



Summary

- Treasury yields resumed their march higher as investors fear inflation will increase sharply if the Fed remains dovish during the current stimulus-driven economic expansion. The ten-year yield increased 18 basis points (bps) to end the week at 1.59%.
- The municipal market proved to be resilient despite the negative tone in the Treasury market and experiencing outflows for the first time in 16 weeks. Tax-free yields declined across the curve, resulting in fully-valued muni-to-Treasury valuations at 61% in five-years and 71% in ten-years.
- After holding up pretty well amidst the rate volatility over the last few weeks, credit spreads moved wider last week as disappointment with Fed Chair Powell's comments and swollen dealer inventories captured the market's attention. For the week, investment grade option adjusted spread widened six bps to 96bps.

Treasury Yields

Term	Treasury Yield	Δ MTD	Δ YTD
1 Year	0.07	0.01	-0.03
2 Year	0.14	0.01	0.02
5 Year	0.80	0.07	0.44
10 Year	1.57	0.16	0.65
30 Year	2.30	0.15	0.65

Tax-Exempt

Federal Stimulus Creates Windfall for States

- Of President Biden's \$1.9 trillion spending package, \$200 billion is earmarked for state governments. The proposed cash transfers are nearly six times larger than the aggregate \$31 billion tax shortfall that is expected to occur in the current fiscal year, according to Bloomberg forecasts.
- Depending on federal guidelines, those funds could be reinvested back into state economies such as through states' own version of stimulus checks, infrastructure projects, etc. The size of the stimulus has set off debate over whether more of the funds should be shifted directly to local governments rather than filter through slow-moving state governments. This windfall has the chance to greatly reduce future borrowing needs.

States Rolling Back COVID-19 Restrictions

- States are beginning to roll back COVID-19 restrictions as hospitalizations have declined following the post-holiday January peak. Texas and Mississippi are lifting restrictions entirely. California's governor is pushing for kids to return to in-person classrooms amid push-back from teachers' unions. Most virus-related restrictions will soon be lifted in Nevada's casinos and Alabama will end its mask mandate on April 9.
- On March 19, Connecticut will no longer have crowd caps on restaurants, retail stores, gyms and churches. New Jersey will soon allow for increased capacity at receptions, just before the spring wedding season begins.

Municipal Yields

Term	Municipal Yield	Δ MTD	Δ YTD	Tax-Equivalent Yield	Municipal/Treasury Ratio (%)	Δ MTD	Δ YTD
1 Year	0.08	-0.04	-0.05	0.12	108.84	-73.25	-16.16
2 Year	0.13	-0.06	-0.01	0.20	94.96	-54.65	-20.65
5 Year	0.48	-0.08	0.26	0.74	60.13	-16.45	-0.85
10 Year	1.11	-0.03	0.40	1.71	70.88	-10.27	-6.87
30 Year	1.76	-0.04	0.37	2.71	76.61	-7.06	-7.90

Taxable

Investment Grade Issuers Rushing to the Market as Rates Rise

- Last week was the largest investment grade weekly supply total of the year and the 12th largest all-time with \$61.7 billion pricing. The pace of supply is expected to remain high this week with estimates of \$40-50 billion.

Swollen Dealer Inventories

- As of Thursday night's close, dealers absorbed over \$3 billion in new investment grade inventory. In anticipation of what's expected to be another busy week of supply, dealers cheapened up their inventories to try and clear the decks. Those wider levels helped clear out about \$1 billion in net dealer inventories, but the technical picture remains negative for now. Overnight sessions saw large net selling from Taiwan and little activity elsewhere, so dealers were actually net buyers of the long end last week. Dealer inventories rose the most in the ten-year part of the curve. Retail flows miraculously remained positive with inflows in both investment grade and high yield.

Energy Outperformed Following OPEC (Organization of the Petroleum Exporting Countries)+ Meeting

- Energy and pipelines outperformed last week as OPEC+ surprised the market by agreeing to a production increase of only 150,000 barrels per day (b/d) through April, compared to market consensus that production would be allowed to increase by 1.5 million b/d. This is very bullish as it occurs at a time when demand is increasing due to seasonal factors, on top of any strength driven by the recovery from the pandemic. The action implies a supply/demand shortfall of at least three million b/d by the spring, which will hasten inventory normalization and tighten the market.



Sectors¹

	Duration	Spread	Δ MTD	Δ YTD	52-Week High	52-Week Low
Investment Grade Corporate	8.48	96	6	0	373	88
-Financial	6.46	86	9	3	378	76
-Industrial	9.19	100	5	-1	383	93
-Utility	10.68	102	5	-4	298	97
High Yield	3.86	329	3	-31	1100	315
Securitized	3.71	16	-8	-26	135	16
-Commercial Mortgage-Backed Securities	5.22	69	-1	-12	260	69
-Asset-Backed Securities	2.07	29	0	-4	325	26
-Mortgage-Backed Securities	3.61	12	-8	-27	132	11

International Yields

	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	-0.69	-0.11	0.10	-0.60	-0.34	-0.44	--
5 Year	-0.62	-0.06	0.37	-0.55	0.10	-0.21	0.36
10 Year	-0.30	0.12	0.76	-0.05	0.75	0.39	0.97
30 Year	0.21	0.70	1.29	0.76	1.69	1.26	--

Equity

	Current	Δ MTD	Δ YTD
Dow Jones	31,496.30	563.93	889.82
S&P 500	3,841.94	30.79	85.87
Nasdaq	12,920.15	-272.20	31.87

Volatility

	Current	Δ MTD	Δ YTD
VIX	24.66	-3.29	1.91
MOVE	69.37	-6.29	20.39

Commodities

	Current	Δ MTD	Δ YTD
CRB	193.45	3.01	25.65
Gold	1,698.50	-30.30	-196.60
Oil	66.09	4.59	17.57
Gas	206.47	11.42	65.46

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	16.0	0.47	-2.00

Currency

	Current	Δ MTD	Δ YTD
U.S. Dollar	91.977	1.098	2.040
Euro	1.192	-0.016	-0.030
Pound	1.384	-0.009	0.017
Yen	108.310	1.740	5.110
Canadian Dollar	1.266	-0.008	-0.007
Franc	0.929	0.021	0.043

As of 03.05.2021. 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 Utility 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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