

Bond Market Review

September 18, 2023

Summary

- Treasury yields were modestly higher after stronger than expected economic data suggests the Federal Reserve (Fed) has more work to do in order to bring inflation down to its 2.0% target rate. August's readings for Consumer Price Index (CPI), non-farm payrolls, and retail sales came in above forecasts and set the tone for the Fed's upcoming meeting.
- On Wednesday, the Fed will hold their September Federal Open Market Committee (FOMC) meeting where we expect they will maintain the policy rate at 5.25%-5.5%. The Statement of Economic Projections is likely to signal an additional hike in 2023 as well as fewer rate cuts in 2024. However, the economic headwinds from a prolonged government shutdown or United Auto Workers strike could impact future decisions.

Treasury Yields			
Term	Treasury Yield	Δ MTD	Δ YTD
1 Year	5.42	0.03	0.73
2 Year	5.03	0.17	0.61
5 Year	4.46	0.21	0.46
10 Year	4.33	0.22	0.46
30 Year	4.42	0.21	0.45

Taxable

Elevated Supply in Early September

- As expected, new issue supply cranked up in the first week of September with \$57 billion issued from 36 deals. The market was well prepared for the supply wave so it was easily absorbed with demand metrics coming in quite strong. Early expectations for this week's supply look fairly modest so the positive momentum could continue in our opinion.

High Yield Widens Modestly

- High yield corporates slid gently into the post-Labor Day week, posting modest widening of 4 basis points (bps) and excess return of -0.03% due to the familiar combination of higher yields and lower equity markets. In contrast to the investment grade market, high yield primary market activity was thin, printing just \$815 million in volume with the largest deal coming from Permian Resources.

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	3.25	0.00	0.39	5.00	-41.82	59.98	-0.38	-1.04
2 Year	3.13	-0.01	0.53	4.82	-21.71	62.20	-2.37	3.45
5 Year	2.93	0.05	0.41	4.51	4.44	65.65	-2.05	2.71
10 Year	3.00	0.07	0.37	4.62	28.30	69.25	-2.08	1.37
30 Year	3.94	0.05	0.36	6.06	164.43	89.20	-3.19	-1.14

Tax-Free

Inflation Rates Vary By Region

- Drilling into the August CPI data by region we see that the annual pace of inflation was 1.0% in the West North Central region which includes Iowa, Kansas, Minnesota, Missouri, Nebraska, and the Dakotas. The New England area is holding close to the Fed's 2.0% target while the South Atlantic region saw 4.5% inflation which was the highest in the country.

Moody's Revises Pennsylvania's Outlook to Positive

- Late last week Moody's revised the outlook on the state of Pennsylvania to positive and affirmed the state's Aa3 rating. Moody's cited the outlook revision was due to "significant increase[s] in budget reserves over the past three fiscal years to levels consistent with higher rated peers."

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International Yields							
	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	3.22	0.03	5.02	3.50	3.9	3.58	3.52
5 Year	2.69	0.28	4.53	3.07	4.0	3.39	3.69
10 Year	2.68	0.72	4.36	3.22	4.46	3.74	4.10
30 Year	2.82	1.68	4.70	3.69	5.0	4.28	4.48

Sectors ¹						
	Duration	Spread	Δ MTD	Δ YTD	52- Week High	52-Week Low
Investment Grade Corporate	7	118	0	-12	165	112
▪ Financial	5	134	2	-6	188	116
▪ Industrial	8	109	1	-16	160	104
▪ Utility	9	124	0	-5	161	119
High Yield	3	374	2	-95	561	366
Securitized	6	59	1	3	90	41
▪ Commercial Mortgage-Backed Securities	4	130	-2	10	143	100
▪ Asset-Backed Securities	3	65	2	-11	103	49
▪ Mortgage-Backed Securities	6	55	2	4	88	36

Equity			
	Current	Δ MTD	Δ YTD
Dow Jones	34,618.24	-103.67	1,470.99
S&P 500	4,450.32	-57.34	610.82
Nasdaq	13,708.33	-326.64	3,241.85

Volatility			
	Current	Δ MTD	Δ YTD
VIX	13.79	0.22	0.16
MOVE	96.61	-11.32	-15.42

Commodities			
	Current	Δ MTD	Δ YTD
CRB	289.61	7.70	11.86
Gold	1946.20	-19.70	120.00
Oil	90.77	7.14	10.51
Gas	270.81	14.22	22.98

Currency			
	Current	Δ MTD	Δ YTD
U.S. Dollar	105.32	1.70	1.80
Euro	1.07	-0.02	0.00
Pound	1.24	-0.03	0.03
Yen	147.85	2.31	17.05
Canadian Dollar	1.35	0.00	0.00
Franc	0.90	0.01	-0.03

Central Bank Rates			
	Current	Δ MTD	Δ YTD
United States	5.50	0.00	1.00
Europe	4.50	0.25	2.00
United Kingdom	5.25	0.00	1.75
Japan	0.10	0.00	0.00
Canada	5.00	0.00	0.75
TED Spread	21.03	-2.55	-21.41

Data is as of 09.15.2023. Source: Bloomberg L.P. Please refer to pages 3 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.



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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

Non-farm payroll measures the number of workers in the U.S. except those in farming, private households, proprietors, non-profit employees, and active military.

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

Urban Institute is a Washington, D.C.–based think tank that conducts economic and social policy research to "open minds, shape decisions, and offer solutions".

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

Yield-To-Worst: Is a measure of the lowest possible yield that can be received on a bond that fully operates within the terms of its contract without defaulting. It is a type of yield that is referenced when a bond has provisions that would allow the issuer to close it out before it matures.

The volatility of an index varies greatly. All indices are unmanaged, and investments cannot be made directly in an index.

Consumer Price Index (CPI) is a price index, the price of a weighted average market basket of consumer goods and services purchased by households. Changes in measured CPI track changes in prices over time. The CPI is calculated by using a representative basket of goods and services.

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.

The ICE BofA 1-10 Year Municipal Securities Index is a subset of the ICE BofA U.S. Municipal Securities Index including all securities with a remaining term to final maturity less than 10 years.

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.

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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The Bloomberg US Corporate Index covers performance for United States corporate bonds. This index serves as an important benchmark for portfolios that include exposure to investment grade corporate bonds.

The Bloomberg 1-3 Year U.S. Aggregate Bond Index is the 1-3 year component of the U.S. Aggregate Index. The Bloomberg U.S. Aggregate Bond Index represents securities that are SEC-registered, taxable and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass through securities, and asset-backed securities.

The Producer Price Index (PPI) is a family of indexes that measures the average change over time in selling prices received by domestic producers of goods and services. PPIs measure price change from the perspective of the seller.

