

# Bond Market Review

June 27, 2022

## Summary

- Treasury yields declined sharply during the holiday shortened trading week with 10-year yields lower by 14 basis points as slowing economic growth concerns overshadow the fears of runaway inflation. The market's expectation for future Federal Reserve (Fed) Funds rate hikes eased slightly with approximately 175 basis points of additional tightening expected this year.
- Investment grade corporate spreads widened five basis points despite the relative strength in equities. Interest rate volatility, the growing risk of a recession, and retail outflows kept pressure on the sector with any pockets of strength met with sellers. Liquidity remained poor and sentiment weak as dealers are hesitant to add risk in this environment.
- The municipal market had a very positive tone last week with yields rallying across the curve. Mutual fund outflows persisted, however, new issue supply remains light and the market is anticipating the large July first reinvestment flows that will increase the negative net supply condition.

Treasury Yields			
Term	Treasury Yield	Δ MTD	Δ YTD
1 Year	2.75	0.70	2.37
2 Year	3.06	0.51	2.33
5 Year	3.19	0.37	1.92
10 Year	3.13	0.29	1.62
30 Year	3.26	0.21	1.35

## Taxable

### High Yield Spreads Move Wider

- High yield spreads continued to move wider this week, pushing out to a new local high of 538 basis points (bps) despite a positive week for equities. Excess return for the week was -0.81%, although total return was slightly positive, driven by sharply lower Treasury yields. Concerns about growth continued to be the main theme as lower quality segments of the market underperformed, driving decompression between ratings buckets and between high yield and investment grade.

### Another Slow Week for Corporate Supply

- Another slow week of supply brought us to just \$64 billion of new issuance for the month. All of the deals came from non-financial issues, a rarity these days, with NextEra Energy Inc, KLA Corp and Targa Resources Corp the largest issuers. According to the Bank of America, the current differential between maturing coupons over the next two years and the Intercontinental Exchange (ICE) Bank of America Corporate Index's yield-to-worst is at its widest level in the past 25 years making issuing new bonds rather unattractive.

Municipal Yields							
Term	Municipal Yield	Δ MTD	Δ YTD	Tax-Equivalent Yield	Municipal/Treasury Ratio (%)	Δ MTD	Δ YTD
1 Year	1.63	0.12	1.49	2.51	59.31	-14.35	22.10
2 Year	1.97	0.14	1.73	3.03	64.31	-7.27	31.53
5 Year	2.26	0.17	1.67	3.48	70.94	-3.24	24.23
10 Year	2.79	0.32	1.76	4.29	89.13	2.29	20.93
30 Year	3.25	0.44	1.76	5.00	99.78	7.50	21.49

## Tax-Free

### State's Saving Levels Remain Healthy

- The National Association of State Budget Officers (NASBO) released its Spring 2022 Fiscal Survey of the States last week. Overall, states continue to boost their reserve funding on heightened concerns over the economic outlook. NASBO estimates rainy day funds reached a record high \$132 billion (generally about 32% of expenditures) in fiscal year 2022. While a spend-down is expected based on fiscal year 2023 budget proposals, state savings levels are expected to remain well above pre-pandemic levels given stimulus funds received.

### Rating Agencies' Tone Shifting

- While we will continue to report that rating upgrades continued to exceed downgrades, the tone of muni sector-level research from the rating agencies is beginning to skew more negative which will make active surveillance of municipal credits more important going forward as the honeymoon period from federal stimulus support fades. Recent reports highlighting the potential credit impacts of issues include: downgraded growth assumptions versus a few months ago, inflation and supply chain pressures, deferred maintenance implications, rising fuel and labor costs, the equity market reversal leading to an erosion of 2021's gains, and rising insurance costs.

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Sectors <sup>1</sup>						
	Duration	Spread	Δ MTD	Δ YTD	52- Week High	52-Week Low
Investment Grade Corporate	7.57	148	18	56	149	80
▪ Financial	5.74	151	21	68	152	71
▪ Industrial	8.34	146	17	51	148	83
▪ Utility	9.44	152	13	45	156	93
High Yield	4.25	507	101	224	525	262
Securitized	5.78	53	14	19	57	21
▪ Commercial Mortgage-Backed Securities	4.84	104	4	36	104	58
▪ Asset-Backed Securities	2.26	76	-5	38	81	22
▪ Mortgage-Backed Securities	5.90	49	15	18	54	18

International Yields							
	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	0.81	-0.06	1.93	0.75	1.40	1.11	--
5 Year	1.16	0.04	1.95	1.58	2.65	1.89	2.73
10 Year	1.44	0.25	2.30	1.97	3.46	2.55	3.78
30 Year	1.69	1.30	2.55	2.48	3.84	3.10	--

Equity			
	Current	Δ MTD	Δ YTD
Dow Jones	31,500.68	-1489.44	-4837.62
S&P 500	3,911.74	-220.41	-854.44
Nasdaq	11,607.62	-473.77	-4037.35

Volatility			
	Current	Δ MTD	Δ YTD
VIX	27.23	1.04	10.01
MOVE	127.00	19.88	49.90

Commodities			
	Current	Δ MTD	Δ YTD
CRB	298.55	-17.99	66.18
Gold	1,830.30	-18.10	1.70
Oil	107.62	-7.05	32.41
Gas	388.48	-3.14	166.02

Currency			
	Current	Δ MTD	Δ YTD
U.S. Dollar	104.185	2.433	8.515
Euro	1.055	-0.018	-0.082
Pound	1.227	-0.033	-0.126
Yen	135.230	6.560	20.150
Canadian Dollar	1.289	0.024	0.025
Franc	0.958	-0.001	0.045

Central Bank Rates			
	Current	Δ MTD	Δ YTD
United States	1.75	0.75	1.50
Europe	0.00	0.00	0.00
United Kingdom	1.25	0.25	1.00
Japan	0.10	0.00	0.00
Canada	1.50	0.00	1.25
TED Spread	60.3	3.18	42.46

Data is as of 06.24.2022. 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.

**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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