

# Bond Market Review

November 14, 2022

## Summary

- Investment grade corporate bonds rallied after Thursday's cooler than expected consumer price index (CPI) release gave investors hope that less Federal Reserve (Fed) tightening is needed to reduce inflation. Spreads tightened 5 basis points (bps) last week to 147 bps which is inside the level historically associated with recessions.
- Municipal bonds also performed well following the inflation data but lagged Treasuries by a significant margin resulting in more attractive relative valuations. Yields declined by 16-22 basis points and the 1-10 year curve slope flattened to 14 bps which is the lowest level over the past year.

## Treasury Yields

Term	Treasury Yield	Δ MTD	Δ YTD
1 Year	4.55	-0.05	4.17
2 Year	4.33	-0.15	3.60
5 Year	3.94	-0.29	2.67
10 Year	3.81	-0.24	2.30
30 Year	4.02	-0.15	2.11

## Taxable

### Financials Outperform in Rally

- The financial sector outperformed the broader market, particularly Yankee banks, as valuations had become historically cheap versus other sectors and supply remained fairly light with only relatively small deals headlined by Citigroup and Bank of America. In addition, the bank sector is among the most liquid segments of the corporate market so it represents an easier way to express a view on the market.

### High Yield Lags Despite Positive Sentiment

- While the much anticipated CPI release and resulting Treasury rally drove positive returns for high yield corporates, credit spreads were flat with negative excess returns. BB-rated bonds slightly outperformed given their longer duration, while CCC-rated bonds continue to reflect risk avoidance. Although much of the focus was on macro events, the continued thawing of the new issue market, which saw its busiest week since June, provided a headwind for the sector.

## 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	3.00	-0.12	2.86	4.62	6.67	65.95	-1.85	28.74
2 Year	3.01	-0.17	2.77	4.63	29.87	69.48	-1.46	36.70
5 Year	3.04	-0.20	2.45	4.68	73.94	77.21	0.58	30.49
10 Year	3.14	-0.25	2.11	4.83	101.83	82.36	-1.39	14.15
30 Year	3.88	-0.24	2.39	5.97	195.39	96.63	-2.32	18.34

## Tax-Free

### Voter's Approval of Bond Referendums Decreases

- Recent tabulations indicate voters approved roughly 56% of the \$66 billion in bond referendums across the U.S. on Tuesday's ballot. By way of comparison, voters approved roughly 65% of bond measures last year during an off-election year. Given it can take months for municipalities to prepare these ballot measures, the large number versus the relatively low pass rate compared to prior years can be a reflection of deteriorating public confidence in the direction of the economy.

### Moody's Upgrades Chicago to Investment Grade

- Moody's upgraded Chicago out of speculative grade status one-notch to a Baa3 stable rating Tuesday ahead of a planned bond sale in the forthcoming weeks. According to Moody's the move "reflects the city's substantial increase in pension contributions, including an upcoming boost to comply with the city's new pension funding policy that targets contributing an amount sufficient to keep reported net pension liabilities from growing."

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International Yields							
	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	2.21	-0.06	3.17	2.31	2.8	2.37	2.84
5 Year	2.09	0.06	3.37	2.41	3.6	2.67	3.72
10 Year	2.16	0.24	3.36	2.67	4.21	3.20	4.54
30 Year	2.11	1.50	3.49	2.95	4.3	3.66	4.51

Sectors <sup>1</sup>						
	Duration	Spread	Δ MTD	Δ YTD	52- Week High	52-Week Low
Investment Grade Corporate	7	147	-11	55	165	89
▪ Financial	5	162	-15	79	181	81
▪ Industrial	8	137	-11	42	160	92
▪ Utility	9	149	-6	42	161	98
High Yield	4	468	4	185	583	271
Securitized	6	61	-16	27	90	21
▪ Commercial Mortgage-Backed Securities	5	132	-1	64	133	63
▪ Asset-Backed Securities	3	102	7	64	102	29
▪ Mortgage-Backed Securities	6	56	-17	25	88	18

Equity			
	Current	Δ MTD	Δ YTD
Dow Jones	33,747.86	1014.91	(2,590.44)
S&P 500	3,992.93	120.95	(773.25)
Nasdaq	11,323.33	335.18	(4,321.64)

Volatility			
	Current	Δ MTD	Δ YTD
VIX	22.52	-3.36	5.30
MOVE	111.69	-36.23	34.59

Commodities			
	Current	Δ MTD	Δ YTD
CRB	285.79	11.66	53.42
Gold	1769.40	128.70	-59.20
Oil	88.96	2.43	13.75
Gas	260.96	8.39	38.50

Currency			
	Current	Δ MTD	Δ YTD
U.S. Dollar	106.29	-5.24	10.62
Euro	1.03	0.05	-0.10
Pound	1.18	0.04	-0.17
Yen	138.81	-9.90	23.73
Canadian Dollar	1.33	-0.03	0.06
Franc	0.94	-0.06	0.03

Central Bank Rates			
	Current	Δ MTD	Δ YTD
United States	4.00	0.75	3.75
Europe	2.00	0.00	2.00
United Kingdom	3.00	0.75	2.75
Japan	0.10	0.00	0.00
Canada	3.75	0.00	3.50
TED Spread	44.89	6.53	27.02

Data is as of 11.11.2022. Source: Bloomberg L.P. Please refer to pages 3 for important definitions and disclosures.

<sup>1</sup>Sectors 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.



# Important Information

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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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