

Bond Market Review

May 23, 2022

Summary

- Although the sentiment in the investment grade credit market was better than the equity and high yield markets, we continued to drift wider all week. Federal Reserve (Fed) Chair Jerome Powell essentially confirmed that the Fed is willing to accept volatility in order to tame inflation, so it is unlikely they will respond to risk asset declines any time soon. In addition, several high profile companies like Target and Cisco reported weaker than expected quarterly earnings reports which increases the fears that the economy is already slowing substantially.
- It seemed as though we were on repeat again with the municipal market posting its 14th week of mutual fund outflows (\$2,712 million) and roughly \$2 billion in daily bid wanted volume. However in a turn of events, the municipal market rallied across the curve bucking the trend of holding steady on days where treasuries rallied. Attractive valuations likely received interest from taxable investors as muni-to-treasury ratios reached levels that historically garner attention.

Treasury Yields

| Term | Treasury Yield | Δ MTD | Δ YTD |
|---------|----------------|-------|-------|
| 1 Year | 2.03 | -0.03 | 1.65 |
| 2 Year | 2.58 | -0.13 | 1.85 |
| 5 Year | 2.80 | -0.16 | 1.54 |
| 10 Year | 2.78 | -0.15 | 1.27 |
| 30 Year | 2.99 | -0.01 | 1.08 |

Taxable

Calmer Markets Drove Supply Increase

- The few pockets of relative stability last week allowed dealers to open the taps for a fairly hefty week of corporate new issue supply. Although interest levels were fairly healthy, deals continue to price wide of secondary trading levels. We received additional unwanted supply from the financial sector including Citigroup that brought their fourth multi-billion dollar deal of 2022. This week's supply looks a little lighter, however with a wider range of estimates between \$10 to \$30 billion.

Target's Earnings Miss Expectations

- Target's stock price declined sharply following their Q1 earnings miss. Similar to Walmart, Target's sales growth beat expectations but larger than expected inflationary pressures were a headwind to their earnings per share. Same store sales growth increased 3.3% due to higher customer traffic but gross margins contracted a whopping 430 basis points which was well below analyst's expectations. Rapidly increasing prices for freight, transportation, and labor pressured margins with management now expecting the higher costs to persist in the near term.

Municipal Yields

| Term | Municipal Yield | Δ MTD | Δ YTD | Tax-Equivalent Yield | Municipal/Treasury Ratio (%) | Δ MTD | Δ YTD |
|---------|-----------------|-------|-------|----------------------|------------------------------|-------|-------|
| 1 Year | 1.93 | -0.01 | 1.79 | 2.97 | 95.20 | 0.93 | 57.98 |
| 2 Year | 2.25 | 0.03 | 2.01 | 3.46 | 87.19 | 5.41 | 54.41 |
| 5 Year | 2.53 | 0.14 | 1.94 | 3.89 | 90.38 | 9.50 | 43.67 |
| 10 Year | 2.93 | 0.21 | 1.90 | 4.51 | 105.35 | 12.64 | 37.15 |
| 30 Year | 3.29 | 0.24 | 1.80 | 5.06 | 110.18 | 8.42 | 31.90 |

Tax-Free

Energy Producing States Benefitting from Higher Oil Prices

- Russia's war on Ukraine, along with the other supply side constraints, is leading to outsized tax collections in U.S. energy-producing states. Using Texas as a proxy for such states, its oil and natural gas production taxes topped \$8.5 billion for the 12 months ending April 30th, \$1.0 billion of which was received in April 2022 alone. The 12-month figure represents a 146% increase from the trailing 12-month tax collection rate from April 2021.

Florida's Reedy Creek District Likely to be Controlled by the State

- Florida Governor Ron DeSantis said on Monday that control of the Reedy Creek Improvement District would likely go to the state of Florida and not to the local governments if it is dissolved next year. Although he did not provide details as to what expected legislative solution would be presented over the next year, he reiterated that Disney would continue to be responsible for paying back the nearly \$1 billion in municipal bonds the district has outstanding as the principal landowner in the district as opposed to the broader tax bases in Orange and Osceola counties.

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| Sectors ¹ | | | | | | |
|---|----------|--------|-------|-------|---------------|-------------|
| | Duration | Spread | Δ MTD | Δ YTD | 52- Week High | 52-Week Low |
| Investment Grade Corporate | 7.71 | 149 | 14 | 57 | 149 | 80 |
| ▪ Financial | 5.85 | 148 | 15 | 65 | 148 | 71 |
| ▪ Industrial | 8.50 | 148 | 14 | 53 | 148 | 83 |
| ▪ Utility | 9.62 | 156 | 15 | 49 | 156 | 93 |
| High Yield | 4.28 | 482 | 103 | 199 | 482 | 262 |
| Securitized | 5.69 | 45 | 1 | 11 | 51 | 16 |
| ▪ Commercial Mortgage-Backed Securities | 4.89 | 102 | 15 | 34 | 102 | 54 |
| ▪ Asset-Backed Securities | 2.27 | 75 | 6 | 37 | 75 | 22 |
| ▪ Mortgage-Backed Securities | 5.79 | 41 | 1 | 10 | 48 | 12 |

| International Yields | | | | | | | |
|----------------------|---------|-------|------|--------|-------|-------|--------|
| | Germany | Japan | U.K. | France | Italy | Spain | Greece |
| 2 Year | 0.34 | -0.06 | 1.51 | 0.26 | 0.98 | 0.63 | -- |
| 5 Year | 0.66 | 0.01 | 1.60 | 0.90 | 2.18 | 1.37 | 2.68 |
| 10 Year | 0.94 | 0.24 | 1.89 | 1.47 | 3.00 | 2.08 | 3.72 |
| 30 Year | 1.12 | 0.99 | 2.13 | 1.94 | 3.42 | 2.61 | -- |

| Equity | | | |
|-----------|-----------|----------|----------|
| | Current | Δ MTD | Δ YTD |
| Dow Jones | 31,261.90 | -1715.31 | -5076.40 |
| S&P 500 | 3,901.36 | -230.57 | -864.82 |
| Nasdaq | 11,354.62 | -980.02 | -4290.35 |

| Volatility | | | |
|------------|---------|--------|-------|
| | Current | Δ MTD | Δ YTD |
| VIX | 29.43 | -3.97 | 12.21 |
| MOVE | 111.10 | -17.30 | 34.00 |

| Commodities | | | |
|-------------|----------|--------|--------|
| | Current | Δ MTD | Δ YTD |
| CRB | 312.73 | 4.46 | 80.36 |
| Gold | 1,848.40 | -63.30 | 19.80 |
| Oil | 110.28 | 5.59 | 35.07 |
| Gas | 383.70 | 39.46 | 161.24 |

| Currency | | | |
|-----------------|---------|--------|--------|
| | Current | Δ MTD | Δ YTD |
| U.S. Dollar | 103.150 | 0.191 | 7.480 |
| Euro | 1.056 | 0.002 | -0.081 |
| Pound | 1.248 | -0.009 | -0.105 |
| Yen | 127.880 | -1.820 | 12.800 |
| Canadian Dollar | 1.284 | -0.001 | 0.020 |
| Franc | 0.975 | 0.003 | 0.062 |

| Central Bank Rates | | | |
|--------------------|---------|-------|-------|
| | Current | Δ MTD | Δ YTD |
| United States | 1.00 | 0.50 | 0.75 |
| Europe | 0.00 | 0.00 | 0.00 |
| United Kingdom | 1.00 | 0.25 | 0.75 |
| Japan | 0.10 | 0.00 | 0.00 |
| Canada | 1.00 | 0.00 | 0.75 |
| TED Spread | 49.8 | -1.42 | 31.90 |

Data is as of 05.20.2022. Source: Bloomberg L.P. Please refer to pages 3-4 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.



Important Information

Technical Terms & Indices

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

Tranche: a security that can be split up into smaller pieces and subsequently sold to investors

West Texas Intermediate (WTI): WTI crude oil is a specific grade of crude oil and one of the main three benchmarks in oil pricing, along with Brent and Dubai Crude.

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

Indices

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

Bloomberg U.S. Aggregate ABS Index: A component of the Bloomberg U.S. Aggregate Index, the Bloomberg U.S. Aggregate ABS Index includes pass-through, bullet and controlled amortization structures. The Index includes only the senior class of each ABS issue and the ERISA-eligible B and C tranche.

Bloomberg U.S. Aggregate CMBS Index: A component of the Bloomberg U.S. Aggregate Index, the Bloomberg U.S. Aggregate CMBS Index includes investment grade securities that are ERISA-eligible under the underwriter's exemption.

Bloomberg U.S. Aggregate MBS Index: A component of the Bloomberg U.S. Aggregate Index, the Bloomberg U.S. Aggregate MBS Index covers the mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA) and Freddie Mac (FHLMC). The Index is formed by grouping the universe of over 600,000 individual fixed rate MBS pools into approximately 3,500 generic aggregates.

Bloomberg U.S. Aggregate Investment Grade Finance Index: A component of the Bloomberg U.S. Corporate Bond Index, the Bloomberg U.S. Aggregate Investment Grade Finance Index measures publicly issued investment grade U.S. corporate bonds in the Finance sector.

Bloomberg U.S. Aggregate Investment Grade Industrial Index: A component of the Bloomberg U.S. Corporate Bond Index, the Bloomberg U.S. Aggregate Investment Grade Finance Index measures publicly issued investment grade U.S. corporate bonds in the Industrial sector.

Bloomberg U.S. Aggregate Investment Grade Utility Index: A component of the Bloomberg U.S. Corporate Bond Index, the Bloomberg U.S. Aggregate Investment Grade Finance Index measures publicly issued investment grade U.S. corporate bonds in the Utility sector.

Bloomberg U.S. Corporate Bond Index: The Bloomberg U.S. Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.

Bloomberg U.S. Corporate High Yield Bond Index: The Bloomberg U.S. Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.

Bloomberg U.S. Securitized Index: Bloomberg U.S. Securitized Index is comprised of predominantly MBS Agency securities, but also includes ABS, CMBS and covered securities. Bloomberg U.S. Treasury Strips 20+ Year Index tracks the performance of zero coupon U.S. Treasuries with a duration of 20 years or more.

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.

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

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.

S&P CoreLogic Case-Shiller 20-City Composite Home Price NSA Index: This index to measure the value of residential real estate in 20 major U.S. metropolitan areas including Atlanta, Boston, Charlotte, Chicago, Cleveland, Dallas, Denver, Detroit, Las Vegas, Los Angeles, Miami, Minneapolis, New York, Phoenix, Portland, San Diego, San Francisco, Seattle, Tampa and Washington, D.C.

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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