



Summary

- After several days of cuts to the AAA scale, tax-exempt bonds ended the week quietly despite an above-average new issue calendar scheduled for this week. Eight consecutive weeks of mutual fund inflows and healthy May 1 redemptions helped keep the yield adjustments modest.
- Treasuries faced upward rate pressure as strong economic releases including GDP, personal income, and inflation readings pushed yields modestly higher. The market remained surprisingly well-bid, despite the outperforming economic data and breakeven inflation rates for TIPS (Treasury Inflation-Protected Securities) reaching multi-year highs.
- A very busy week of corporate earnings did nothing to derail the recovery trade, as reports continued to come in well ahead of expectations. Most companies are thriving, despite the continued limitations imposed by the pandemic. Investment grade OAS (option adjusted spread) tightened two basis point (bps) for the week to 88 bps and high yield OAS tightened seven bps to 291 bps.

| Treasury Yields | | | |
|-----------------|----------------|-------|-------|
| Term | Treasury Yield | Δ MTD | Δ YTD |
| 1 Year | 0.05 | 0.00 | -0.06 |
| 2 Year | 0.16 | 0.00 | 0.04 |
| 5 Year | 0.85 | 0.00 | 0.49 |
| 10 Year | 1.63 | 0.00 | 0.71 |
| 30 Year | 2.30 | 0.00 | 0.65 |

Tax-Exempt

California Recall Election

- California Governor Gavin Newsom will face a recall election this fall. As a result of the recall effort, California's secretary of state has verified more than enough signatures to call for a special election. This is only the second time in California's history that a campaign to recall a governor has made the ballot out of 55 attempts. The only other successful attempt occurred in 2003 when Governor Gray Davis was removed and replaced with Arnold Schwarzenegger. We do not anticipate a state credit impact from the election outcome.

Census Results Are In

- Results from the 2020 Census will result in a net gain in House seats in prominently Republican states ahead of next year's mid-term elections. Since the size of the House of Representatives has been capped since 1911, those states that gain seats will come at the expense of other states. The report indicates New York will lose a House seat by a razor-thin 89 people. California will lose a seat for the first time since it joined the union in 1850. The winners include Texas, which will gain two seats, while Colorado, Florida, Montana, North Carolina, and Oregon will each gain one seat.

San Francisco's Tax Base Declines

- It took a pandemic to finally cause a decline in San Francisco's tax base, an area that has long been the poster child for outsized housing costs. The city controller's office estimates that the city's commercial and residential property tax base fell 0.46% in 2020, which is the first decline the city has experienced in 25 years. The decline is expected to cause a \$7.8 million drop in revenue for the coming fiscal year.

Municipal Yields

| Term | Municipal Yield | Δ MTD | Δ YTD | Tax-Equivalent Yield | Municipal/Treasury Ratio (%) | Δ MTD | Δ YTD |
|---------|-----------------|-------|-------|----------------------|------------------------------|-------|--------|
| 1 Year | 0.08 | 0.00 | -0.05 | 0.12 | 165.98 | 0.00 | 40.98 |
| 2 Year | 0.10 | 0.00 | -0.04 | 0.15 | 63.13 | 0.00 | -52.48 |
| 5 Year | 0.43 | 0.00 | 0.21 | 0.66 | 50.82 | 0.00 | -10.15 |
| 10 Year | 0.99 | 0.00 | 0.28 | 1.52 | 60.89 | 0.00 | -16.86 |
| 30 Year | 1.59 | 0.00 | 0.20 | 2.45 | 69.23 | 0.00 | -15.27 |

Taxable

Semiconductor Shortage Continues to Impact Automakers

- While there have been widespread supply chain disruptions caused by the COVID-19 pandemic, none were as significant as the semiconductor chip shortage, which has forced automakers to limit production. Production issues are likely to remain for the remainder of the year, impacting dealer inventories and sales. Automakers have adapted to the shortage by shifting the limited supply of chips to their most profitable models. Ford, for example, was able to maintain output of the F-150 pickup truck through most of March, but production was cut in April as the shortage worsened. Production is expected to remain below normal for the near-term.

Realty Income Buying VEREIT

- Realty Income announced the purchase of VEREIT in an all-stock transaction. The combined entity will result in an enterprise value of approximately \$50 billion with a tenant base comprised of grocery stores, dollar stores, drug stores and restaurants.

Investment Grade Supply Surprised to the Downside

- Investment grade supply surprised to the downside of the expected \$25 billion last week, with only \$16.1 billion printing. Citigroup kicked off the week with \$5.5 billion of 4nc3 fixed and floaters and a 11nc10, which ultimately made up a third of the week's supply. It was relatively quiet away from Citigroup with a few names like Coca Cola and Waste Management printing longer-duration bonds. Expectations are pretty high for this week and the rest of May, which is traditionally a big month for issuance. The average estimate for May is \$140-150 billion.



Sectors¹

| | Duration | Spread | Δ MTD | Δ YTD | 52- Week High | 52-Week Low |
|--|----------|--------|-------|-------|---------------|-------------|
| Investment Grade Corporate | 8.54 | 88 | 79 | -8 | 213 | 88 |
| -Financial | 6.51 | 79 | 72 | -4 | 210 | 76 |
| -Industrial | 9.27 | 91 | 82 | -10 | 219 | 90 |
| -Utility | 10.20 | 96 | 86 | -10 | 184 | 95 |
| High Yield | 3.85 | 291 | 287 | -69 | 757 | 290 |
| Securitized | 3.97 | 11 | 7 | -31 | 81 | 11 |
| -Commercial Mortgage-Backed Securities | 5.21 | 65 | 60 | -16 | 172 | 64 |
| -Asset-Backed Securities | 2.05 | 31 | 29 | -2 | 153 | 26 |
| -Mortgage-Backed Securities | 3.90 | 7 | 3 | -32 | 75 | 7 |

International Yields

| | Germany | Japan | U.K. | France | Italy | Spain | Greece |
|---------|---------|-------|------|--------|-------|-------|--------|
| 2 Year | -0.68 | -0.12 | 0.08 | -0.65 | -0.30 | -0.49 | -- |
| 5 Year | -0.58 | -0.08 | 0.39 | -0.52 | 0.17 | -0.20 | 0.16 |
| 10 Year | -0.20 | 0.10 | 0.84 | 0.16 | 0.90 | 0.48 | 0.99 |
| 30 Year | 0.36 | 0.66 | 1.34 | 0.94 | 1.91 | 1.43 | -- |

Equity

| | Current | Δ MTD | Δ YTD |
|-----------|-----------|-------|---------|
| Dow Jones | 33,874.85 | 0.00 | 3268.37 |
| S&P 500 | 4,181.17 | 0.00 | 425.10 |
| Nasdaq | 13,962.68 | 0.00 | 1074.40 |

Volatility

| | Current | Δ MTD | Δ YTD |
|------|---------|-------|-------|
| VIX | 18.61 | 0.00 | -4.14 |
| MOVE | 58.13 | 0.00 | 9.15 |

Commodities

| | Current | Δ MTD | Δ YTD |
|------|----------|-------|---------|
| CRB | 199.76 | 0.00 | 31.96 |
| Gold | 1,767.70 | 0.00 | -127.40 |
| Oil | 63.58 | 0.00 | 15.06 |
| Gas | 207.63 | 0.00 | 66.62 |

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 | 17.4 | 0.00 | -0.62 |

Currency

| | Current | Δ MTD | Δ YTD |
|-----------------|---------|-------|--------|
| U.S. Dollar | 91.280 | 0.000 | 1.343 |
| Euro | 1.202 | 0.000 | -0.020 |
| Pound | 1.382 | 0.000 | 0.015 |
| Yen | 109.310 | 0.000 | 6.110 |
| Canadian Dollar | 1.229 | 0.000 | -0.044 |
| Franc | 0.913 | 0.000 | 0.027 |

As of 04.30.2021. Source: Bloomberg. Please see page 3 for important disclosures and definitions.

¹Sectors 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

4nc3/11nc10: a callable bond with a period of call protection when it is first issued during which the bond cannot be called. 4-year noncall 3 (4nc3) means that the bond has a stated maturity of 4 years and is not callable for the first 3 years. 11 year noncall 10 (11nc10) means that the bond has a stated maturity of 11 years and is not callable for the first 10 years.

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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