



Summary

- U.S. Treasuries advanced last week as rising COVID-19 infections in the U.S. and fading optimism on a near-term stimulus package pushed yields lower. The 10-year Treasury yield rallied 5 basis points (bps) despite stronger-than-expected retail sales and inflation data.
- Corporate spreads were basically flat for the week, as issuance remained low while heavy retail inflows continued and overnight buying out of Asia picked up. For the week investment-grade (IG) spreads ended the week 1 bp tighter to 125 bps, within just 1 bp of the post-March tightening. High yield (HY) widened 2 bps to 471 bps.
- Tax-exempt yields remained largely steady in the face of near-record new-issue supply and a stronger Treasury market. The strong demand for muni's is being driven by the outlook for higher taxes and concerns of increased volatility around the election.

Treasury Yields

Term	Treasury Yield	Δ MTD	Δ YTD
1 Year	0.12	0.00	-1.45
2 Year	0.14	0.02	-1.43
5 Year	0.32	0.04	-1.37
10 Year	0.75	0.06	-1.17
30 Year	1.53	0.07	-0.86

Tax-Exempt

State Revenues Stronger than Expected

- Data from the Urban Institute show state revenues fell 6%, or \$31B, between March and August, compared to the same period last year. This drop is much less than was expected from state budget revisions produced earlier this spring, given the depth of the economic contraction. New York City, for example, saw total tax revenues decline by just 3.5% as property tax growth helped offset the sharp decline in sales-tax receipts. August saw a return to year-over-year growth, with state revenues rising by 1.1% as states gradually began to reopen.

Groups Lobbying for Additional Federal Support

- With additional fiscal stimulus at a stalemate, various muni issuer groups including the Government Financial Officers Association (GFOA) are lobbying the Fed to expand the scope of its lending facility. The GFOA says the Fed should create a secondary market purchasing program similar to the corporate credit facility. The effort comes as various groups worry about heightened market volatility around the election.

Travel Continues to Improve

- More Americans are starting to fly again. 5.7 million travelers passed through checkpoints for the week ending October 10, the most since the pandemic began. Rising COVID-19 cases are an obvious headwind to this trend continuing.

Municipal Yields

Term	Municipal Yield	Δ MTD	Δ YTD	Tax-Equivalent Yield	Municipal/Treasury Ratio (%)	Δ MTD	Δ YTD
1 Year	0.15	0.03	-0.89	0.23	125.84	23.01	59.43
2 Year	0.16	0.03	-0.88	0.25	111.81	9.45	45.53
5 Year	0.28	0.02	-0.81	0.43	87.04	-6.89	22.58
10 Year	0.94	0.07	-0.50	1.45	126.07	-1.12	50.98
30 Year	1.72	0.10	-0.37	2.65	112.51	1.19	25.05

Taxable

Muted Supply a Source of Strength for the Market

- IG new issuance ended the week with \$16.5B priced over eight deals. The majority of the week's supply priced on Friday, as Bank of America surprised with a \$8.25B deal, the second largest bank deal ever. With earnings blackouts firmly in place, this week is likely to be relatively light as well. The average dealer forecast is for \$15B.

Heavy Retail Inflows in Credit

- Despite concerns about the resurgence in COVID-19 cases in the U.S. and Europe and fading hope for a fiscal stimulus package, investors continued to pour money into credit. With the Fed still in the background and rates at zero, investors remain comfortable with credit. IG inflows totaled \$8.7B for the week. Inflows to high yield for the week through Thursday were \$1.6B, taking the two-week total inflow to \$6.0B and unwinding 80% of the outflow in the last two weeks of September.

Energy Remained Relatively Firm

- Despite some growth-related weakness in oil prices, energy remained firm on the week. Headlines over a potential deal between ConocoPhillips and Concho emerged, which would be the third E&P M&A deal since mid-summer.



Sectors¹

	Duration	Spread	Δ MTD	Δ YTD	52- Week High	52-Week Low
Investment Grade Corporate	8.74	125	-11	32	373	93
-Financial	6.61	115	-11	35	378	80
-Industrial	9.46	130	-10	31	383	99
-Utility	11.10	131	-10	34	298	95
High Yield	3.67	471	-46	135	1100	315
Securitized	2.37	61	-3	19	135	39
-Commercial Mortgage-Backed Securities	5.28	105	-1	33	260	64
-Asset-Backed Securities	2.14	41	0	-3	325	27
-Mortgage-Backed Securities	2.14	58	-3	19	132	28

International Yields

	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	-0.78	-0.13	-0.06	-0.70	-0.36	-0.56	--
5 Year	-0.80	-0.11	-0.08	-0.69	0.05	-0.40	0.30
10 Year	-0.62	0.03	0.18	-0.35	0.65	0.12	0.79
30 Year	-0.20	0.62	0.73	0.34	1.51	0.91	--

Equity

	Current	Δ MTD	Δ YTD
Dow Jones	28,606.31	824.61	67.87
S&P 500	3,783.81	120.81	253.03
Nasdaq	11,671.56	504.05	2698.96

Volatility

	Current	Δ MTD	Δ YTD
VIX	27.41	1.04	13.63
MOVE	57.25	18.04	-1.03

Commodities

	Current	Δ MTD	Δ YTD
CRB	151.48	2.97	-34.31
Gold	1,906.40	10.90	383.30
Oil	40.88	0.66	-20.18
Gas	116.88	-1.28	-52.17

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	12.70	-0.66	-23.77

Currency

	Current	Δ MTD	Δ YTD
U.S. Dollar	93.682	-0.204	-2.763
Euro	1.172	0.000	0.051
Pound	1.292	0.000	-0.034
Yen	105.400	-0.080	-3.360
Canadian Dollar	1.319	-0.013	0.020
Franc	0.915	-0.006	-0.052

As of 10.16.2020. 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 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 U.S. 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 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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