

Bond Market Review

August 8, 2022

Summary

- The July Nonfarm payrolls report released last Friday surged 528K which surpassed analyst expectations by a significant margin. This latest release of stronger than expected economic data reduces the chances of a near-term recession but implies the Federal Reserve (Fed) will need to maintain its hawkish policy for longer. Treasury yields rose sharply across the curve with the Fed Funds Futures market now signaling a 75 basis point (bps) hike at the September Federal Open market Committee (FOMC) meeting.
- Corporate bonds responded positively to the strong payrolls report with spreads closing the week slightly tighter. High quality, short-term issuers continue to experience relative strength while higher volatility names underperform. The resilience of investment grade corporates is remarkable considering the projected path for the Fed Funds rate and the resulting slowdown in economic growth.
- Tax-exempt municipal yields were higher on the week for the first time since mid-June as the Treasury sell-off and rich valuations drove yields higher. The yield curve flattened and muni-to-treasury ratios compressed further as the summer technical tailwind allowed the sector to outperform Treasuries.

Treasury Yields

Term	Treasury Yield	Δ MTD	Δ YTD
1 Year	3.21	0.33	2.84
2 Year	3.23	0.34	2.49
5 Year	2.96	0.28	1.69
10 Year	2.83	0.18	1.32
30 Year	3.07	0.06	1.16

Taxable

Yankee Banks Trading Tighter

- Over the past several weeks Yankee banks have been among the larger issuers of new deals with many pricing cheap to recent evaluations. Recently we've seen this sector begin to perform better with new issues from UBS Group AG, Lloyds Banking Group, Barclays PLC and HSBC Holdings PLC all trading 5-25 bps tighter.

High Yield Spreads Tighten on Muted Issuance

- High yield corporate spreads tightened 43 bps last week with spreads now 144 bps inside the recent high seen on July 5th. One of the reasons high yield has tightened so much has been the lack of new issuance which is down approximately 80% compared to last year. Positive inflows into the sector plus reinvestment flows from calls, tenders, and maturities leaves a lot of money searching through a limited supply of bonds.

Municipal Yields

Term	Municipal Yield	Δ MTD	Δ YTD	Tax-Equivalent Yield	Municipal/Treasury Ratio (%)	Δ MTD	Δ YTD
1 Year	1.59	0.21	1.45	2.45	49.48	1.68	12.26
2 Year	1.69	0.09	1.45	2.60	52.39	-3.08	19.61
5 Year	1.82	0.02	1.23	2.80	61.58	-5.68	14.87
10 Year	2.24	0.01	1.21	3.45	79.24	-4.95	11.03
30 Year	2.91	0.02	1.42	4.48	94.91	-1.12	16.62

Tax-Free

Pension Plans Face Higher Wage Growth Assumptions

- According to a Moody's report, as public finance pension plans grapple with the market value erosion of their plans from this year's route, wage inflation will add to pension liabilities as well. Municipal governments, which have a history of lower base salaries and wage growth compared to the private sector, will need to revise their wage growth assumptions that flow into their pension liability calculations.

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Sectors ¹						
	Duration	Spread	Δ MTD	Δ YTD	52- Week High	52-Week Low
Investment Grade Corporate	7.68	141	-3	49	160	82
▪ Financial	5.80	145	-5	62	164	72
▪ Industrial	8.46	138	-2	43	158	85
▪ Utility	9.56	143	-3	36	161	95
High Yield	3.98	428	-41	145	583	271
Securitized	5.53	40	7	6	57	21
▪ Commercial Mortgage-Backed Securities	4.84	104	-2	36	106	58
▪ Asset-Backed Securities	2.21	75	-7	37	82	25
▪ Mortgage-Backed Securities	5.62	35	8	4	54	18

International Yields							
	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	0.48	-0.10	1.97	0.39	1.29	0.68	--
5 Year	0.71	-0.03	1.87	1.06	2.13	1.25	2.57
10 Year	0.96	0.18	2.05	1.49	3.02	2.03	3.06
30 Year	1.17	1.15	2.43	2.05	3.25	2.55	--

Equity			
	Current	Δ MTD	Δ YTD
Dow Jones	32,803.47	-41.66	-3534.83
S&P 500	4,145.19	14.90	-620.99
Nasdaq	12,657.55	266.86	-2987.42

Volatility			
	Current	Δ MTD	Δ YTD
VIX	21.15	-0.18	3.93
MOVE	122.58	6.22	45.48

Commodities			
	Current	Δ MTD	Δ YTD
CRB	281.04	-11.02	48.67
Gold	1,791.20	9.40	-37.40
Oil	89.01	-9.61	13.80
Gas	285.56	-25.76	63.10

Currency			
	Current	Δ MTD	Δ YTD
U.S. Dollar	106.621	0.718	10.951
Euro	1.018	-0.004	-0.119
Pound	1.207	-0.010	-0.146
Yen	135.010	1.740	19.930
Canadian Dollar	1.293	0.014	0.029
Franc	0.962	0.009	0.049

Central Bank Rates			
	Current	Δ MTD	Δ YTD
United States	2.50	0.00	2.25
Europe	0.50	0.00	0.50
United Kingdom	1.75	0.50	1.50
Japan	0.10	0.00	0.00
Canada	2.50	0.00	2.25
TED Spread	39.6	-7.54	21.74

Data is as of 08.05.2022. 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.

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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