

# Bond Market Review

January 18, 2022

## Summary

- US treasury rates moved higher and the curve flattened last week as the market prices in a more aggressive Federal Reserve (Fed) and the expectation of a March rate hike continues to rise. 2-year yields surpassed 1% for the first time since February 2020 and 10-year yields rose above 1.80%.
- AAA-rated tax-free yields increased across the curve in a bear flattening fashion last week with most of the adjustment occurring inside 5-years which was the richest segment. Despite the strong January reinvestment flows, the path of interest rates is beginning to concern muni investors based on slowing mutual fund inflows and redemptions from high yield funds.
- Corporate bonds widened last week as rate volatility, equity weakness, concerns about Fed hawkishness, Russia/Ukraine headlines and another heavy issuance calendar put pressure on credit spreads. For the week, investment grade widened 4 bps to 96 bps producing negative -29 bps excess return.

## Treasury Yields

Term	Treasury Yield	Δ MTD	Δ YTD
1 Year	0.48	0.10	0.10
2 Year	0.97	0.23	0.23
5 Year	1.56	0.29	0.29
10 Year	1.78	0.27	0.27
30 Year	2.12	0.22	0.22

## Tax-Free

### S&P Maintains Stable Outlook for Transportation & Healthcare

- In separate reports released last week, S&P is holding both the transportation and healthcare public finance sectors on stable outlook. In the transportation report S&P stated "our view of business conditions and credit quality across the U.S. public transportation infrastructure is positive for airports; stable for toll roads, ports, mass transit, and Grant Anticipation Revenue Vehicles (GARVEES); but negative for parking." In the healthcare space the S&P also stated "our view remains stable as the sector continues to weather the pandemic well- albeit with the benefit of significant federal aid."

### Kroll Bond Rating Agency Revises Outlook for New Jersey to Positive

- Kroll Bond Rating Agency revised the outlook on New Jersey to positive from stable and affirmed its "A" rating ahead of a \$750mm issue for the New Jersey Transportation Trust Fund Authority scheduled to price this week. According to Kroll, the positive outlook revision "recognizes the appropriation of the full actuarial pension contribution in fiscal 2022 for the first time in 26 years, coupled with a trend of improved reserves since fiscal 2019."

### NYC Seeks Additional Borrowing Capacity

- New York City's new mayor, Eric Adams, plans to seek legislation to boost the city's borrowing capacity by \$19 billion. The move is opposed by the city's new comptroller, Brad Lander, who stated the additional debt isn't necessary or fiscally prudent. The additional borrowing would give the city a significant boost to its debt capacity which is now about \$43 billion, but is set to fall over the coming years.

## Municipal Yields

Term	Municipal Yield	Δ MTD	Δ YTD	Tax-Equivalent Yield	Municipal/Treasury Ratio (%)	Δ MTD	Δ YTD
1 Year	0.33	0.19	0.19	0.51	69.39	32.17	32.17
2 Year	0.46	0.22	0.22	0.71	47.58	14.80	14.80
5 Year	0.81	0.22	0.22	1.25	52.00	5.29	5.29
10 Year	1.18	0.15	0.15	1.82	66.14	-2.07	-2.07
30 Year	1.64	0.15	0.15	2.52	77.29	-1.00	-1.00

## Taxable

### Banks Kickoff Corporate Earnings

- JP Morgan reported disappointing earnings to kickoff the season, posting higher than expected employee costs. Wells Fargo posted an earnings beat for the quarter. Sherwin Williams pre-announced weaker numbers on labor and raw material shortages driven by COVID. The company is increasing North American prices by 12% in response.

### Energy Under Pressure

- Western Technology Investment continues to climb with geopolitical tensions in the Middle East rising following an attack by Yemen's Houthi militia on the United Arab Emirates. In Europe there's a threat of a natural gas shortage if the crisis between Russia and Ukraine escalates.

### Heavy New Issue Corporate Calendar Weighs on Spreads

- In just the second week of the year, corporates have already surpassed \$100 billion in issuance. January issuance should easily hit and probably surpass the \$130-140 billion estimates coming into this month. Deal subscriptions and concessions have been fairly weak so far, but that may be explained by the composition of the issuers seen so far - namely yankee banks, 144a funding agreement backed insurance deals, and Business Development Companies (BDCs). These are names that don't usually draw huge books because everyone already owns the names or doesn't cover them. This week should remain busy with the US money centers likely to hit the market. Estimates range from \$30-\$40 billion.

### Negative Corporate Fund Flows

Flows turned negative again with a \$940 million outflow in investment grade and a \$1.6 billion outflow in high yield investments. Flows in cash bonds were pretty balanced with a slight tilt towards client net buying, signaling that the weakness in corporate spreads this week was more macro-based than anything else because estimated dealer inventories are still below average.

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Sectors <sup>1</sup>						
	Duration	Spread	Δ MTD	Δ YTD	52- Week High	52-Week Low
Investment Grade Corporate	8.53	96	4	4	101	80
- Financial	6.43	88	5	5	91	71
- Industrial	9.34	98	3	3	105	83
- Utility	10.42	107	0	0	112	93
High Yield	3.93	293	10	10	362	262
Securitized	5.33	38	4	4	40	11
- Commercial Mortgage-Backed Securities	5.05	67	-1	-1	74	54
- Asset-Backed Securities	2.29	34	-4	-4	41	22
- Mortgage-Backed Securities	5.38	36	5	5	38	7

International Yields							
	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	-0.56	-0.07	0.84	-0.62	-0.09	-0.56	--
5 Year	-0.34	-0.03	1.00	-0.13	0.49	-0.06	0.77
10 Year	-0.03	0.14	1.19	0.36	1.29	0.66	1.60
30 Year	0.27	0.71	1.30	0.96	2.09	1.44	--

Equity			
	Current	Δ MTD	Δ YTD
Dow Jones	35,911.81	-426.49	-426.49
S&P 500	4,662.85	-103.33	-103.33
Nasdaq	14,893.75	-751.22	-751.22

Volatility			
	Current	Δ MTD	Δ YTD
VIX	19.19	1.97	1.97
MOVE	76.59	-0.51	-0.51

Commodities			
	Current	Δ MTD	Δ YTD
CRB	245.43	13.06	13.06
Gold	1,816.50	-12.10	-12.10
Oil	83.82	8.61	8.61
Gas	241.90	19.44	19.44

Currency			
	Current	Δ MTD	Δ YTD
U.S. Dollar	95.258	-0.412	-0.412
Euro	1.141	0.004	0.004
Pound	1.365	0.012	0.012
Yen	114.630	-0.450	-0.450
Canadian Dollar	1.252	-0.012	-0.012
Franc	0.914	0.001	0.001

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	0.25	0.00	0.00
Japan	0.10	0.00	0.00
Canada	0.25	0.00	0.00
TED Spread	13.0	-4.90	-4.90

As of 01.14.2022. Source: Bloomberg. Please see page 3 and 4 for important disclosures and definitions.

<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

**Grant Anticipation Revenue Vehicles:** securities (debt instruments) issued when moneys are anticipated from a specific source to advance the upfront funding of a particular need

**Green Bond:** a type of fixed-income instrument that is specifically earmarked to raise money for climate and environmental projects

**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.

**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.

**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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