



## Summary

- U.S. Treasury yields rose last week on cautious hopes that lawmakers will reach a compromise on a stimulus deal before the election. The yield curve continued its bear steepening trend with long-term bond yields rising more than short-term bonds.
- Tax-exempt bonds were cheaper across the curve as an elevated new issue calendar and higher Treasury yields drove the market. The weaker tone enticed investors as evidenced by the New York City \$1.04 billion general obligation deal that traded 4-10 basis points (bps) stronger from 2033-2043 after the repricing. Five percent coupons outperformed fours, yet both are shedding concessions that grew by 20-30 bps over the last few weeks leading into the new deal.
- Within credit, the technical landscape continued to rebound from the quarter-end selloff. Sizable inflows in investment grade and high yield helped drive spreads tighter with investment grade spreads ending the week 6 bps tighter to 128 bps and high yield spreads tightened 41 bps to 469 bps.

## Treasury Yields

Term	Treasury Yield	Δ MTD	Δ YTD
1 Year	0.13	0.01	-1.44
2 Year	0.15	0.03	-1.42
5 Year	0.34	0.06	-1.35
10 Year	0.77	0.09	-1.14
30 Year	1.57	0.12	-0.82

## Tax-Exempt

- President Donald Trump said he wants an even bigger stimulus than what Democrats have offered so far; this was yet another turnabout in his position and one that seemed to undercut his own negotiators. "I would like to see a bigger stimulus package, frankly, than either the Democrats or the Republicans are offering," Trump said on Rush Limbaugh's radio program, saying he's going in the "exact opposite" direction from his earlier stances. Shortly after, White House Communications Director Alyssa Farah told reporters the administration wants a package below \$2 trillion, sowing further confusion. However, this makes it appear that aid to states is more likely, possibly sooner rather than later, which could lead to some lower quality credits like Metropolitan Transit Authority (MTA), Illinois (IL), and New York City (NYC) recovering some of their recent losses. Senator Mitch McConnell says it is unlikely that anything will happen before the election, so this is as clear as mud.
- Michigan Governor Whitmer signed a \$63 billion state budget for fiscal year 2021, which began October 1. Though audited figures will not be available for approximately nine months, the state was mostly able to absorb the hit to revenues in fiscal year 2020 as revenue projections produced last May for the balance of the fiscal year were not nearly as dire as predicted. The fiscal year 2021 budget holds funding levels steady for downstream local governments at the fiscal year 2020 levels, which will be credit positive for the state's local governments.
- Illinois Governor J.B Pritzker said the state may need to tap the Fed's liquidity facility to help close a \$4.1 billion deficit in fiscal year 2021 if federal assistance doesn't arrive and voters reject a state constitutional provision to move to a progressive tax system in next month's election. A final determination will be made after next month's referendum.

## Municipal Yields

Term	Municipal Yield	Δ MTD	Δ YTD	Tax-Equivalent Yield	Municipal/Treasury Ratio (%)	Δ MTD	Δ YTD
1 Year	0.14	0.02	-0.90	0.22	110.32	7.50	43.91
2 Year	0.15	0.02	-0.89	0.23	98.10	-4.26	31.82
5 Year	0.29	0.03	-0.80	0.45	85.95	-7.98	21.49
10 Year	0.95	0.08	-0.49	1.46	122.79	-4.41	47.69
30 Year	1.73	0.11	-0.36	2.66	110.07	-1.25	22.61

## Taxable

- Investment grade issuance came in a bit above expectations last week as there were a few bigger deals from Lowe's (\$4 billion tender/refinance) and LyondellBasell (\$3.9 billion mergers and acquisitions financing). \$25.7 billion priced with books 5.0x oversubscribed. Not only did these deals see negative concessions and big moves from initial price talk, they performed really well on the break. Expectations for this week are in the \$15-20 billion range, with some variance around that due to the banks coming out of earnings blackouts starting Tuesday.
- Dealers were heavy buyers of investment grade credit and took down a net \$1.9 billion of new inventory, most of it in the 7-12 year space. Asian overnight buying of the long end picked up substantially with the move up in rates and overseas investors were net buyers of \$1.1 billion in investment grade bonds, all of it longer than seven years.
- IBM announced it will spin off its managed infrastructure services unit of its Global Technology Services division into a new public company, a slight credit negative, and IBM spreads were a few bps wider.



**Sectors<sup>1</sup>**

	Duration	Spread	Δ MTD	Δ YTD	52- Week High	52-Week Low
Investment Grade Corporate	8.71	126	-10	33	373	93
-Financial	6.61	116	-10	36	378	80
-Industrial	9.43	131	-9	32	383	99
-Utility	11.05	134	-7	37	298	95
High Yield	3.64	469	-48	133	1100	315
Securitized	2.45	59	-5	17	135	39
-Commercial Mortgage-Backed Securities	5.29	104	-2	32	260	64
-Asset-Backed Securities	2.14	41	0	-3	325	27
-Mortgage-Backed Securities	2.23	56	-5	17	132	28

**International Yields**

	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	-0.71	-0.13	-0.02	-0.68	-0.33	-0.55	--
5 Year	-0.73	-0.09	-0.03	-0.62	0.10	-0.35	0.35
10 Year	-0.53	0.03	0.28	-0.27	0.72	0.18	0.87
30 Year	-0.09	0.64	0.85	0.43	1.61	0.98	--

**Equity**

	Current	Δ MTD	Δ YTD
Dow Jones	28,586.90	805.20	48.46
S&P 500	3,477.13	114.13	246.35
Nasdaq	11,579.94	412.43	2,607.34

**Volatility**

	Current	Δ MTD	Δ YTD
VIX	25.19	-1.18	11.41
MOVE	57.52	18.31	-0.76

**Commodities**

	Current	Δ MTD	Δ YTD
CRB	151.16	2.65	-34.63
Gold	1,926.20	30.70	403.10
Oil	40.60	0.38	-20.46
Gas	120.32	2.16	-48.73

**Central Bank Rates**

	Current	Δ MTD	Δ YTD
United States	0.25	0.00	-1.50
Europe	0.00	0.00	0.00
United Kingdom	0.10	0.00	-0.65
Japan	0.10	0.00	0.00
Canada	0.25	0.00	-1.50
TED Spread	13.0	-0.33	-23.45

**Currency**

	Current	Δ MTD	Δ YTD
US Dollar	93.057	-0.829	-3.388
Euro	1.183	0.011	0.061
Pound	1.304	0.012	-0.022
Yen	105.620	0.140	-3.140
Canadian Dollar	1.312	-0.020	0.013
Franc	0.911	-0.010	-0.056

As of 10.09.2020. Source: Bloomberg. Please see page 3 for important disclosures and definitions.

<sup>1</sup>Sectors 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 measure of the sensitivity of the price of a bond or other debt instrument to a change in interest rates

**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 US dollars

**Yield:** the earnings generated and realized on an investment over a particular period of time

**Yield Spread:** the difference between the quoted rates of return between two different investment vehicles; also called the credit spread

### Index Definitions

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

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

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

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

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

**Bloomberg Barclays US Corporate Bond Index:** The Bloomberg Barclays US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by US and non-US industrial, utility and financial issuers.

**Bloomberg Barclays US Corporate High Yield Bond Index:** The Bloomberg Barclays US 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 US Securitized Index:** Bloomberg Barclays US Securitized Index is comprised of predominantly MBS Agency securities, but also includes ABS, CMBS and covered securities. Bloomberg Barclays US Treasury Strips 20+ Year Index tracks the performance of zero coupon US 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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