

Bond Market Review

June 13, 2022

Summary

- Treasury yields surged after Friday's hot Consumer Price Index (CPI) report showed inflation levels reached 40-year highs. The yield curve flattened dramatically on concerns that economic growth will slow due to the Federal Reserve aggressively tightening monetary conditions in order to control inflation. Short-term yields were higher by 35 basis points while 30-year yields increased by 10 basis points.
- Tax-exempt municipal performance was driven by mutual fund flows as outflows for long duration funds pushed long-term yields higher while short-term yields declined on inflows into money market funds. As a result, short-term muni-to-treasury ratios declined by 12 basis points to 56% while long-term ratios rose 7 basis points to 96%. This week's forecast of only \$3 billion in new issue supply should help support the sector but Treasury rates will likely provide the direction.
- Corporate bond spreads widened 5-10 basis points after Friday's elevated CPI print triggered a wave of selling in risk assets. Target's second downward outlook revision in the past three weeks also put a dent in sentiment and the European Central Bank's (ECB's) slightly hawkish commentary threw a little more fuel onto the fire.

Treasury Yields

Term	Treasury Yield	Δ MTD	Δ YTD
1 Year	2.45	0.40	2.07
2 Year	3.06	0.51	2.33
5 Year	3.26	0.44	2.00
10 Year	3.16	0.31	1.65
30 Year	3.19	0.15	1.29

Taxable

Elevated Issuance Prior to Friday

- It was another busy week of supply as companies took advantage of the relatively good sentiment over the first three days of the week. Issuance tilted a little more towards non-financials and many of the deals drew hefty oversubscriptions, although new issue concessions crept back into double digits. The market remains starved of 30-year issuance, with only 11% of this week's total coming beyond 15-years.

Target Lowers Q2 Guidance Again

- Target cut their profit guidance for the second time in three weeks as higher transportation costs as well as excess inventory appear to be negatively impacting margins. The company now expects earnings before interest and taxes of approximately 2% of sales in the current quarter compared to prior guidance of 5.3%.

Municipal Yields

Term	Municipal Yield	Δ MTD	Δ YTD	Tax-Equivalent Yield	Municipal/Treasury Ratio (%)	Δ MTD	Δ YTD
1 Year	1.41	-0.10	1.27	2.17	57.57	-16.09	20.36
2 Year	1.75	-0.08	1.51	2.69	57.13	-14.45	24.35
5 Year	2.05	-0.04	1.46	3.15	62.91	-11.27	16.20
10 Year	2.58	0.11	1.55	3.97	81.76	-5.08	13.55
30 Year	3.07	0.26	1.58	4.72	96.13	3.85	17.84

Tax-Free

Strong State Reserve Levels

- Pew Research confirmed what most of us already suspected in regards to state reserve levels last year. Collectively, states had the "largest fiscal cushion on record" at fiscal year end 2021. At fiscal year end 2020 state reserve funds totaled \$76.9 billion reflecting a relatively modest 2.9% contraction from the prior year due to the onset of the pandemic. At fiscal year end 2021, due to better-than-expected revenues and federal stimulus, reserve levels jumped 46.6% to \$112.7 billion.

New York City's Congestion Pricing Decision Delayed

- New York Metropolitan Transit Authority's plan to implement congestion pricing met a delay after the federal government submitted a list of 400 additional questions related to environmental assessments. Congestion pricing is a concept of charging motorists a fee for driving into Manhattan's midtown area and is designed to encourage people to use the transit system. The roll-out will be delayed at least a year, according to a statement from the Governor.

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Sectors ¹						
	Duration	Spread	Δ MTD	Δ YTD	52- Week High	52-Week Low
Investment Grade Corporate	7.66	136	6	44	149	80
▪ Financial	5.82	137	7	54	148	71
▪ Industrial	8.42	135	6	40	148	83
▪ Utility	9.65	139	0	32	156	93
High Yield	4.24	438	32	155	482	262
Securitized	5.80	44	5	10	51	21
▪ Commercial Mortgage-Backed Securities	4.84	99	-1	31	104	54
▪ Asset-Backed Securities	2.27	77	-4	39	81	22
▪ Mortgage-Backed Securities	5.91	40	6	9	48	18

International Yields							
	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	0.97	-0.04	2.05	0.82	1.69	1.33	--
5 Year	1.33	0.04	2.14	1.61	3.06	2.19	3.14
10 Year	1.52	0.26	2.45	2.10	3.76	2.78	4.40
30 Year	1.66	1.20	2.57	2.48	4.04	3.19	--

Equity			
	Current	Δ MTD	Δ YTD
Dow Jones	31,392.79	-1597.33	-4945.51
S&P 500	3,900.86	-231.29	-865.32
Nasdaq	11,340.02	-741.37	-4304.95

Volatility			
	Current	Δ MTD	Δ YTD
VIX	27.75	1.56	10.53
MOVE	114.23	7.11	37.13

Commodities			
	Current	Δ MTD	Δ YTD
CRB	325.81	9.27	93.44
Gold	1,875.50	27.10	46.90
Oil	120.67	6.00	45.46
Gas	417.22	25.60	194.76

Currency			
	Current	Δ MTD	Δ YTD
U.S. Dollar	104.148	2.396	8.478
Euro	1.052	-0.021	-0.085
Pound	1.232	-0.029	-0.122
Yen	134.410	5.740	19.330
Canadian Dollar	1.278	0.013	0.014
Franc	0.988	0.029	0.075

Central Bank Rates			
	Current	Δ MTD	Δ YTD
United States	1.00	0.00	0.75
Europe	0.00	0.00	0.00
United Kingdom	1.00	0.00	0.75
Japan	0.10	0.00	0.00
Canada	1.50	0.00	1.25
TED Spread	44.3	-12.86	26.42

Data is as of 06.10.2022. 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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