



Summary

- Positive economic releases, COVID-19 cases trending lower since late July and dovish comments from the Federal Reserve pushed the bond market higher last week. The 10-year Treasury yield finally stabilized after a relentless rally that began in late February.
- Strong inflows into the spread sectors are also supporting the market as investors could be forced out of the risk curve to achieve a reasonable yield.
- Tax-exempt muni yields declined 4-10 basis points (bps) as the negative net supply environment continues as the dominant market theme. Approximately 35% of last month's total issuance was taxable as the current trend of taxable municipal issuance continues unabated.

Treasury Yields

Term	Treasury Yield	Δ MTD	Δ YTD
1 Year	0.12	0.02	-1.44
2 Year	0.13	0.02	-1.44
5 Year	0.23	0.03	-1.46
10 Year	0.56	0.04	-1.35
30 Year	1.23	0.04	-1.16

Tax-Exempt

- An Illinois appellate court reversed a lower court's ruling that will allow a lawsuit seeking to invalidate some Illinois general obligation bonds as unconstitutional to move forward. Tillman, the plaintiff in the case, is head of an Illinois conservative think tank and could be motivated to have filed the lawsuit on ideological grounds. In any case, our stance remains that the lawsuit is without merit and will likely be tossed out by a higher court. The appellate judge was clear that they were not agreeing with the merits of the case, just that the plaintiff's arguments could be allowed to be heard in open court. This news did result in the challenged bonds trading 26 bps wider in 2026.
- Some states have announced further delays in their pension funding efforts as they attempt to navigate through the current fiscal malaise. Colorado, for example, has decided to eliminate a \$225 million supplemental payment to its pension system. South Carolina has decided to eliminate a scheduled 1% employer contribution increase for fiscal year 2021. New Jersey will defer making a \$950 million pension payment until September which puts the governor's plan to increase contributions by 13% to \$4.6 billion in question.
- New Jersey Governor Phil Murphy vetoed a bill that would have allowed local governments bonding ability to finance deficit operations if the deficit is a result of COVID-19 revenue shortfalls. The justification for the veto was because Murphy preferred a 5-year maturity cap for such bonding while the current bill proposed a 1-year maturity cap.

Municipal Yields

Term	Municipal Yield	Δ MTD	Δ YTD	Tax-Equivalent Yield	Municipal/Treasury Ratio (%)	Δ MTD	Δ YTD
1 Year	0.08	-0.03	-0.96	0.12	64.36	-38.93	-2.05
2 Year	0.09	-0.04	-0.95	0.14	69.77	-53.57	3.49
5 Year	0.16	-0.07	-0.93	0.25	69.26	-43.26	4.81
10 Year	0.58	-0.07	-0.86	0.89	102.84	-20.22	27.74
30 Year	1.27	-0.10	-0.82	1.95	102.95	-11.93	15.49

Taxable

- Corporate spreads continued to grind tighter last week as corporate earnings largely surprised to the upside and market participants remained optimistic about another round of fiscal stimulus. Technicals remain firm, supported by strong inflows into credit with ~10.1 billion and \$4.4 billion in flows into investment grade and high yield, respectively. Investment grade spreads ended the week 7 bps tighter at 126 bps and high yield spreads ended the week 9 bps tighter at 479 bps.
- The Fed's Secondary Market Corporate Credit Facility purchases declined further this week to just \$24 million per day. It's no surprise that the Fed's least active week since entering the secondary market coincided with the tightest spread levels we've seen since early March.
- Primary market activity was front-loaded last week as Alphabet tapped the market for the first time since 2016, pricing \$10 billion across six tranches. The Google deal (rated Aa2/AA+) broke existing low coupon records with their five- and ten-year tranches launching at +25 and +58, respectively. Funding conditions remain favorable for issuers given the continued demand in the primary market and low Treasury yields. Year-to-date issuance remains about 80% ahead of last year's figure with approximately another \$30 billion expected this week.
- Flows were more balanced last week with domestic buying focused on the front end. Consistent with the beta compression theme from this week, dealers were net sellers of financials and BBBs. Overnight buying picked up with overseas investors most active in the long end.



Sectors¹

	Duration	Spread	Δ MTD	Δ YTD	52- Week High	52-Week Low
Investment Grade Corporate	8.86	126	-7	33	373	93
-Financial	6.74	115	-7	35	378	80
-Industrial	9.54	131	-7	32	383	99
-Utility	11.39	126	-4	29	298	95
High Yield	3.55	479	-9	143	1100	315
Securitized	1.92	53	-10	11	135	39
-Commercial Mortgage-Backed Securities	5.34	120	0	48	260	64
-Asset-Backed Securities	2.13	57	-3	13	325	27
-Mortgage-Backed Securities	1.63	47	-11	8	132	28

International Yields

	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	-0.68	-0.12	-0.02	-0.63	-0.09	-0.43	--
5 Year	-0.69	-0.10	-0.07	-0.56	0.42	-0.25	0.40
10 Year	-0.51	0.01	0.14	-0.21	0.93	0.28	1.01
30 Year	-0.09	0.55	0.68	0.46	1.87	1.05	--

Equity

	Current	Δ MTD	Δ YTD
Dow Jones	27,433.48	1005.16	-1104.96
S&P 500	3,351.28	80.16	120.50
Nasdaq	11,010.98	265.71	2038.38

Volatility

	Current	Δ MTD	Δ YTD
VIX	22.21	-2.25	8.43
MOVE	41.46	-0.52	-16.82

Commodities

	Current	Δ MTD	Δ YTD
CRB	146.85	3.16	-38.93
Gold	2,028.00	42.10	504.90
Oil	41.22	0.95	-19.84
Gas	120.76	3.65	-48.29

Central Bank Rates

	Current	Δ MTD	Δ YTD
United States	0.25	0.00	-1.50
Europe	0.00	0.00	0.00
United Kingdom	0.10	0.00	-0.65
Japan	0.10	0.00	0.00
Canada	0.25	0.00	-1.50
TED Spread	16.4	-0.15	-20.13

Currency

	Current	Δ MTD	Δ YTD
US Dollar	93.435	0.086	-3.010
Euro	1.179	0.001	0.058
Pound	1.305	-0.003	-0.020
Yen	105.920	0.090	-2.840
Canadian Dollar	1.338	-0.003	0.040
Franc	0.912	-0.001	-0.055

As of 08.07.2020. 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 measure of the sensitivity of the price of a bond or other debt instrument to a change in interest rates

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 US dollars

Yield: the earnings generated and realized on an investment over a particular period of time

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 US Aggregate ABS Index: A component of the Bloomberg Barclays US Aggregate Index, the Bloomberg Barclays US 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 US Aggregate CMBS Index: A component of the Bloomberg Barclays US Aggregate Index, the Bloomberg Barclays US Aggregate CMBS Index includes investment grade securities that are ERISA-eligible under the underwriter's exemption.

Bloomberg Barclays US Aggregate MBS Index: A component of the Bloomberg Barclays US Aggregate Index, the Bloomberg Barclays US 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 US Aggregate Investment Grade Finance Index: A component of the Bloomberg Barclays US Corporate Bond Index, the Bloomberg Barclays US Aggregate Investment Grade Finance Index measures publicly issued investment grade US corporate bonds in the Finance sector.

Bloomberg Barclays US Aggregate Investment Grade Industrial Index: A component of the Bloomberg Barclays US Corporate Bond Index, the Bloomberg Barclays US Aggregate Investment Grade Finance Index measures publicly issued investment grade US corporate bonds in the Industrial sector.

Bloomberg Barclays US Aggregate Investment Grade Utility Index: A component of the Bloomberg Barclays US Corporate Bond Index, the Bloomberg Barclays US Aggregate Investment Grade Finance Index measures publicly issued investment grade US corporate bonds in the Utility sector.

Bloomberg Barclays US Corporate Bond Index: The Bloomberg Barclays US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by US and non-US industrial, utility and financial issuers.

Bloomberg Barclays US Corporate High Yield Bond Index: The Bloomberg Barclays US 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 US Securitized Index: Bloomberg Barclays US Securitized Index is comprised of predominantly MBS Agency securities, but also includes ABS, CMBS and covered securities. Bloomberg Barclays US Treasury Strips 20+ Year Index tracks the performance of zero coupon US 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.

West Texas Intermediate: West Texas Intermediate (WTI) is a crude oil that serves as one of the main global oil benchmarks. It is sourced primarily from Texas and is one of the highest quality oils in the world, which is easy to refine. WTI is the underlying commodity for the NYMEX's oil futures contract.

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