



Summary

- As we begin a new year, the primary themes driving performance in Q4 2020 remained consistent during the first week of trading. Municipal bonds continue to outperform Treasuries due to the robust demand for tax-exempt securities combined with a dearth of new issue supply. Longer term and lower quality also outperformed as investors search for additional income in this low yield environment. AAA-rated bonds returned -0.05% compared to 0.84% for BBB-rated, led by the state of Illinois, which was the top performing state.
- It was a busy start to the year for markets as the investment grade credit primary market picked up in a major way and put investors on the defensive early last week. Spreads widened Monday and Tuesday before the move up in stocks. A slowdown in supply turned things around later in the week to end 1 basis point (bp) tighter to 95 bps. There wasn't much of a reaction to the events in Washington on Wednesday, or even the results of the Georgia runoff, although there was some minor underperformance from the pharma and tech sectors on Wednesday.

Treasury Yields

Term	Treasury Yield	Δ MTD	Δ YTD
1 Year	0.10	-0.01	-0.01
2 Year	0.13	0.01	0.01
5 Year	0.48	0.12	0.12
10 Year	1.12	0.20	0.20
30 Year	1.87	0.23	0.23

Tax-Exempt

Municipal Market Themes Remain Consistent

- A prime example is the recent \$350 million New Jersey Economic Development (Baa1/BBB) deal that received over \$30 billion in orders, resulting in yields being lowered by 15 bps due to the incredible demand. NJ ECO is now trading at +73 in 5-years and +94 in 10-years, which is approximately 50 bps lower than one month ago.

A Democratic Congress Should Benefit Municipals

- The results from the Georgia Senate runoff are in and a Democratic Congress increases the odds that the federal government will extend aid to cities and states. Direct aid to states and cities was largely absent from the most recent stimulus legislation signed on December 27, so this is positive from a fundamental perspective. We also expect higher taxes to be on the agenda, which boosts demand for tax shelters like municipal bonds.

Preliminary Census Results

- The preliminary results of the 2020 Census are showing that Utah was the fastest growing state over the past decade on a percentage basis, posting a growth rate of 17.4%. Texas had the second-fastest growth rate at 16.4% followed by Florida at 15.2%. California grew by 5.6% over the period, but experienced a 69,532 population loss between 2019 and 2020. Although the actual growth figures over the past decade have yet to be announced, estimates by the Brookings Institution indicate the figure could be the lowest 10-year national growth rates since the first census was recorded in 1790.

Municipal Yields

Term	Municipal Yield	Δ MTD	Δ YTD	Tax-Equivalent Yield	Municipal/Treasury Ratio (%)	Δ MTD	Δ YTD
1 Year	0.13	0.00	0.00	0.20	134.85	9.85	9.85
2 Year	0.15	0.01	0.01	0.23	112.87	-2.74	-2.74
5 Year	0.26	0.04	0.04	0.40	53.80	-7.18	-7.18
10 Year	0.78	0.07	0.07	1.20	69.94	-7.81	-7.81
30 Year	1.46	0.07	0.07	2.25	77.94	-6.57	-6.57

Taxable

Investment Grade Supply Outpaces Estimates

- Supply came in above the highest dealer estimate last week, totaling \$54.8 billion from 31 deals and marking the second-largest first week of the year ever. Banks, particularly Yankees, were particularly active, accounting for about half of the total. Broadcom surprised the market with a \$10 billion deal early in the week that priced with 8-10 bps of concession, a rarity these days. Dealers estimate this week's volume at about \$25-30 billion.

The FCC's C-Band Auction Surpassed Forecasts

- With the C-Band spectrum auction value skyrocketing, expectations for supply from the telecom and cable industries increased as well, pushing spreads on AT&T and the like wider after they underperformed over the past few weeks.



Sectors¹

	Duration	Spread	Δ MTD	Δ YTD	52-Week High	52-Week Low
Investment Grade Corporate	8.73	95	-1	-1	373	93
-Financial	6.60	82	-1	-1	378	80
-Industrial	9.47	100	-1	-1	383	99
-Utility	11.03	106	0	0	298	95
High Yield	3.61	348	-12	-12	1100	315
Securitized	2.37	26	-16	-16	135	26
-Commercial Mortgage-Backed Securities	5.27	79	-2	-2	260	64
-Asset-Backed Securities	2.08	31	-2	-2	325	27
-Mortgage-Backed Securities	2.13	22	-17	-17	132	22

International Yields

	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	-0.70	-0.12	-0.13	-0.67	-0.41	-0.53	--
5 Year	-0.73	-0.11	-0.04	-0.65	-0.02	-0.40	0.07
10 Year	-0.52	0.04	0.29	-0.32	0.53	0.04	0.60
30 Year	-0.13	0.60	0.87	0.37	1.39	0.85	--

Equity

	Current	Δ MTD	Δ YTD
Dow Jones	31,097.97	491.49	491.49
S&P 500	3,824.68	68.61	68.61
Nasdaq	13,201.98	313.70	313.70

Volatility

	Current	Δ MTD	Δ YTD
VIX	21.56	-1.19	-1.19
MOVE	44.81	-4.17	-4.17

Commodities

	Current	Δ MTD	Δ YTD
CRB	173.35	5.55	5.55
Gold	1,835.40	-59.70	-59.70
Oil	52.24	3.72	3.72
Gas	154.23	13.22	13.22

Central Bank Rates

	Current	Δ MTD	Δ YTD
United States	0.25	0.00	0.00
Europe	0.00	0.00	0.00
United Kingdom	0.10	0.00	0.00
Japan	0.10	0.00	0.00
Canada	0.25	0.00	0.00
TED Spread	15.3	-2.67	-2.67

Currency

	Current	Δ MTD	Δ YTD
U.S. Dollar	90.098	0.161	0.161
Euro	1.222	0.000	0.000
Pound	1.357	-0.010	-0.010
Yen	103.940	0.740	0.740
Canadian Dollar	1.270	-0.003	-0.003
Franc	0.886	-0.001	-0.001

As of 01.08.2021. Source: Bloomberg. Please see page 3 for important disclosures and definitions.

¹Sectors are represented by the following indices: Investment Grade Corporate – Bloomberg Barclays U.S. Corporate Bond; Financial – Bloomberg Barclays U.S. Aggregate Investment Grade Finance; Industrial – Bloomberg Barclays U.S. Aggregate Investment Grade Industrial; Utility – Bloomberg Barclays U.S. Investment Grade Utility; High Yield – Bloomberg Barclays U.S. Corporate High Yield; Securitized – Bloomberg Barclays U.S. Securitized; Commercial Mortgage-Backed Securities – Bloomberg Barclays U.S. Aggregate CMBS; Asset-Backed Securities – Bloomberg Barclays U.S. Aggregate ABS; Mortgage-Backed Securities – Bloomberg Barclays U.S. Aggregate MBS.



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

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

6-Year Noncall 5: a callable bond with a period of call protection when it is first issued during which the bond cannot be called. 6-year noncall 5 means that the bond has a stated maturity of 6 years and is not callable for the first 5 years.

Index Definitions

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

Bloomberg Barclays U.S. Aggregate ABS Index: A component of the Bloomberg Barclays U.S. Aggregate Index, the Bloomberg Barclays 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 Barclays U.S. Aggregate CMBS Index: A component of the Bloomberg Barclays U.S. Aggregate Index, the Bloomberg Barclays U.S. Aggregate CMBS Index includes investment grade securities that are ERISA-eligible under the underwriter's exemption.

Bloomberg Barclays U.S. Aggregate MBS Index: A component of the Bloomberg Barclays U.S. Aggregate Index, the Bloomberg Barclays 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 Barclays U.S. Aggregate Investment Grade Finance Index: A component of the Bloomberg Barclays U.S. Corporate Bond Index, the Bloomberg Barclays U.S. Aggregate Investment Grade Finance Index measures publicly issued investment grade U.S. corporate bonds in the Finance sector.

Bloomberg Barclays U.S. Aggregate Investment Grade Industrial Index: A component of the Bloomberg Barclays U.S. Corporate Bond Index, the Bloomberg Barclays U.S. Aggregate Investment Grade Finance Index measures publicly issued investment grade U.S. corporate bonds in the Industrial sector.

Bloomberg Barclays U.S. Aggregate Investment Grade Utility Index: A component of the Bloomberg Barclays U.S. Corporate Bond Index, the Bloomberg Barclays U.S. Aggregate Investment Grade Finance Index measures publicly issued investment grade U.S. corporate bonds in the Utility sector.

Bloomberg Barclays U.S. Corporate Bond Index: The Bloomberg Barclays 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 Barclays U.S. Corporate High Yield Bond Index: The Bloomberg Barclays 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 Barclays U.S. Securitized Index: Bloomberg Barclays U.S. Securitized Index is comprised of predominantly MBS Agency securities, but also includes ABS, CMBS and covered securities. Bloomberg Barclays U.S. Treasury Strips 20+ Year Index tracks the performance of zero coupon U.S. Treasuries with a duration of 20 years or more.

CRB: The Commodity Research Bureau (CRB) Index acts as a representative indicator of today's global commodity markets. It measures the aggregated price direction of various commodity sectors.

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 less than 10 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 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.

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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