

Bond Market Review

June 5, 2023

Summary

- The passage of the debt ceiling deal did not bring much relief to the corporate bond sector but it did clear an important obstacle to spreads tightening. Friday's payroll number reminded everyone that the economy remains quite strong and with the debt ceiling no longer an issue, investor sentiment appear to be improved. Banks continue to be among the top performers as the healing persists, with the regionals anywhere from 15 to 90 bps¹ tighter.
- Tax-exempt municipals benefitted from a wave of June 1 reinvestment flows that produced strong demand with an average week of new issue supply. Yields were 12 to 17 bps lower across the curve with muni-to-treasury ratios decreasing slightly to approximately 70%. The \$1.4 billion New York City new issue provided evidence of the demand as \$10 billion in orders resulted in the deal tightening 12 bps from initial price guidance.

Treasury Yields			
Term	Treasury Yield	Δ MTD	Δ YTD
1 Year	5.23	0.05	0.54
2 Year	4.50	0.09	0.07
5 Year	3.84	0.09	-0.16
10 Year	3.69	0.05	-0.18
30 Year	3.89	0.03	-0.08

Taxable

Economic Data Likely Positive for Credit

- Recent economic data suggests the economy continues to perform well and combined with the moderation in average hourly earnings and expectation that the Federal Reserve (Fed) will pause in June, risk assets could perform well over the next several weeks. However, the release of May's inflation data in mid-June could increase volatility if the numbers are higher than expectations.

High Yield Spreads Tighten

- High yield corporates ended last week on a positive note with spreads approximately 10-15 bps tighter following the Senate's passing of the debt ceiling and the strong payrolls data. This follows a holiday-shortened week where spreads moved 7 bps wider, driving negative excess returns of -.15%. The widening was partly optical as is reflected the index rebalancing where \$21 billion of high yield bonds moved into investment grade.

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	3.13	-0.11	0.27	4.82	-40.98	59.90	-2.74	-1.12
2 Year	2.99	-0.09	0.39	4.60	10.31	66.49	-3.47	7.74
5 Year	2.66	-0.10	0.14	4.09	24.86	69.20	-4.30	6.27
10 Year	2.59	-0.06	-0.04	3.98	29.39	70.18	-2.57	2.30
30 Year	3.50	-0.15	-0.08	5.38	149.69	90.03	-4.51	-0.31

Tax-Free

Pandemic Relief Funds Remain Largely Intact for Munis

- The debt ceiling deal will claw back only \$28 billion of pandemic relief funds out of the \$4.6 trillion allocated under 6 separate pandemic-related stimulus laws passed in 2020 and 2021. Most importantly, none of the claw back will come from the prominent \$350 billion in State and Local Fiscal Recovery Funds that provided important pandemic relief for cities, counties, and states.

April Tax Collections Decline

- With 41 states reporting April tax collections thus far we see that median year-over-year growth fell -14.3%. The drag was solely on income tax collections which were 31% lower over the period. Corporate and sales taxes continued to perform relatively well with 4.7% and 2.5% increases respectively.

¹BPS = basis points. Data is as of 06.02.2023. 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	2.80	-0.06	4.36	2.99	3.4	3.08	3.23
5 Year	2.34	0.09	4.10	2.68	3.5	2.97	3.30
10 Year	2.31	0.43	4.16	2.86	4.07	3.32	3.69
30 Year	2.49	1.28	4.48	3.29	4.4	3.94	4.09

Sectors ¹						
	Duration	Spread	Δ MTD	Δ YTD	52- Week High	52-Week Low
Investment Grade Corporate	7	134	-4	4	165	115
▪ Financial	5	152	-5	12	188	116
▪ Industrial	8	124	-3	-1	160	113
▪ Utility	9	136	-4	7	161	119
High Yield	4	424	-35	-45	583	385
Securitized	6	62	1	6	90	31
▪ Commercial Mortgage-Backed Securities	4	135	-1	15	143	98
▪ Asset-Backed Securities	3	78	-1	2	103	49
▪ Mortgage-Backed Securities	6	57	1	6	88	26

Equity			
	Current	Δ MTD	Δ YTD
Dow Jones	33,762.76	854.49	615.51
S&P 500	4,282.37	102.54	442.87
Nasdaq	13,240.77	305.48	2,774.29

Volatility			
	Current	Δ MTD	Δ YTD
VIX	14.60	-3.34	-7.07
MOVE	120.95	-15.07	-0.66

Commodities			
	Current	Δ MTD	Δ YTD
CRB	259.69	5.84	-18.06
Gold	1969.60	-12.50	143.40
Oil	71.74	3.65	-8.52
Gas	250.07	5.69	2.24

Currency			
	Current	Δ MTD	Δ YTD
U.S. Dollar	104.02	-0.31	0.49
Euro	1.07	0.00	0.00
Pound	1.25	0.01	0.04
Yen	139.92	0.58	9.12
Canadian Dollar	1.34	-0.02	-0.01
Franc	0.91	0.00	-0.02

Central Bank Rates			
	Current	Δ MTD	Δ YTD
United States	5.25	0.00	0.75
Europe	3.75	0.00	1.25
United Kingdom	4.50	0.00	1.00
Japan	0.10	0.00	0.00
Canada	4.50	0.00	0.25
TED Spread	14.50	3.74	-27.94

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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 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.

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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