

Bond Market Review

November 22, 2021

Summary

- Treasury rates fell on Friday amid concerns of rising COVID-19 outbreaks in Europe. 30-year rates fell six basis points (bps) on Friday to 1.91%. President Biden announced this morning he will nominate Jerome Powell for a second term as Federal Reserve Chair and Lael Brainard as Federal Reserve Vice Chair, replacing Richard Clarida.
- Municipals lagged Treasuries across the curve last week and Municipal-to-Treasury ratios rose slightly to 51% in five-years, at 71% in ten-years and 81% in 30-years. The weekly inflows remained strong at 1.399 billion bringing the 2021 inflows to 45 weeks with one outflow. Heading into the holiday week, issuance for the week is down and the 30-day visible supply is at \$4.62 billion while redemptions are at \$12.72 billion.
- Investment grade credit broke out of the recent range in spreads last week as market technicals were impacted by over \$50 billion in new issuance to a market that was already showing signs of weariness. Increasing COVID-19 concerns also reared their ugly head again, leading to some underperformance in reopening sectors, including oil. For the week, investment grade spreads widened four bps to 92 bps while high yield spreads widened 17 bps to 301 bps.

Treasury Yields

Term	Treasury Yield	Δ MTD	Δ YTD
1 Year	0.15	0.03	0.04
2 Year	0.51	0.01	0.39
5 Year	1.22	0.04	0.86
10 Year	1.55	0.00	0.63
30 Year	1.91	-0.02	0.27

Tax-Free

Sales Tax Revenue Increase

- Sales tax revenue has increased 14% year-over-year to \$27.5 billion in September, with 40 states reporting their numbers, according to the Census Bureau. Georgia saw a 67.3% increase, the largest increase of any state that reported. State sales taxes have realized a positive boost given the receipt of online sales taxes in the wake of the Wayfair vs. South Dakota case. Ironically, e-commerce, which had long been the source consumers turned toward for discounts and less expensive goods pre-pandemic, has now become a steady source of inflation. Online prices rose 1.9% in October year-over-year, making it the 17th consecutive month of increases following more than six years of declines according to Adobe Digital Price Index.

Rating Action

- Illinois' outlook was revised to positive from stable by S&P 500, holding the credit rating at BBB.

California's Surplus

- New estimates from California's nonpartisan legislative analyst's office indicate the state could close fiscal year 2022 with a \$31 billion surplus in addition to forecasting surpluses for many years to come. In fact, California's surplus is getting to be so large that a little-known law referred to as the "Gann Limit," passed back in 1979, may finally need to be exercised. The Gann Limit prohibits the state from spending more tax dollars per Californian than it did in 1978, on an inflation-adjusted basis, of course. The law does allow on spending above the limit in certain areas. Based on the \$31 billion estimate, state taxpayers could end up receiving a \$14 billion refund windfall if these budget estimates materialize.

Municipal Yields

Term	Municipal Yield	Δ MTD	Δ YTD	Tax-Equivalent Yield	Municipal/Treasury Ratio (%)	Δ MTD	Δ YTD
1 Year	0.15	0.00	0.02	0.23	101.90	-23.10	-23.10
2 Year	0.25	0.00	0.11	0.38	49.34	-0.66	-66.27
5 Year	0.61	-0.03	0.39	0.94	49.94	-4.29	-11.03
10 Year	1.09	-0.12	0.38	1.68	70.50	-7.57	-7.25
30 Year	1.54	-0.15	0.15	2.37	80.63	-6.94	-3.88

Taxable

Moody's Upgraded Several Oil Companies from High Yield to Investment Grade

- Moody's was active in upgrading several energy holdings last week, including Ovintiv which will move to the investment grade index next month. Diamondback Energy and Devon Energy were also upgraded to Baa3 by Moody's, but were already investment grade at the other two agencies. There have been \$6.7 billion in rising stars this month (Ovintiv and Microchip Technologies) and Bank of America has another \$90 billion of potential rising stars on their radar. Ford was also upgraded to positive outlook by S&P at BB+ and is another potential rising star over the next few months.

Investment Grade Issuance Exploded Last Week

- Issuance exploded to the upside to make last week the third-busiest week of the year with \$56.8 billion pricing, pushing the November total over \$100 billion. The heavy volume was seemingly driven by issuers rushing to get ahead of the Thanksgiving holiday and the typical December slow period. There were two large mergers and acquisitions deals, something of a rarity these days, in Baxter (\$7.8 billion) and Canadian Pacific (\$6.7 billion). Dealer balance sheets swelled and investors backed away from the market. Thursday's deals for the Barings BDC, Inc. and Valero Energy barely moved off their initial price talks and Valero actually widened substantially on the break. Supply should be negligible this week with the Thanksgiving holiday.

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Sectors ¹						
	Duration	Spread	Δ MTD	Δ YTD	52- Week High	52-Week Low
Investment Grade Corporate	8.72	92	5	-4	109	80
- Financial	6.54	83	4	0	96	71
- Industrial	9.55	95	5	-6	114	83
- Utility	10.61	102	6	-4	114	93
High Yield	4.01	301	14	-59	418	262
Securitized	4.70	32	5	-10	53	11
- Commercial Mortgage-Backed Securities	5.08	65	5	-16	95	54
- Asset-Backed Securities	2.33	40	4	7	40	22
- Mortgage-Backed Securities	4.70	29	5	-10	50	7

International Yields							
	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	-0.78	-0.13	0.49	-0.80	-0.34	-0.67	--
5 Year	-0.64	-0.08	0.64	-0.43	0.09	-0.34	0.34
10 Year	-0.34	0.08	0.88	0.01	0.86	0.38	1.17
30 Year	-0.01	0.68	1.02	0.72	1.74	1.20	--

Equity			
	Current	Δ MTD	Δ YTD
Dow Jones	35,601.98	-217.58	4995.50
S&P 500	4,697.96	92.58	941.89
Nasdaq	16,057.44	559.05	3169.16

Volatility			
	Current	Δ MTD	Δ YTD
VIX	17.91	1.65	-4.84
MOVE	73.39	-2.06	24.41

Commodities			
	Current	Δ MTD	Δ YTD
CRB	235.02	-2.68	67.23
Gold	1,854.30	70.40	-40.80
Oil	75.94	-7.63	27.42
Gas	221.19	-15.78	80.18

Currency			
	Current	Δ MTD	Δ YTD
U.S. Dollar	1.129	-0.027	-0.093
Euro	1.345	-0.023	-0.022
Pound	113.990	0.040	10.790
Yen	1.264	0.025	-0.009
Canadian Dollar	0.928	0.012	0.042
Franc	1.129	-0.027	-0.093

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	12.3	3.94	-5.67

As of 11.19.2021. 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 & Indices

Technical Terms

Duration: a tool used in assessing the price volatility of a fixed-income security

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 depository 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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