

Bond Market Review

December 5, 2022

Summary

- The tax-exempt municipal market continued to perform well last week as the positive momentum from November carried into the first week of December. Municipals have largely ignored the Treasury market volatility in recent sessions as supply and demand dynamics are driving performance. Yields declined sharply across the curve with 10-year AAA-rated yield lower by 25 basis points (bps).
- Investment grade corporate bond spreads finally seemed to run out of room to tighten after a relentless rally that began on October 12th. Chairman Powell's speech was viewed positively by the market as it confirmed a slower pace of hikes going forward, however, Friday's payroll report showed the labor market remains tight and the Federal Reserve (Fed) likely has more work to do before inflation returns to acceptable levels.

Treasury Yields

Term	Treasury Yield	Δ MTD	Δ YTD
1 Year	4.63	-0.06	4.25
2 Year	4.27	-0.04	3.54
5 Year	3.65	-0.08	2.39
10 Year	3.49	-0.12	1.98
30 Year	3.55	-0.19	1.64

Taxable

High Yield Resilient Despite Outflows

- High yield corporate bonds remained resilient despite \$1.7 billion leaving the asset class, mostly reflecting redemptions from Exchange-Traded Funds (ETFs) which is not surprising given the strong performance over the past quarter. Spreads were 3 bps tighter on the week and are now trading at the 10-year average level of 448 bps. Seasonal factors seem to be dominating as spreads continue to trade at relatively rich levels given the deteriorating economic outlook.

Another Solid Week of Investment Grade Supply

- Amazon headlined another decent week of supply as \$22.5 billion came to market from 20 deals that averaged 3 times oversubscribed and 6.6 bps of new issue concession. November finished with \$105 billion in total supply bringing the year-to-date total to \$1,212 billion.

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	2.39	-0.10	2.25	3.68	-95.06	51.65	-1.49	14.43
2 Year	2.43	-0.10	2.19	3.74	-53.32	56.89	-1.81	24.11
5 Year	2.53	-0.10	1.94	3.89	24.03	69.28	-1.11	22.56
10 Year	2.61	-0.10	1.58	4.02	52.92	74.87	-0.30	6.66
30 Year	3.48	-0.04	1.99	5.35	180.60	98.09	3.87	19.80

Tax-Free

Investment Banks Meet With Texas Comptroller

- Five investment banks, including Blackrock and UBS, have met with Texas Comptroller Glenn Hegar requesting that their firms get removed from the state's divestment list of companies that the state has deemed discriminates against the firearm and fossil fuel industries. These firms claim they should never have been included on the list in the first place and provided evidence supporting their claim.

S&P Revises Non-Profit Healthcare Outlook to Negative

- Last week S&P revised the outlook on the non-profit healthcare sector to negative, the second rating agency to do so in the second half of 2022. The primary issue is largely the same across the various systems as higher costs, particularly labor, continue to squeeze operating margins. S&P expects hospitals will see continued operating losses in 2023, albeit at lower levels than 2022, with margins not fully recovering.

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International Yields							
	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	2.11	-0.02	3.34	2.19	2.6	2.36	2.65
5 Year	1.87	0.12	3.28	2.14	3.2	2.43	2.99
10 Year	1.86	0.26	3.15	2.31	3.77	2.87	3.90
30 Year	1.69	1.50	3.50	2.47	3.8	3.24	3.98

Sectors ¹						
	Duration	Spread	Δ MTD	Δ YTD	52- Week High	52-Week Low
Investment Grade Corporate	7	130	-3	38	165	91
▪ Financial	6	142	-3	59	181	83
▪ Industrial	8	123	-2	28	160	94
▪ Utility	9	133	-3	26	161	105
High Yield	4	438	-10	155	583	271
Securitized	6	50	-7	16	90	21
▪ Commercial Mortgage-Backed Securities	5	124	-4	56	133	64
▪ Asset-Backed Securities	3	100	-3	62	103	29
▪ Mortgage-Backed Securities	6	44	-8	13	88	18

Equity			
	Current	Δ MTD	Δ YTD
Dow Jones	34,429.88	-159.89	(1,908.42)
S&P 500	4,071.70	-8.41	(694.48)
Nasdaq	11,461.50	-6.50	(4,183.47)

Volatility			
	Current	Δ MTD	Δ YTD
VIX	19.06	-1.52	1.84
MOVE	118.62	-8.65	41.52

Commodities			
	Current	Δ MTD	Δ YTD
CRB	276.69	-3.07	44.31
Gold	1809.60	49.70	-19.00
Oil	79.98	-0.57	4.77
Gas	228.04	-10.43	5.58

Currency			
	Current	Δ MTD	Δ YTD
U.S. Dollar	104.55	-1.41	8.88
Euro	1.05	0.01	-0.08
Pound	1.23	0.02	-0.13
Yen	134.31	-3.76	19.23
Canadian Dollar	1.35	0.01	0.08
Franc	0.94	-0.01	0.02

Central Bank Rates			
	Current	Δ MTD	Δ YTD
United States	4.00	0.00	3.75
Europe	2.00	0.00	2.00
United Kingdom	3.00	0.00	2.75
Japan	0.10	0.00	0.00
Canada	3.75	0.00	3.50
TED Spread	48.49	10.12	30.61

Data is as of 12.02.2022. 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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