

# Bond Market Review

March 27, 2023

## Summary

- Another week of volatility within the financial sector as the market's focus turned to European banks led by Deutsche Bank that faced considerable pressure. Credit spreads for the big six banks and large regional banks showed signs of stabilizing, however, spreads remain at historically wide levels. The overall investment grade sector was tighter earlier in the week as buyers emerged ahead of Wednesday's Federal Open Market Committee meeting, however Janet Yellen, US Secretary of the Treasury had non-committal comments on the government's willingness to guarantee bank deposits helped squash the rally.
- The flight-to-quality environment combined with low new issue supply benefitted tax-exempt municipal bonds where yields were 13 basis points lower in 2-years and 9 basis points lower in 10-years. The yield curve continues to reduce the inversion experienced this year with the 1–10-year curve now -20 basis points inverted.

Treasury Yields			
Term	Treasury Yield	Δ MTD	Δ YTD
1 Year	4.22	-0.76	-0.46
2 Year	3.77	-1.05	-0.66
5 Year	3.41	-0.74	-0.60
10 Year	3.38	-0.54	-0.50
30 Year	3.64	-0.28	-0.32

## Taxable

### Commercial Real Estate Exposure Questioned

- With all eyes on the financial sector, commercial real estate exposure (CRE) is being questioned as a potential catalyst for further weakness. Insurance companies are facing scrutiny for their CRE exposure as equity performance for some insurers has been weak, however, they do not have the same risk of deposit outflows as the banking sector.

### High Yield Posts Positive Total Return

- Once again high yield played second fiddle to investment grade with most of the focus on banks and other financials. The total return in high yield was +.60% last week driven by a 30-basis point rally in 5-year Treasuries, while excess return was negative as credit spreads widened 17 basis points. Market volatility kept issuers on the sidelines for the second straight week and outflows continued led by actively managed mutual funds.

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	2.49	-0.54	-0.37	3.83	-39.18	58.97	-1.87	-2.05
2 Year	2.40	-0.55	-0.20	3.69	-7.44	63.72	2.51	4.97
5 Year	2.24	-0.40	-0.28	3.45	3.87	65.74	2.12	2.80
10 Year	2.29	-0.30	-0.34	3.52	14.69	67.83	1.76	-0.05
30 Year	3.35	-0.21	-0.23	5.15	151.00	91.94	1.12	1.60

## Tax-Free

### South Carolina's Comptroller General Resigns

- South Carolina's Comptroller General resigned last Thursday following his office's disclosure of an accounting error on the state's books that went unnoticed for nearly a decade. The revelation came last month at a routine budget request hearing that his office had misreported funds sent to state universities since an accounting programming switch which occurred in 2011. The impact means that South Carolina's general fund balance has been overstated annually since 2011 and now stands at an overstatement of approximately \$3.5B.

### Healthcare Bonds Outperform

- Healthcare bonds have been an outperformer in the muni market this year up 2.62% making it the third best performing sector year-to-date. As inflation moderates the industry is being aided by easing labor costs and more-stable patient demand as fears of a Covid-19 resurgence appear to be abated due to a relatively mild Winter.

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International Yields							
	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	2.39	-0.07	3.21	2.53	2.9	2.72	3.22
5 Year	2.10	0.08	3.13	2.48	3.4	2.82	3.62
10 Year	2.13	0.32	3.28	2.66	4.01	3.19	4.09
30 Year	2.22	1.36	3.77	3.03	4.2	3.72	4.28

Sectors <sup>1</sup>						
	Duration	Spread	Δ MTD	Δ YTD	52- Week High	52-Week Low
Investment Grade Corporate	7	149	25	19	165	109
▪ Financial	5	176	50	36	188	106
▪ Industrial	8	134	12	9	160	110
▪ Utility	9	145	15	16	161	119
High Yield	4	516	104	47	583	309
Securitized	6	60	11	4	90	26
▪ Commercial Mortgage-Backed Securities	5	141	38	21	141	80
▪ Asset-Backed Securities	3	86	29	10	103	49
▪ Mortgage-Backed Securities	6	54	8	3	88	21

Equity			
	Current	Δ MTD	Δ YTD
Dow Jones	32,237.53	-419.17	(909.72)
S&P 500	3,970.99	0.84	131.49
Nasdaq	11,823.96	368.42	1,357.48

Volatility			
	Current	Δ MTD	Δ YTD
VIX	21.74	1.04	0.07
MOVE	173.66	50.06	52.05

Commodities			
	Current	Δ MTD	Δ YTD
CRB	258.49	-11.35	-19.26
Gold	2001.70	165.00	175.50
Oil	69.26	-7.79	-11.00
Gas	258.85	-5.35	11.02

Currency			
	Current	Δ MTD	Δ YTD
U.S. Dollar	103.12	-1.75	-0.41
Euro	1.08	0.02	0.01
Pound	1.22	0.02	0.02
Yen	130.73	-5.44	-0.07
Canadian Dollar	1.37	0.01	0.02
Franc	0.92	-0.02	-0.01

Central Bank Rates			
	Current	Δ MTD	Δ YTD
United States	5.00	0.25	0.50
Europe	3.50	0.50	1.00
United Kingdom	4.25	0.25	0.75
Japan	0.10	0.00	0.00
Canada	4.50	0.00	0.25
TED Spread	48.87	29.50	6.43

Data is as of 03.24.2023. 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.

**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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