

Bond Market Review

November 20, 2023

Summary

- Cautious outlooks from retail giants Walmart and Target combined with softer-than-expected economic data pushed Treasury yields lower last week. The economic weakness helped reduce expectations for future rate hikes by the Federal Reserve (Fed) and pulled forward expectations for the first rate cut to next June. This week will likely be quiet with markets closed for the Thanksgiving holiday.
- Agency Mortgage-Backed Securities performed well last week with excess returns higher by approximately 10 basis points through Thursday's close. New issue supply has been very light and should remain light through this week. While spreads aren't as exciting as they were last month, we are still seeing reasonable demand from investors and we expect spreads to continue grinding tighter, albeit at a slower pace.

Treasury Yields

Term	Treasury Yield	Δ MTD	Δ YTD
1 Year	5.23	-0.22	0.55
2 Year	4.89	-0.20	0.46
5 Year	4.44	-0.41	0.44
10 Year	4.44	-0.50	0.56
30 Year	4.59	-0.50	0.63

Taxable

Credit Rallies Led By Regional Banks

- The softer-than-expected Consumer Price Index report on Tuesday fueled an impressive rally in investment grade corporates as spreads tightened by 5 basis points (bps) to 117 bps. Regional banks were a beneficiary of the positive inflation data as a Fed that is done hiking will likely help net interest margins. The regional bank sector was 7-15 bps tighter on Tuesday suggesting aggressive short covering in the sector.

High Yield Underperforms Investment Grade

- High yield corporate spreads tightened just 2 bps and underperformed investment grade as new issuance in that market started to slow, while activity in high yield remained strong. BB-rated bonds were slightly wider as the rally in this segment looked a bit overdone allowing the spread between BB-rated and BBB-rated bonds to widen by 8 bps last week.

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	3.25	-0.51	0.39	5.00	-23.34	62.10	-6.89	1.08
2 Year	3.14	-0.53	0.54	4.83	-5.47	64.27	-7.87	5.53
5 Year	2.92	-0.59	0.40	4.49	5.15	65.75	-6.56	2.82
10 Year	3.01	-0.60	0.38	4.63	19.54	67.86	-5.35	-0.01
30 Year	4.07	-0.50	0.49	6.26	167.26	88.69	-1.04	-1.64

Tax-Free

Another Strong Week for Munis

- It was another strong week for tax-exempt municipals as they tracked the large move lower in Treasury yields with slight outperformance in 10 and 30-years. Muni-to-Treasury ratios richened to 66% in 5-years and 68% in 10-years after trading in the mid-70s for much of October. Month-to-date the ICE BofA 1-10 Year Municipal Securities Index is now higher by 2.18% with BBB-rated bonds outperforming AAA-rated bonds by 17 bps.

State Tax Revenues Broadly Sliding

- State tax revenues are beginning to slide broadly according to an analysis performed by the Urban Institute. On an inflation-adjusted basis, state tax revenue fell in September for the 14th straight month falling by 5.6% year-over-year for 34 of the 46 states that provided this information. In general, the Sunbelt states are doing better than other parts of the U.S. and states that implemented income tax reductions after the stimulus aid seem to be showing the most stress.

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International Yields							
	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	2.96	0.04	4.55	3.32	3.6	3.42	3.38
5 Year	2.53	0.31	4.12	2.91	3.8	3.24	3.35
10 Year	2.59	0.75	4.10	3.15	4.36	3.60	3.86
30 Year	2.80	1.68	4.54	3.66	4.9	4.22	4.25

Sectors ¹						
	Duration	Spread	Δ MTD	Δ YTD	52- Week High	52-Week Low
Investment Grade Corporate	7	114	-15	-16	163	112
▪ Financial	5	132	-20	-8	188	116
▪ Industrial	8	103	-13	-22	151	103
▪ Utility	9	120	-9	-9	154	119
High Yield	3	389	-48	-80	516	366
Securitized	6	63	-16	7	85	41
▪ Commercial Mortgage-Backed Securities	4	138	-2	18	143	100
▪ Asset-Backed Securities	3	83	4	7	103	51
▪ Mortgage-Backed Securities	6	58	-17	7	82	36

Equity			
	Current	Δ MTD	Δ YTD
Dow Jones	34,947.28	1894.41	1,800.03
S&P 500	4,514.02	320.22	674.52
Nasdaq	14,125.48	1274.24	3,659.00

Volatility			
	Current	Δ MTD	Δ YTD
VIX	13.80	-4.34	0.17
MOVE	113.11	-13.75	1.08

Commodities			
	Current	Δ MTD	Δ YTD
CRB	273.63	-7.52	-4.12
Gold	1984.70	-9.60	158.50
Oil	75.89	-5.13	-4.37
Gas	218.45	-3.28	-29.38

Currency			
	Current	Δ MTD	Δ YTD
U.S. Dollar	103.92	-2.75	0.39
Euro	1.09	0.03	0.02
Pound	1.25	0.03	0.04
Yen	149.63	-2.05	18.83
Canadian Dollar	1.37	-0.02	0.02
Franc	0.89	-0.02	-0.04

Central Bank Rates			
	Current	Δ MTD	Δ YTD
United States	5.50	0.00	1.00
Europe	4.50	0.00	2.00
United Kingdom	5.25	0.00	1.75
Japan	0.10	0.00	0.00
Canada	5.00	0.00	0.75
TED Spread	24.33	6.69	-18.11

Data is as of 11.17.2023. 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

Debt Ceiling X-Date: When the government might actually default if the limit on federal borrowing is not lifted. The x-date could be reached as early as June 2023, depending on how much money the IRS collects in April from people filing their taxes.

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

Non-farm payroll measures the number of workers in the U.S. except those in farming, private households, proprietors, non-profit employees, and active military.

Rich Valuation refers to a security that is priced above expected levels without a logical explanation. The term is applicable to the valuation of any asset, but it is most used with reference to stock valuations.

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

Urban Institute is a Washington, D.C.-based think tank that conducts economic and social policy research to "open minds, shape decisions, and offer solutions".

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

Yield-To-Worst: Is a measure of the lowest possible yield that can be received on a bond that fully operates within the terms of its contract without defaulting. It is a type of yield that is referenced when a bond has provisions that would allow the issuer to close it out before it matures.

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

The Consumer Price Index (CPI) is a measure of the average change overtime in the prices paid by urban consumers for a market basket of consumer goods and services.

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

The ICE BofA 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.

The Nasdaq Composite Index 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.

The ICE BofA 1-10 Year Municipal Securities Index is a subset of the ICE BofA U.S. Municipal Securities Index including all securities with a remaining term to final maturity less than 10 years.

The S&P 500® Index is a readily available, carefully constructed, market-value-weighted benchmark of common stock performance. Currently, the S&P 500 Composite includes 500 of the largest stocks (in terms of stock market value) in the United States and covers approximately 80% of available market capitalization.

The SIFMA Municipal Swap Index is a 7-day high-grade market index comprised of tax-exempt VRDOs reset rates that are reported to the Municipal Securities Rule Making Board's (MSRB's) SHORT reporting system.

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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The Bloomberg U.S. Corporate Index covers performance for United States corporate bonds. This index serves as an important benchmark for portfolios that include exposure to investment grade corporate bonds.

The Bloomberg 1-3 Year U.S. Aggregate Bond Index is the 1-3 year component of the U.S. Aggregate Index. The Bloomberg U.S. Aggregate Bond Index represents securities that are SEC-registered, taxable and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass through securities, and asset-backed securities.

