



Summary

- Bond investors prepare for an eventful week, as several key economic indicators including GDP (Gross Domestic Product), Durable Goods, and Core PCE (Personal Consumption Expenditures) will be released. In addition, the Federal Reserve will provide a policy update following its FOMC (Federal Open Market Committee) meeting Tuesday and Wednesday, which could be a catalyst for an increase in Treasury yield volatility.
- There have been a host of supportive tailwinds for municipals this year, including a supply/demand imbalance, a credit backstop in the form of the \$1.9 trillion American Rescue Plan Act, and a concern over higher taxes, which have supported strong demand despite record-low yields and compressed valuations. This week will likely continue to push valuations tighter as only \$6.5 billion in new issue is expected, with approximately \$60 billion expected in August redemptions.
- Risk-off sentiment dominated the market last Monday, as rising COVID-19 case counts sparked fears about the Delta variant's impact on global growth. The investment grade credit market felt materially weaker, with spreads 2-4 basis points (bps) wider, generically, and higher beta, out 6-7 bps. Investment grade spreads widened to 89 bps on Monday, before spending the remainder of the week clawing back to unchanged for the week at 86 bps. High yield spreads widened 22 bps on Monday to 304 bps, but ended the week 7 bps wider, pushing OAS (option-adjusted spread) to 289 bps.

Treasury Yields			
Term	Treasury Yield	Δ MTD	Δ YTD
1 Year	0.07	0.00	-0.04
2 Year	0.20	-0.05	0.08
5 Year	0.71	-0.18	0.35
10 Year	1.28	-0.19	0.36
30 Year	1.92	-0.17	0.27

Municipal Yields

Term	Municipal Yield	Δ MTD	Δ YTD	Tax-Equivalent Yield	Municipal/Treasury Ratio (%)	Δ MTD	Δ YTD
1 Year	0.05	-0.07	-0.08	0.08	75.87	-106.22	-49.13
2 Year	0.08	-0.08	-0.06	0.12	40.38	-23.98	-75.22
5 Year	0.37	-0.12	0.15	0.57	51.98	-3.11	-8.99
10 Year	0.83	-0.16	0.12	1.28	65.03	-2.41	-12.72
30 Year	1.36	-0.14	-0.03	2.09	71.01	-0.90	-13.49

Taxable

Positive Corporate Earnings

- Positive earnings results last week helped reassure investors about the trajectory for growth, with earnings 16% ahead of 2Q expectations for issuers who have already reported. Verizon spreads were 3-4 bps tighter, after reporting an 11% increase in revenue on strength in devices, as well as revising guidance higher. AT&T tightened a similar amount after reporting strong revenue and subscriber growth, despite an EBITDA decline in most segments.

Supply Abated as Market Volatility Increased

- Market volatility early in the week resulted in the first non-holiday Monday in recent memory with zero supply. VMware brought a deal Tuesday, pricing \$6 billion across five tranches in a deal associated with financing for its spin-off from Dell. Despite the poor tone Monday, this deal went well with books peaking at 25 billion and pricing roughly flat to the existing curve. For the week, supply totaled \$16.5 billion from 14 deals, bringing year-to-date supply to \$902 billion.

Oil Sold Off with Market Weakness

- Following the risk-off sentiment in the market, WTI (West Texas Intermediate) declined from around \$75 to the mid-\$60s. Lower-rated energy names were hit hard and underperformed on the week.

Corporate Inventories and Volume

- Dealers were net lifted on over two billion last week, with the majority of client buying taking place as rates sold off and spreads recovered toward the end of the week. Dealer net sales were concentrated in front-end (1-3 year) and long-end (12 year) maturities. Investment grade posted inflows of \$1.1 billion for the week, while high yield flows improved to a positive \$120 million, compared to an outflow of \$1.8 billion the week prior.



Sectors¹

	Duration	Spread	Δ MTD	Δ YTD	52-Week High	52-Week Low
Investment Grade Corporate	8.79	86	6	-10	140	80
-Financial	6.67	77	6	-6	131	71
-Industrial	9.57	89	6	-12	144	83
-Utility	10.56	97	4	-9	142	93
High Yield	3.85	289	21	-71	537	262
Securitized	4.04	33	4	-9	72	11
-Commercial Mortgage-Backed Securities	5.19	61	2	-20	120	54
-Asset-Backed Securities	2.09	26	4	-7	61	22
-Mortgage-Backed Securities	3.97	31	4	-8	69	7

International Yields

	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	-0.73	-0.12	0.08	-0.68	-0.45	-0.57	--
5 Year	-0.70	-0.13	0.28	-0.65	-0.04	-0.38	-0.11
10 Year	-0.42	0.01	0.58	-0.09	0.62	0.27	0.66
30 Year	0.06	0.65	1.01	0.70	1.62	1.17	--

Equity

	Current	Δ MTD	Δ YTD
Dow Jones	35,061.55	559.04	4455.07
S&P 500	4,411.79	114.29	655.72
Nasdaq	14,836.99	333.04	1948.71

Volatility

	Current	Δ MTD	Δ YTD
VIX	17.20	1.37	-5.55
MOVE	65.28	8.01	16.30

Commodities

	Current	Δ MTD	Δ YTD
CRB	216.60	3.21	48.80
Gold	1,805.90	34.30	-89.20
Oil	72.07	-1.40	23.55
Gas	229.13	4.95	88.12

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	8.6	-1.85	-9.43

Currency

	Current	Δ MTD	Δ YTD
U.S. Dollar	92.912	0.476	2.975
Euro	1.177	-0.009	-0.044
Pound	1.375	-0.008	0.008
Yen	110.550	-0.560	7.350
Canadian Dollar	1.256	0.017	-0.016
Franc	0.919	-0.006	0.033

As of 07.23.2021. 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

EBITDA: stands for Earnings Before Interest, Taxes, Depreciation, and Amortization and is a metric used to evaluate a company's operating performance. It can be seen as a proxy for cash flow from the entire company's operations.

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

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

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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