

Bond Market Review

September 19, 2022

Summary

- Investment grade (IG) corporate bond spreads continued to defy gravity even as a red hot consumer price index (CPI) print and a big earnings miss from FedEx drove equity market weakness last week. The S&P 500 Index was lower by about 5% and Treasury bond yields were 10-30 basis points (bps) higher but IG spreads were only a basis point or two wider.
- The municipal bond market followed Treasury yields higher with rates increasing across the curve led by the 2 year segment which surged 18 basis points. The upward pressure on interest rates resulted in \$1.4 billion in outflows which is the 6th consecutive week of outflows and 30th out of 37 weeks year-to-date.

Treasury Yields			
Term	Treasury Yield	Δ MTD	Δ YTD
1 Year	3.93	0.44	3.55
2 Year	3.87	0.37	3.13
5 Year	3.63	0.28	2.37
10 Year	3.45	0.26	1.94
30 Year	3.51	0.22	1.61

Taxable

Credit Fundamentals and Higher Yields Contributing to Outperformance

- Corporate leverage remains low, interest coverage ratios high, and many companies have demonstrated they can manage through challenging environments which gives market participants' comfort in the current environment. In addition, yields at 5%+ for high quality corporates are higher than they have been since the financial crisis which is attractive for many long-term investors.

High Yield Spreads Slightly Tighter

- High yield corporate spreads were 3 basis points tighter with low dispersion across quality segments while total return for the BofAML High Yield Master II Index was -0.80% due to the increase in Treasury yields. The seemingly benign week masks some pretty significant spread volatility in both directions on either side of Tuesday's CPI release.

Municipal Yields

Term	Municipal Yield	Δ MTD	Δ YTD	Tax-Equivalent Yield	Municipal/Treasury Ratio (%)	Δ MTD	Δ YTD
1 Year	2.44	0.23	2.30	3.75	62.14	-1.31	24.93
2 Year	2.49	0.21	2.25	3.83	64.39	-0.89	31.61
5 Year	2.58	0.26	1.99	3.97	71.06	1.82	24.34
10 Year	2.85	0.26	1.82	4.38	82.62	1.50	14.42
30 Year	3.61	0.32	2.12	5.55	102.76	2.84	24.47

Tax-Free

Conference Attendees Expect Higher Yields

- This past week The Bond Buyer held its California Public Finance Conference where 91% of the conference attendees expect interest rates will end the year higher than current levels. 73% of attendees said inflation and rising interest rates will have the largest impact on the public finance industry over the next two quarters.

S&P Upgrades Outpace Downgrades

- S&P reported that public finance upgrades outpaced downgrades 2.5-1 in August, however, the number of downgrades was the largest in the last 14 months. Local governments accounted for most of the upgrades as analysts largely based their decisions on FY21 audited financials which, in aggregate, were strong.

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Sectors ¹						
	Duration	Spread	Δ MTD	Δ YTD	52- Week High	52-Week Low
Investment Grade Corporate	7.35	142	2	50	160	82
▪ Financial	5.56	147	3	64	164	72
▪ Industrial	8.11	139	1	44	158	85
▪ Utility	9.24	143	2	36	161	95
High Yield	4.09	487	3	204	583	271
Securitized	5.74	56	11	22	58	21
▪ Commercial Mortgage-Backed Securities	4.74	104	2	36	106	58
▪ Asset-Backed Securities	2.20	56	-6	18	82	27
▪ Mortgage-Backed Securities	5.86	53	13	22	55	18

International Yields							
	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	1.53	-0.07	3.14	1.58	2.61	1.79	--
5 Year	1.64	0.06	3.13	2.00	3.47	2.28	3.50
10 Year	1.76	0.26	3.14	2.31	4.03	2.91	4.28
30 Year	1.77	1.30	3.45	2.62	4.06	3.37	--

Equity			
	Current	Δ MTD	Δ YTD
Dow Jones	30,822.42	-688.01	-5515.88
S&P 500	3,873.33	-81.67	-892.85
Nasdaq	11,448.40	-367.80	-4196.57

Volatility			
	Current	Δ MTD	Δ YTD
VIX	26.30	0.43	9.08
MOVE	124.95	0.11	47.85

Commodities			
	Current	Δ MTD	Δ YTD
CRB	278.88	-11.53	46.50
Gold	1,683.50	-42.70	-145.10
Oil	85.11	-4.44	9.90
Gas	241.57	-1.51	19.11

Currency			
	Current	Δ MTD	Δ YTD
U.S. Dollar	109.764	1.064	14.094
Euro	1.002	-0.004	-0.135
Pound	1.142	-0.020	-0.211
Yen	142.920	3.960	27.840
Canadian Dollar	1.326	0.013	0.063
Franc	0.965	-0.013	0.052

Central Bank Rates			
	Current	Δ MTD	Δ YTD
United States	2.50	0.00	2.25
Europe	1.25	0.75	1.25
United Kingdom	1.75	0.00	1.50
Japan	0.10	0.00	0.00
Canada	3.25	0.75	3.00
TED Spread	47.3	29.13	29.44

Data is as of 09.16.2022. 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 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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