

# Bond Market Review

May 9, 2022

## Summary

- U.S. Treasury yields extended their march higher with the 10-year reaching 3.13% as Federal Reserve (Fed) Chairman Jay Powell dismissed the idea of a 75 basis point (bps) hike in the Federal Funds rate at last week's Federal Open Market Committee (FOMC) meeting. With the Fed opting for a less aggressive path of rate hikes, the yield curve steepened suggesting inflation pressures will remain elevated. The April consumer price inflation report will be released this Wednesday with the average forecast calling for an 8.1% annual increase.
- Municipal bonds were weaker in sympathy with Treasuries however relentless selling pressure from mutual funds and an above average new issue calendar expected this week were additional headwinds for the sector. Benchmark municipal yields increased by 9 and 13 basis points in the 5 and 10-year segments with the 10-year muni-to-treasury ratio ending the week at 91%.
- Investment grade credit held in quite well last week despite the big swings in equities and interest rates following the Fed meeting on Wednesday. Things were relatively quiet ahead of the meeting with spreads tightening a touch, perhaps in anticipation of another post-meeting rally like we saw in March. After all, spreads were about 25 bps off their tightest levels and all-in yields reached their highest level since 2010. Credit outperformed other risk sectors after Powell's comments with investment grade spreads closing the week 1 basis point tighter.

## Treasury Yields

Term	Treasury Yield	Δ MTD	Δ YTD
1 Year	1.97	-0.09	1.60
2 Year	2.73	0.02	2.00
5 Year	3.08	0.12	1.81
10 Year	3.13	0.19	1.62
30 Year	3.23	0.23	1.32

## Taxable

### New Issue Supply

- Supply came in about as expected led by the financial sector with a few smaller to mid-sized industrials and utilities hitting the market. It's mostly the financials that are pricing at wide concessions, however, a few deals were postponed due to the overall macro volatility.

### High Yield Spreads Widen

- Option adjust spreads (OAS) for high yield corporates were 20 bps wider on the week with excess return at (0.42%) but the reality is likely wider. With OAS at 403 bps on Thursday's close and yield-to-worst well in excess of 7%, relative valuations are looking a little more interesting, however, spreads are likely to widen further until equity markets and interest rates stabilize.

## Municipal Yields

Term	Municipal Yield	Δ MTD	Δ YTD	Tax-Equivalent Yield	Municipal/Treasury Ratio (%)	Δ MTD	Δ YTD
1 Year	1.97	0.03	1.83	3.03	99.92	5.66	62.71
2 Year	2.27	0.05	2.03	3.49	83.13	1.35	50.35
5 Year	2.54	0.15	1.95	3.91	82.54	1.66	35.83
10 Year	2.85	0.13	1.82	4.38	91.16	-1.56	22.95
30 Year	3.17	0.12	1.68	4.88	98.28	-3.48	19.99

## Tax-Free

### Inflation Boosting Tobacco Payments

- Perhaps one silver lining to inflationary pressures lies in the cash flows for tax-exempt tobacco bonds. In a fortunate twist, the inflation that has fueled the bond market route so far this year has boosted the revenue securing many tobacco bond issues. Payments to states this year under the 1998 master settlement agreement (MSA) have risen 10% despite a decline in cigarette sales according to the National Association of Attorneys General. The reason is due to the MSA settlement terms where tobacco companies must increase their annual payments to adjust for inflation.

### Upgrades Outpace Downgrades

- S&P's April rating activity skewed positive again with upgrades outpacing downgrades 2.5 to 1. Most of the rating activity was in the local government space which tend to coincide with recent releases financials for most local governments that have a 6/30 fiscal year-end.

### California's Population Declines

- California's population declined 0.3% last year as births failed to keep pace with an aging population, resident outmigration, COVID-19-related deaths, and restrictive policies on immigration. The majority of counties lost residents, including the three most populous: Los Angeles, San Diego, and Orange County.

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Sectors <sup>1</sup>						
	Duration	Spread	Δ MTD	Δ YTD	52- Week High	52-Week Low
Investment Grade Corporate	7.66	134	-1	42	145	80
▪ Financial	5.83	133	0	50	144	71
▪ Industrial	8.41	133	-1	38	145	83
▪ Utility	9.52	143	2	36	153	93
High Yield	4.24	402	23	119	411	262
Securitized	5.83	43	-1	9	51	15
▪ Commercial Mortgage-Backed Securities	4.88	89	2	21	90	54
▪ Asset-Backed Securities	2.27	65	-4	27	72	22
▪ Mortgage-Backed Securities	5.94	40	0	9	48	11

International Yields							
	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	0.32	-0.04	1.51	0.33	1.06	0.76	--
5 Year	0.85	0.03	1.66	1.09	2.34	1.53	2.61
10 Year	1.13	0.25	2.00	1.66	3.14	2.24	3.58
30 Year	1.24	1.04	2.17	2.04	3.42	2.65	--

Equity			
	Current	Δ MTD	Δ YTD
Dow Jones	32,899.37	-77.84	-3438.93
S&P 500	4,123.34	-8.59	-642.84
Nasdaq	12,144.66	-189.98	-3500.31

Volatility			
	Current	Δ MTD	Δ YTD
VIX	30.19	-3.21	12.97
MOVE	121.42	-6.98	44.32

Commodities			
	Current	Δ MTD	Δ YTD
CRB	311.32	3.05	78.95
Gold	1,882.80	-28.90	54.20
Oil	109.77	5.08	34.56
Gas	375.90	31.66	153.44

Currency			
	Current	Δ MTD	Δ YTD
U.S. Dollar	103.660	0.701	7.990
Euro	1.055	0.001	-0.082
Pound	1.235	-0.023	-0.118
Yen	130.560	0.860	15.480
Canadian Dollar	1.288	0.003	0.024
Franc	0.989	0.017	0.076

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	58.9	7.72	41.04

Data is as of 05.06.2022. Source: Bloomberg L.P. Please refer to pages 3-4 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

## 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.

**CRB:** The Commodity Research Bureau (CRB) Index acts as a representative indicator of today's global commodity markets. It measures the aggregated price direction of various commodity sectors.

**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 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.

**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 measures 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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