.39	-0.39
10 Year	3.50	-0.37	-0.37
30 Year	3.62	-0.34	-0.34

Taxable

Regional Banks Active in Primary Market

- Regional banks were active participants in the new issue market last week, making up over half of the total new issuance. U.S. Bancorp, M&T Bank, Truist Financial, and Bank of New York Mellon all brought deals, while the money center banks were notably quiet. As credit spreads continue to tighten on the strong demand, new issue concessions have hit their lowest level in about a year.

High Yield Off to Strong Start to the Year

- High yield is off to its best start to a year since 2009 with a total return of 3.99% and excess return of 2.35% for the Bank of America Merrill Lynch High Yield Master II Index. Low-quality and high beta names are the trades du jour, driving compression between ratings buckets as CCC-rated bonds are 123 bps tighter year-to-date compared.

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	-105.92	50.17	-10.85	-10.85
2 Year	2.17	-0.43	-0.43	3.34	-86.05	51.68	-7.07	-7.07
5 Year	2.05	-0.47	-0.47	3.15	-45.64	56.78	-6.16	-6.16
10 Year	2.19	-0.44	-0.44	3.37	-13.43	62.51	-5.37	-5.37
30 Year	3.20	-0.38	-0.38	4.92	130.41	88.42	-1.91	-1.91

Tax-Free

Municipal Primary Market Sales Down 19% Compared to Last Year

- Primary market municipal bond sales are down 19% this month compared to last January with roughly \$19.4B in issuance according to Bloomberg. With just roughly \$1.4B on tap for this week, this month is set to be the slowest start to the year since 2018 shortly after passage of the Tax Cut and Jobs Act. New issuance could pick up later in the year as new government administrations formulate issuance plans. For now, municipalities seem to be continually relying on their surplus cash positions left over from the various rounds of federal government stimulus. Issuers are likely waiting on greater color from the Federal Reserve to gauge if borrowing conditions later in the year could be more advantageous.

Pennsylvania Turnpike Commission Upgraded

- The Pennsylvania Turnpike Commission was upgraded by S&P to AA- from A+ last week. The rating agency cited the commission's resilient financial results and demand characteristics in addition to a permanent drop in annual payments to the Pennsylvania Department of Transportation from \$450MM to \$50MM starting in the current FY23.

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International Yields							
	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	2.58	0.02	3.47	2.72	3.0	2.82	3.23
5 Year	2.26	0.19	3.20	2.55	3.6	2.87	3.38
10 Year	2.24	0.48	3.32	2.70	4.10	3.23	4.26
30 Year	2.20	1.61	3.68	2.97	4.3	3.68	4.32

Sectors ¹						
	Duration	Spread	Δ MTD	Δ YTD	52- Week High	52-Week Low
Investment Grade Corporate	7	119	-11	-11	165	105
▪ Financial	5	125	-15	-15	181	96
▪ Industrial	8	116	-9	-9	160	107
▪ Utility	9	123	-6	-6	161	117
High Yield	4	413	-56	-56	583	309
Securitized	6	41	-15	-15	90	21
▪ Commercial Mortgage-Backed Securities	5	107	-13	-13	133	68
▪ Asset-Backed Securities	3	64	-12	-12	103	29
▪ Mortgage-Backed Securities	6	36	-15	-15	88	18

Equity			
	Current	Δ MTD	Δ YTD
Dow Jones	33,978.08	830.83	830.83
S&P 500	4,070.56	231.06	231.06
Nasdaq	11,621.71	1,155.23	1,155.23

Volatility			
	Current	Δ MTD	Δ YTD
VIX	18.51	-3.16	-3.16
MOVE	100.70	-20.91	-20.91

Commodities			
	Current	Δ MTD	Δ YTD
CRB	277.66	-0.08	-0.08
Gold	1945.60	119.40	119.40
Oil	79.68	-0.58	-0.58
Gas	258.86	11.03	11.03

Currency			
	Current	Δ MTD	Δ YTD
U.S. Dollar	101.93	-1.60	-1.60
Euro	1.09	0.02	0.02
Pound	1.24	0.03	0.03
Yen	129.88	-0.92	-0.92
Canadian Dollar	1.33	-0.03	-0.03
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	4.50	0.25	0.25
TED Spread	16.08	-26.36	-26.36

Data is as of 01.27.2023. 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.

Bank of America Merrill Lynch High Yield Master II Index: An unmanaged index comprised of over 1,200 high yield bonds representative of high yield bond markets as a whole. It includes zero-coupon bonds and payment-in-kind (PIK) bonds. You cannot invest directly in an index.

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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