



Summary

- The sell-off in U.S. Treasury yields accelerated last week with the ten-year reaching 1.61% before buyers emerged on Friday. The bond market appears to be questioning the Fed's rate hike expectations given the improving economic data and likelihood of additional stimulus.
- Municipal bonds have been on a roller coaster ride lately as a sharp rise in Treasury yields quickly reversed the historically rich muni/Treasury valuation ratios. Over the past week, the five-year AAA-rated municipal yield traded at a low of 39% of Treasuries and a high of 87% of Treasuries before closing the month at more normal level of 77%.
- Perhaps signaling that rates truly are rising for the right reasons, investment grade credit spreads held in very well last week, with the index option-adjusted spread (OAS) widening just one basis point (bp) to 90 bps. This occurred amidst a modest weakening of the technical picture as supply increased and overseas buying turned into overseas selling. While modestly higher rates are generally good for credit spreads, investment grade markets are just like any other and usually hate uncertainty. However, it appears investors are banking on the improving economic backdrop to boost fundamentals while the Fed remains firmly in the game.

Treasury Yields

Term	Treasury Yield	Δ MTD	Δ YTD
1 Year	0.07	0.00	-0.04
2 Year	0.13	0.00	0.01
5 Year	0.73	0.00	0.37
10 Year	1.40	0.00	0.49
30 Year	2.15	0.00	0.51

Tax-Exempt

Fitch Places Texas Utilities on Negative Ratings Watch

- Following last week's severe weather in Texas, Fitch placed all retail and electric utilities operating under the Electric Reliability Council of Texas (ERCOT) on negative ratings watch with the expectation for reviews to be completed within the next six months. Fitch cited concerns regarding funding requirements and liquidity in the near-term, cost recovery and the potential for increased financial leverage over the medium term.

States Facing Budget Deficits

- According to a recent Moody's report, states are facing a fiscal shock of about \$148 billion, which will become evident between 2020 and 2022; this figure is down from an estimated \$260 billion produced last year. Twelve states are looking at budget deficit margins of 5% or more with nine looking at deficits of 10% or more.

New Jersey Releases 2022 Budget

- New Jersey Governor Phil Murphy released his fiscal year 2022 budget last week. The governor's spending plan calls for an 8.8% increase over fiscal year 2021 and offers no new taxes or major spending cuts. Perhaps most notable is that the budget calls for the first full actuarial required pension contribution payments since 1996.

Municipal Yields

Term	Municipal Yield	Δ MTD	Δ YTD	Tax-Equivalent Yield	Municipal/Treasury Ratio (%)	Δ MTD	Δ YTD
1 Year	0.12	0.00	-0.01	0.18	182.09	0.00	57.09
2 Year	0.19	0.00	0.05	0.29	149.61	0.00	34.00
5 Year	0.56	0.00	0.34	0.86	76.58	0.00	15.60
10 Year	1.14	0.00	0.43	1.75	81.14	0.00	3.40
30 Year	1.80	0.00	0.41	2.77	83.67	0.00	-0.83

Taxable

Official Results of the C-band Spectrum Auction Released

- The official results of the C-band spectrum auction were released last week and the numbers were about as expected with Verizon putting up about \$45 billion and AT&T about \$25 billion. As a result, Verizon is expected to issue debt in the next month or so. AT&T will need to come to market as well, but they also announced the sale of a large stake in DirecTV to private equity this week which will reduce the amount they need to issue. Verizon's ratings were moved back to stable from positive and it looks like any upgrade to low-single-A is off the table for now. AT&T remains mid-BBB with a stable outlook.

New Issue Supply Increased

- Issuance jumped last week, as expected, with a handful of larger Yankee industrial deals (Daimler, NTT) and one large domestic liability-management-driven deal (FIS). For the week, supply totaled \$33 billion. Dealers estimate \$40-45 billion in supply this week and \$140-150 billion for March, which is pretty substantial. This includes the expected deals from the U.S. telecom companies, which could be \$50 billion alone.

Retail Inflows into Investment Grade Remain Steady Despite Negative Total Returns

- Normally, negative total returns spark outflows, but surprisingly, retail flows into investment grade bonds remained steady this week with investment grade seeing a \$5.9 billion inflow. Despite the volatility in rates markets, volume picked up substantially mid-week. End clients were net sellers of bonds, particularly Asian investors. Dealers absorbed a net \$2 billion from overseas investors, mostly in the belly of the curve.



Sectors¹

	Duration	Spread	Δ MTD	Δ YTD	52-Week High	52-Week Low
Investment Grade Corporate	8.57	90	0	-6	373	88
-Financial	6.50	77	0	-6	378	76
-Industrial	9.29	95	0	-6	383	93
-Utility	10.79	97	0	-9	298	97
High Yield	3.79	326	0	-34	1100	315
Securitized	3.50	24	0	-18	135	16
-Commercial Mortgage-Backed Securities	5.23	70	0	-11	260	69
-Asset-Backed Securities	2.08	29	0	-4	325	26
-Mortgage-Backed Securities	3.38	20	0	-19	132	11

International Yields

	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	-0.66	-0.11	0.13	-0.58	-0.26	-0.41	--
5 Year	-0.57	-0.06	0.40	-0.51	0.15	-0.18	0.44
10 Year	-0.26	0.16	0.82	-0.01	0.76	0.42	1.11
30 Year	0.19	0.73	1.39	0.74	1.65	1.25	--

Equity

	Current	Δ MTD	Δ YTD
Dow Jones	30,932.37	0.00	325.89
S&P 500	3,811.15	0.00	55.08
Nasdaq	13,192.35	0.00	304.07

Volatility

	Current	Δ MTD	Δ YTD
VIX	27.95	0.00	5.20
MOVE	75.66	0.00	26.68

Commodities

	Current	Δ MTD	Δ YTD
CRB	190.43	0.00	22.64
Gold	1,728.80	0.00	-166.30
Oil	61.50	0.00	12.98
Gas	195.05	0.00	54.04

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	15.5	0.00	-2.47

Currency

	Current	Δ MTD	Δ YTD
U.S. Dollar	90.879	0.000	0.942
Euro	1.208	0.000	-0.014
Pound	1.393	0.000	0.026
Yen	106.570	0.000	3.370
Canadian Dollar	1.274	0.000	0.001
Franc	0.909	0.000	0.022

As of 02.26.2021. Source: Bloomberg. Please see page 3 for important disclosures and definitions.

¹ 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 Industrial 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. Securitizd Index: Bloomberg Barclays U.S. Securitizd 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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