

Bond Market Review

October 4, 2021

Summary

- Ten-year Treasury yields increased to 1.56% intraday on Tuesday (11 basis points (bps) higher than the previous Friday), as supply chain issues seem to build and energy prices continue to rise in Europe and Asia, all of which is inflationary. The market also became increasingly focused on the potential for a stalemate in Washington on social infrastructure spending and a possible breach of the debt ceiling.
- Tax-exempt municipals performed poorly during the last week of Q3 2021, as the curve steepened 17 bps with yields increasing five bps for one-year bonds and 22 bps for ten-year bonds. September's total return of -0.50% for the ICE BofA ML 1-10 Year Municipal Index marks the second consecutive month of negative returns. As a result of the weakness, yields and relative value ratios cheapened to more sustainable levels.
- Corporate bonds widened in sympathy with the volatility in rates and the equity market last week. Investment grade spreads ended the week two bps wider to 84 bps, and yields rose three bps to 2.1%. High yield spreads ended the week 16 bps wider to 293 bps, and yields rose 14 bps to 4.0%.

Treasury Yields

| Term | Treasury Yield | Δ MTD | Δ YTD |
|---------|----------------|-------|-------|
| 1 Year | 0.07 | 0.00 | -0.03 |
| 2 Year | 0.26 | -0.01 | 0.14 |
| 5 Year | 0.93 | -0.04 | 0.57 |
| 10 Year | 1.46 | -0.03 | 0.55 |
| 30 Year | 2.03 | -0.02 | 0.38 |

Tax-Free

Toll Operators Report Increased Traffic

- A report released by S&P this week indicates that non-profit toll operators are seeing traffic around 90% of 2019 levels. In some places, traffic is already back to pre-pandemic volumes, based on U.S. Department of Transportation data. Expectations are for most road operators to be back to 2019 traffic volumes in 2022 and grow by 5% in 2023, given the pick-up in consumer demand.

Higher Ed Endowments Report Strong Performance

- Higher ed institutions, overall, saw the best returns on their endowments since 1986. Duke University is the latest school to report record endowment performance in fiscal year 2021. The endowment rose by 56% on the year to a record \$12.7 billion. Last week, Washington University reported a 65% endowment return, along with Vanderbilt University posting a 57% gain.

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 | 176.87 | -12.91 | 51.87 |
| 2 Year | 0.17 | 0.00 | 0.03 | 0.26 | 64.44 | 2.74 | -51.16 |
| 5 Year | 0.36 | 0.00 | 0.14 | 0.55 | 38.79 | 1.48 | -22.18 |
| 10 Year | 1.14 | 0.00 | 0.43 | 1.75 | 78.00 | 1.35 | 0.25 |
| 30 Year | 1.67 | 0.00 | 0.28 | 2.57 | 82.32 | 0.65 | -2.18 |

Taxable

Corporate Bond Supply Slightly Exceeded Expectations

- Investment grade supply for the week came in slightly ahead of expectations at \$23 billion, perhaps due to some issuance getting pulled forward by rising rates. Charter brought the largest deal of the week at \$4 billion. September supply finished at \$158 billion, which seems heavy but didn't feel that way because most of it came in a three-day period right after Labor Day. The rest of the month was fairly normal. The average estimate for October is \$90 billion, which is obviously a big drop-off from last month, but relatively high for October by historical standards. Estimates for this week are in the \$20-25 billion range.

Inflows Remain Positive in Credit

- Fund flows in investment grade and high yield remained positive last week with \$3.1 billion and \$80 million flowing into the sectors, respectively. Trading volume surged into quarter-end, with an average of over \$30 billion per day trading over the first four days of the week. Activity was tilted toward better client selling and dealers ended up adding about \$1.2 billion in new investment grade inventory, contributing to the weakness we saw over the last few days.

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| Sectors ¹ | | | | | | |
|---|----------|--------|-------|-------|---------------|-------------|
| | Duration | Spread | Δ MTD | Δ YTD | 52- Week High | 52-Week Low |
| Investment Grade Corporate | 8.76 | 84 | 0 | -12 | 131 | 80 |
| - Financial | 6.59 | 75 | 0 | -8 | 120 | 71 |
| - Industrial | 9.59 | 88 | 0 | -13 | 135 | 83 |
| - Utility | 10.53 | 97 | 1 | -9 | 138 | 93 |
| High Yield | 3.95 | 293 | 4 | -67 | 510 | 262 |
| Securitized | 4.60 | 29 | 0 | -13 | 64 | 11 |
| - Commercial Mortgage-Backed Securities | 5.12 | 61 | 0 | -20 | 105 | 54 |
| - Asset-Backed Securities | 2.26 | 30 | 1 | -3 | 41 | 22 |
| - Mortgage-Backed Securities | 4.58 | 26 | -1 | -13 | 61 | 7 |

| International Yields | | | | | | | |
|----------------------|---------|-------|------|--------|-------|-------|--------|
| | Germany | Japan | U.K. | France | Italy | Spain | Greece |
| 2 Year | -0.70 | -0.11 | 0.40 | -0.69 | -0.48 | -0.59 | -- |
| 5 Year | -0.58 | -0.09 | 0.62 | -0.36 | 0.04 | -0.33 | 0.07 |
| 10 Year | -0.22 | 0.05 | 1.00 | 0.12 | 0.81 | 0.42 | 0.85 |
| 30 Year | 0.26 | 0.67 | 1.37 | 0.91 | 1.78 | 1.32 | -- |

| Equity | | | |
|-----------|-----------|--------|---------|
| | Current | Δ MTD | Δ YTD |
| Dow Jones | 34,326.46 | 482.54 | 3719.98 |
| S&P 500 | 4,357.04 | 49.50 | 600.97 |
| Nasdaq | 14,566.70 | 118.12 | 1678.42 |

| Volatility | | | |
|------------|---------|-------|-------|
| | Current | Δ MTD | Δ YTD |
| VIX | 21.15 | -1.99 | -1.60 |
| MOVE | 57.38 | -3.69 | 8.40 |

| Commodities | | | |
|-------------|----------|-------|---------|
| | Current | Δ MTD | Δ YTD |
| CRB | 230.38 | 1.46 | 62.59 |
| Gold | 1,758.40 | 1.40 | -136.70 |
| Oil | 75.88 | 0.85 | 27.36 |
| Gas | 225.00 | 5.60 | 83.99 |

| Currency | | | |
|-----------------|---------|--------|--------|
| | Current | Δ MTD | Δ YTD |
| U.S. Dollar | 94.035 | -0.195 | 4.098 |
| Euro | 1.160 | 0.002 | -0.062 |
| Pound | 1.355 | 0.007 | -0.013 |
| Yen | 111.050 | -0.240 | 7.850 |
| Canadian Dollar | 1.265 | -0.003 | -0.008 |
| Franc | 0.931 | -0.001 | 0.045 |

| 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 | 10.3 | 0.48 | -7.74 |

As of 10.01.2021. Source: Bloomberg. Please see page 3 for important disclosures and definitions.

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

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

Index Definitions

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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