



## Summary

- Strong retail sales and inflation data points helped push Treasury yields higher last week with the ten-year reaching its highest yield since the pandemic began. Government bonds have been under pressure since early August as economic stimulus and central bank support created a reflationary environment.
- Municipal bonds underperformed Treasuries as relative value ratios reached unsustainable levels during the recent rally. The ten-year AAA muni/Treasury ratio briefly touched 55% before buyers went on strike causing the weakness.
- The investment grade credit market took another step up in Treasury yields in stride, posting three basis points (bps) of spread tightening and a positive excess return of 0.27% for the week. The total year-to-date return for the Bloomberg Barclays U.S. Corporate Bond Index is now -2.54%.

## Treasury Yields

Term	Treasury Yield	Δ MTD	Δ YTD
1 Year	0.05	-0.03	-0.06
2 Year	0.10	0.00	-0.02
5 Year	0.58	0.16	0.22
10 Year	1.34	0.27	0.42
30 Year	2.13	0.30	0.49

## Tax-Exempt

### New York Metropolitan Transportation Authority (MTA) Increasing Fares

- The MTA voted to move forward with a portion of its pre-pandemic \$51.5 billion capital plan. At the board meeting on February 18, members voted to authorize \$506 million in bonding to be repaid, in part, from its congestion pricing plan. Congestion pricing will enable the authority to charge higher fares during peak travel times, as well as charge an additional fee on vehicles entering Manhattan. Bridge and tunnel tolls would rise by 7.1%. The added revenue is expected to bring in an additional \$1 billion per year.

### Illinois Budget Cuts

- On Wednesday, Illinois' governor proposed a \$41.6 billion budget for fiscal year 2022. The amount is approximately 4.2% less than fiscal year 2021 and does not contain higher taxes. The plan calls for \$41.7 billion in revenues with \$41.6 billion in expenditures, producing a very modest \$120 million surplus. The budget is heavy on cuts to economic development and healthcare costs, freezes hiring and keeps education funding levels flat. The governor's proposal calls for receiving an additional \$932 million in revenue by scaling back what he calls "unaffordable corporate loopholes." The budget does not assume additional federal aid.

### North Carolina Reduces Pension Discount Rate

- North Carolina's treasurer announced a reduction in the expected return on its pension assets to 6.5% from 7% going forward. Many states have been lowering this discount rate since the 2008 financial crisis. A survey by the National Conference on Public Employee Retirement Systems showed an average discount rate on state and local defined benefit plans at 7.26% in 2020.

## Municipal Yields

Term	Municipal Yield	Δ MTD	Δ YTD	Tax-Equivalent Yield	Municipal/Treasury Ratio (%)	Δ MTD	Δ YTD
1 Year	0.06	-0.03	-0.07	0.09	124.48	6.22	-0.52
2 Year	0.12	0.01	-0.02	0.18	114.50	13.86	-1.10
5 Year	0.35	0.12	0.13	0.54	60.78	5.93	-0.19
10 Year	0.87	0.15	0.16	1.34	65.10	-2.47	-12.65
30 Year	1.52	0.14	0.13	2.34	71.24	-4.20	-13.26

## Taxable

### Corporate Technicals Remain Supportive

- Supply declined again to mark another new weekly low for the year with \$14.3 billion pricing from 15 deals. Naturally, the few deals that did come were wildly oversubscribed. Charter Communications, a fairly regular issuer, printed a \$3 billion deal that was 3.25x oversubscribed. Investment grade saw inflows of \$6.2 billion last week as retail inflows remained strong.

### Energy Transfer (ETP) Acquiring Enable Midstream

- ETP announced the acquisition of Enable Midstream in an all-stock deal. ETP, rated Baa3/BBB-, has continually demonstrated its desire to stay investment grade. The deal will reduce leverage and diversification and should protect ETP from a downgrade in the event that the Dakota Access Pipeline does get shut down. ETP was 15-20bps tighter last week.

### High Yield/Investment Grade Spreads

- The BB-BBB spread was unchanged last week at 120 bps, although the high yield/investment grade spread ratio widened back out from the 3.5x area to 3.65x as Asian demand came back after their holiday and higher yields drove relative outperformance in investment grade.



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

	Duration	Spread	Δ MTD	Δ YTD	52- Week High	52-Week Low
Investment Grade Corporate	8.60	89	-8	-7	373	88
-Financial	6.53	76	-8	-7	378	76
-Industrial	9.34	94	-8	-7	383	93
-Utility	10.83	98	-5	-8	298	98
High Yield	3.72	319	-43	-41	1100	315
Securitized	3.13	22	-1	-20	135	16
-Commercial Mortgage-Backed Securities	5.23	73	1	-8	260	65
-Asset-Backed Securities	2.08	28	2	-5	325	26
-Mortgage-Backed Securities	2.97	18	0	-21	132	11

**International Yields**

	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	-0.68	-0.10	-0.01	-0.61	-0.34	-0.47	--
5 Year	-0.61	-0.07	0.20	-0.52	0.04	-0.22	0.12
10 Year	-0.31	0.13	0.70	-0.06	0.62	0.36	0.89
30 Year	0.21	0.70	1.27	0.74	1.54	1.21	--

**Equity**

	Current	Δ MTD	Δ YTD
Dow Jones	31,494.32	1511.70	887.84
S&P 500	3,906.71	192.47	150.64
Nasdaq	13,874.46	803.77	986.18

**Volatility**

	Current	Δ MTD	Δ YTD
VIX	22.05	-11.04	-0.70
MOVE	60.43	13.02	11.45

**Commodities**

	Current	Δ MTD	Δ YTD
CRB	188.62	14.42	20.83
Gold	1,777.40	-72.90	-117.70
Oil	59.24	7.04	10.72
Gas	180.69	25.42	39.68

**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	14.7	-0.63	-3.27

**Currency**

	Current	Δ MTD	Δ YTD
U.S. Dollar	90.364	-0.220	0.427
Euro	1.212	-0.002	-0.010
Pound	1.402	0.031	0.034
Yen	105.450	0.770	2.250
Canadian Dollar	1.262	-0.016	-0.011
Franc	0.896	0.006	0.010

As of 02.19.2021. 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 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 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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