

Bond Market Review

February 12, 2024

Summary

- Solid economic growth, resilient consumer spending, easing inflation, and the Federal Reserve (Fed) on hold remain the primary macroeconomic themes through the first six weeks of the year. However, in our view there are growing concerns that commercial real estate weakness will negatively impact the banking sector as investors question whether New York Community Bank's issues are idiosyncratic or the beginning of a larger trend.
- Tax-exempt municipal yields increased across the curve and underperformed Treasuries as an increase in new issue supply weighed on the market. This week's primary calendar is expected to decline sharply to approximately \$4 billion and revive the positive technical environment that's been in place for much of the year. However, with municipal-to-Treasury ratios trading around 60%, the sector will likely follow the path of Treasury yields.

Treasury Yields

Term	Treasury Yield	Δ MTD	Δ YTD
1 Year	4.86	0.15	0.10
2 Year	4.48	0.27	0.23
5 Year	4.14	0.30	0.29
10 Year	4.18	0.26	0.30
30 Year	4.37	0.21	0.34

Taxable

Investment Grade Corporates Tighten Despite Concerns

- Despite some concerning headlines from banks regarding commercial real estate, a few disappointing earnings reports, and a heavy new issue calendar, investment grade corporate spreads move 1 basis point tighter on the week. The lower tier regional banks widened approximately 10 basis points on continued spillover from NYCB's weakness, however, larger regionals have responded much better than they did last March. The automobile sector had a strong week after Ford reported strong earnings and Hyundai's credit rating was upgraded by Moody's to A.

Economic Strength Boosts High Yield

- The high yield corporate market tightened by 18 basis points as positive economic data and equities trading near all-time highs encouraged investors to reach for yield in lower-quality segments of the market. In addition, the technical picture remains positive, aided by moderate inflows of \$549MM this week and by more than \$18B of internally generated cash from coupons, calls, tenders and maturities over the last two weeks. The ICE BofA High Yield Master II Index now trades at 338 basis points which is just 4 basis points off the low from the end of last year.

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	2.94	0.06	0.27	4.52	-34.11	60.44	-0.73	4.34
2 Year	2.79	0.06	0.27	4.29	-19.07	62.23	-2.69	2.94
5 Year	2.45	0.05	0.17	3.76	-37.36	59.13	-3.32	-0.09
10 Year	2.51	0.05	0.23	3.86	-31.54	60.09	-2.84	1.33
30 Year	3.66	0.04	0.24	5.63	126.01	83.73	-3.09	-1.13

Tax-Free

Charlotte-Mecklenburg School System Bond Approved

- On Tuesday, the North Carolina Local Government Commission (LGC) approved a \$2.5B bond package for the Charlotte-Mecklenburg School System. This package is notable as it is the largest single bond issue ever approved by the LGC. The first \$300MM tranche is expected to price in FY25 which could come as early as 2H24 with three other additional tranches slated to price over the next several years.

Washington DC Metro Transit Increases Fares

- Facing a \$750MM budget shortfall this fiscal year and a legal obligation to maintain a balanced budget, Washington Metro Transit System management had floated large service reductions to stem costs. Those service cuts are now off the table. Instead, management decided on Monday to raise fares by a large 12.5% for the coming fiscal year and rely on more funding from its governmental sponsors, specifically the city of Washington D.C. and the state governments of Virginia and Maryland.

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International Yields							
	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	2.72	0.11	4.60	2.78	3.4	2.98	2.74
5 Year	2.34	0.33	4.10	2.69	3.4	2.98	2.99
10 Year	2.38	0.73	4.09	2.90	3.97	3.37	3.53
30 Year	2.57	1.80	4.61	3.42	4.6	3.97	3.83

Sectors ¹						
	Duration	Spread	Δ MTD	Δ YTD	52- Week High	52-Week Low
Investment Grade Corporate	7	95	-1	-4	163	92
▪ Financial	5	106	-1	-6	188	104
▪ Industrial	8	89	0	-1	151	85
▪ Utility	9	100	-1	-5	154	97
High Yield	3	316	-28	-7	516	312
Securitized	6	50	-1	-1	85	43
▪ Commercial Mortgage-Backed Securities	4	107	-6	-19	143	100
▪ Asset-Backed Securities	3	59	-3	-9	86	51
▪ Mortgage-Backed Securities	6	47	0	0	82	39

Equity			
	Current	Δ MTD	Δ YTD
Dow Jones	38,671.69	521.39	982.15
S&P 500	5,026.61	180.96	256.78
Nasdaq	15,990.66	826.65	979.31

Volatility			
	Current	Δ MTD	Δ YTD
VIX	12.93	-1.42	0.48
MOVE	106.21	-1.07	-8.41

Commodities			
	Current	Δ MTD	Δ YTD
CRB	274.34	1.93	10.51
Gold	2038.70	-28.70	-33.10
Oil	76.84	0.99	5.19
Gas	233.95	10.83	23.32

Currency			
	Current	Δ MTD	Δ YTD
U.S. Dollar	104.11	0.84	2.78
Euro	1.08	0.00	-0.02
Pound	1.26	-0.01	-0.01
Yen	149.29	2.37	8.40
Canadian Dollar	1.35	0.00	0.03
Franc	0.87	0.01	0.03

Central Bank Rates			
	Current	Δ MTD	Δ YTD
United States	5.50	0.00	0.00
Europe	4.50	0.00	0.00
United Kingdom	5.25	0.00	0.00
Japan	0.10	0.00	0.00
Canada	5.00	0.00	0.00
TED Spread	19.59	-1.25	-6.48

Data is as of 02.09.2024. 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

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.

Option-Adjusted Spread (OAS) is the measurement of the spread of a fixed-income security rate and the risk-free rate of return, which is then adjusted to take into account an embedded option. Typically, an analyst uses Treasury yields for the risk-free rate. The spread is added to the fixed-income security price to make the risk-free bond price the same as the bond.

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

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 ICE BofA High Yield Master II Index is 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.

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.

