

# Bond Market Review

August 1, 2022

## Summary

- The long-awaited Federal Reserve (Fed) meeting brought the expected 75 basis point (bps) increase in the Fed funds rate, while Fed Chair Jerome Powell's comments were interpreted as dovish even as he emphasized a data-dependent approach going forward. Treasuries and risk assets rallied on the view that the Fed will soon pivot to a more accommodative policy.
- The municipal market finished out July with another strong week despite the summertime pace. The new issue calendar looked more like a holiday week than the last week of July with only \$2.5 billion coming to market. The deals that did price were heavily oversubscribed with yields bumped lower and allocations challenged at final pricing. For the week, 2-year yields were lower by 10 bps while 5-year and 10-year yields were lower by 14 and 18 bps respectively.
- Investment grade corporate spreads were slightly wider on the week with most of the weakness occurring prior to the Fed meeting. Sentiment turned around quickly following Powell's comments with spreads rallying 5-10 bps across most sectors. Dispersion among sectors remains high with investors continuing to favor high quality, liquid bonds.

## Treasury Yields

Term	Treasury Yield	Δ MTD	Δ YTD
1 Year	2.89	0.14	2.51
2 Year	2.88	-0.07	2.15
5 Year	2.68	-0.36	1.41
10 Year	2.65	-0.36	1.14
30 Year	3.01	-0.17	1.11

## Taxable

### Supply Expected to Increase

- New issue supply was relatively light last week primarily due to the Fed meeting with financials continuing to dominate the landscape. Estimates for this week are on the high side at \$30-35 billion which is not surprising given the recent strength in the market and companies coming out of earnings blackout periods.

### Strong July for High Yield

- The high yield corporate sector produced strong returns during July with spreads ending 89 bps tighter as of last Thursday. With assistance from the rally in Treasuries, total return for the month is above 5.2% with excess returns at approximately 3.77%. At 489 bps, option adjusted spreads for the Bank of America Merrill Lynch High Yield Master II index remain 47 bps above the 10 year average.

## Municipal Yields

Term	Municipal Yield	Δ MTD	Δ YTD	Tax-Equivalent Yield	Municipal/Treasury Ratio (%)	Δ MTD	Δ YTD
1 Year	1.38	-0.22	1.24	2.12	47.80	-10.54	10.59
2 Year	1.60	-0.35	1.36	2.46	55.47	-10.56	22.69
5 Year	1.80	-0.42	1.21	2.77	67.26	-5.81	20.55
10 Year	2.23	-0.49	1.20	3.43	84.19	-6.09	15.98
30 Year	2.89	-0.29	1.40	4.45	96.02	-3.89	17.73

## Tax-Free

### Pension Funding Levels Decline

- Equitable Institute, a New York based nonprofit reports that state and local government pension funding levels on average dropped to 77.9% in FY22 following funding levels of 84.8% in 2021. The report comes as the largest public pension plan, California Public Employees' Retirement System, reported a 6.1% loss on the year, its worst since 2009. Earlier this month Wilshire Associates released a similar report showing state pension plan funding dipped to 70.1% from 81.4% last year.

### West Virginia Places Financial Institutions on Blacklist

- West Virginia placed Blackrock Inc., Goldman Sachs Group Inc., JPMorgan Chase & Company, Morgan Stanley, and Wells Fargo & Company on the states' blacklist for municipal underwriting contracts following the state Treasurer's conclusion that these banks engaged in efforts to boycott the fossil fuels industry. The effort is the latest in a series of activist state legislature actions attempting to restrict state and local banking activity on firms states deem to be hostile to industries prevalent within their state economies or embraced by their constituencies.

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Sectors <sup>1</sup>						
	Duration	Spread	Δ MTD	Δ YTD	52- Week High	52-Week Low
Investment Grade Corporate	7.70	144	-11	52	160	82
▪ Financial	5.81	150	-9	67	164	72
▪ Industrial	8.49	140	-13	45	158	85
▪ Utility	9.58	146	-10	39	161	95
High Yield	4.02	469	-100	186	583	271
Securitized	5.40	33	-17	-1	57	21
▪ Commercial Mortgage-Backed Securities	4.88	106	5	38	106	58
▪ Asset-Backed Securities	2.21	82	7	44	82	25
▪ Mortgage-Backed Securities	5.48	27	-19	-4	54	18

International Yields							
	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	0.28	-0.08	1.71	0.24	1.40	0.59	--
5 Year	0.53	-0.02	1.59	0.90	2.24	1.08	2.46
10 Year	0.82	0.19	1.86	1.38	3.02	1.92	2.96
30 Year	1.07	1.24	2.40	1.99	3.39	2.46	--

Equity			
	Current	Δ MTD	Δ YTD
Dow Jones	32,845.13	2069.70	-3493.17
S&P 500	4,130.29	344.91	-635.89
Nasdaq	12,390.69	1361.95	-3254.28

Volatility			
	Current	Δ MTD	Δ YTD
VIX	21.33	-7.38	4.11
MOVE	116.36	-19.14	39.26

Commodities			
	Current	Δ MTD	Δ YTD
CRB	292.06	0.91	59.69
Gold	1,781.80	-25.50	-46.80
Oil	98.62	-7.14	23.41
Gas	311.32	-42.31	88.86

Currency			
	Current	Δ MTD	Δ YTD
U.S. Dollar	105.903	1.218	10.233
Euro	1.022	-0.026	-0.115
Pound	1.217	-0.001	-0.136
Yen	133.270	-2.450	18.190
Canadian Dollar	1.280	-0.008	0.016
Franc	0.952	-0.003	0.040

Central Bank Rates			
	Current	Δ MTD	Δ YTD
United States	2.50	0.75	2.25
Europe	0.50	0.50	0.50
United Kingdom	1.25	0.00	1.00
Japan	0.10	0.00	0.00
Canada	2.50	1.00	2.25
TED Spread	47.1	-17.95	29.28

Data is as of 07.29.2022. 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.

**Bank of America Merrill Lynch 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.

**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 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 to 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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