

Bond Market Review

May 22, 2023

Summary

- Investment-grade corporate spreads were unchanged last week, as banking sector volatility, debt ceiling headlines, and a large new issuance calendar impacted the market. Investor sentiment improved Thursday following House Speaker McCarthy's remarks that he could see the prospect of a debt ceiling deal. However, progress seemed to stall on Friday. The banking sector rebounded on the optimism with spreads 5-10bps¹ tighter, while smaller regional banks continued to trade at wide levels.
- Tax-exempt municipal yields were sharply higher with the 2-year and 5-year yields rising by 36bps and 32bps, respectively. Much of the pressure was due to rising Treasury yields, while mutual fund outflows and secondary market selling from the FDIC portfolio drove additional weakness. As a result, municipal-to-treasury ratios cheapened to approximately 70% for durations inside ten years.

Treasury Yields			
Term	Treasury Yield	Δ MTD	Δ YTD
1 Year	4.98	0.24	0.29
2 Year	4.27	0.26	-0.16
5 Year	3.73	0.25	-0.27
10 Year	3.67	0.25	-0.20
30 Year	3.93	0.25	-0.04

Taxable

Pfizer Brings Historic Deal to Market

- Pfizer brought a \$31B, eight-tranche² new issue to market last week. It was the largest investment-grade corporate issue of the year and fourth largest in history. The deal drew over \$80B in orders and priced with approximately a 20bps concession across the yield curve. While the deal went fairly well, it added to the large supply of bonds the market has needed to absorb lately and pressured spreads with the extra concession.

High Yield Spreads Tighten

- High yield corporate spreads moved 12bps tighter, supported by positive equity market performance on optimism about the debt ceiling negotiations. The asset class continues to see outflows, losing over \$1.0B per week for a third straight week. Despite this, as well as growing primary market volume, the sector's technicals remain firm as the high yield universe has contracted by 4% this year after an 11% contraction in 2022.

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	3.26	0.26	0.40	5.02	3.71	65.48	2.20	4.46
2 Year	3.05	0.36	0.45	4.69	42.64	71.50	4.35	12.75
5 Year	2.65	0.27	0.13	4.08	34.50	71.01	2.67	8.07
10 Year	2.55	0.20	-0.08	3.92	25.05	69.43	0.76	1.56
30 Year	3.52	0.13	-0.06	5.42	148.83	89.63	-2.65	-0.70

Tax-Free

Moody's Revises California's Outlook to Negative

- Last Thursday, Moody's Investor Services revised its outlook for the state of California to negative while affirming the state's Aa2 credit rating. In the report, Moody's stated that "the negative outlook reflects a weakened and uncertain revenue environment in California that raises the possibility of extended pressure on the state's budget." This revision follows the state's most recent budget deficit projection, which was nearly \$9.3B larger than projected as recently as January.

New Jersey Lowers Revenue Forecast

- New Jersey's state treasurer lowered her forecast for state revenues by \$1.1B for FY23, which ends on June 30, and by \$1.2B for FY24. April collections were 27% lower year-over-year as the treasurer stated, "certain taxpayers realized income losses far exceeded expectations." This trend is not unique to New Jersey as states are on track to see the lowest capital gain tax receipts since 2008.

¹BPS = basis points. ²A **tranche** refers to a segment of a pool of securities that is portioned by characteristics such as risk, maturity, yield, etc., to be marketable to different investors. Each tranche of a securitized or structured product is one of multiple related securities offered at the same time. Examples of products that may be split into tranches include bonds, loans, and mortgages. Data is as of 05.19.2023. Sources: Bloomberg L.P.; ICE BofA. Please refer to pages 3 for important definitions and disclosures.

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International Yields							
	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	2.76	-0.06	3.96	2.96	3.4	3.09	3.25
5 Year	2.41	0.11	3.82	2.77	3.7	3.10	3.60
10 Year	2.43	0.39	4.00	3.00	4.27	3.48	4.02
30 Year	2.60	1.23	4.41	3.43	4.6	4.09	4.30

Sectors ¹						
	Duration	Spread	Δ MTD	Δ YTD	52- Week High	52-Week Low
Investment Grade Corporate	7	143	7	13	165	115
▪ Financial	5	166	9	26	188	116
▪ Industrial	8	130	6	5	160	113
▪ Utility	9	141	8	12	161	119
High Yield	4	477	25	8	583	385
Securitized	6	67	-4	11	90	31
▪ Commercial Mortgage-Backed Securities	5	139	-1	19	143	98
▪ Asset-Backed Securities	3	81	-2	5	103	49
▪ Mortgage-Backed Securities	6	62	-4	11	88	26

Equity			
	Current	Δ MTD	Δ YTD
Dow Jones	33,426.63	-671.53	279.38
S&P 500	4,191.98	22.50	352.48
Nasdaq	12,657.90	431.32	2,191.42

Volatility			
	Current	Δ MTD	Δ YTD
VIX	16.81	1.03	-4.86
MOVE	127.51	5.05	5.90

Commodities			
	Current	Δ MTD	Δ YTD
CRB	262.13	-6.02	-15.61
Gold	2000.30	1.20	174.10
Oil	71.55	-5.23	-8.71
Gas	257.61	4.60	9.78

Currency			
	Current	Δ MTD	Δ YTD
U.S. Dollar	103.20	1.54	-0.32
Euro	1.08	-0.02	0.01
Pound	1.24	-0.01	0.04
Yen	137.98	1.68	7.18
Canadian Dollar	1.35	0.00	-0.01
Franc	0.90	0.01	-0.03

Central Bank Rates			
	Current	Δ MTD	Δ YTD
United States	5.25	0.25	0.75
Europe	3.75	0.25	1.25
United Kingdom	4.50	0.25	1.00
Japan	0.10	0.00	0.00
Canada	4.50	0.00	0.25
TED Spread	17.55	-9.67	-24.89

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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

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

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 depository 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.

ICE BofA 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.

The Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index is a 7-day high-grade market index comprised of tax-exempt Variable Rate Demand Obligations (VRDOs) with certain characteristics. The Index is calculated and published by Bloomberg.

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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