



Summary

- Treasuries rallied after Federal Reserve Chair Powell delivered a dovish taper announcement at the Fed's Jackson Hole symposium. Although the Fed is likely to reduce the pace of asset purchases this year, they clearly stated that interest rate hikes are not expected any time soon.
- It's a seller's market in tax-free municipals, as demand is strong, dealer inventories are light, and the new issue calendar is a paltry \$5B this week with a healthy dose of taxable, non-rated or housing bonds. However, we anticipate limited market activity as traders enjoy the last week of summer vacations.
- With a complete lack of primary issuance in the corporate market, technicals dominated market action last week. Dealers finally had some success in shedding inventories and spreads responded in kind, as investment-grade and high yield option-adjusted spread (OAS) tightened by three basis points (bps) to 88 bps and by 18 bps to 294 bps, respectively. The market finally started to sniff out a leveling-off in the spread of the Delta variant, resulting in strong performance from cyclical and reopening sectors.

Treasury Yields			
Term	Treasury Yield	Δ MTD	Δ YTD
1 Year	0.06	0.00	-0.04
2 Year	0.22	0.04	0.09
5 Year	0.80	0.11	0.44
10 Year	1.31	0.09	0.39
30 Year	1.92	0.03	0.27

Tax-Free

Public Pensions Reducing Return Assumptions

- With strong returns in the equity markets, many public pension plans are using this opportunity to adjust the discount rates on their plans downward. Many plans are reallocating these gains into fixed income assets to lock in these lower, and likely more realistic, return assumptions. The actions by these large market players likely contributed to the declining yields of recent months. On Wednesday, New York's \$270B retirement fund, the third-largest in the U.S., cut its discount rate to 5.9% from 6.8%, following a 33.5% gain in the most recent fiscal year. California Public Employees' Retirement System (the largest public fund in the U.S.), Maryland, Maine, and Idaho also lowered return assumptions over the last two months.

Municipal Supply Could Continue to Decline

- According to Bloomberg, 21% of outstanding municipal bonds are set to either mature or be called by the end of 2024 and 31% by the end of 2026. The figures are higher than the typical maturity schedule over a rolling forward five-year period, and portends that the dearth of municipal supply may continue for the next few years, unless the appetite to issue increases once the \$550B infrastructure bill becomes law.

Municipal Yields							
Term	Municipal Yield	Δ MTD	Δ YTD	Tax-Equivalent Yield	Municipal/Treasury Ratio (%)	Δ MTD	Δ YTD
1 Year	0.07	0.02	-0.06	0.11	114.94	31.61	-10.06
2 Year	0.10	0.04	-0.04	0.15	46.49	13.16	-69.12
5 Year	0.40	0.04	0.18	0.62	50.03	-2.14	-10.94
10 Year	0.91	0.09	0.20	1.40	69.63	2.41	-8.12
30 Year	1.52	0.13	0.13	2.34	79.30	5.76	-5.20

Taxable

Corporate New Issue Supply Has Nearly Dried Up

- As expected, supply almost completely dried up last week for the lowest weekly total of the year to date. Supply for the week totaled \$2.6B from three deals. This week could see potentially see zero deals before things crank back up in September.

Dealers Trim Inventories Ahead of Busy September Calendar

- Dealers were finally able to make some progress in trimming the massive inventories amassed over the first two weeks of the month, net selling about \$5B to investors last week. Of note, most of the heavy net buying took place in the belly of the curve, not the long end, so inventories remain elevated there. Overseas investors were only small net buyers of the long end, somewhat surprising given the move higher in rates. Volume improved slightly from the previous week but was still very light.

Investment Grade and High Yield Spreads Compressed

- Last week there was meaningful compression between investment grade and high yield, as the BB-BBB spread tightened by 15 bps, to 98 bps.



Sectors¹

	Duration	Spread	Δ MTD	Δ YTD	52- Week High	52-Week Low
Investment Grade Corporate	8.79	88	2	-8	140	80
-Financial	6.62	77	1	-6	131	71
-Industrial	9.60	92	3	-9	144	83
-Utility	10.53	101	4	-5	142	93
High Yield	3.88	294	0	-66	537	262
Securitized	4.20	36	3	-6	71	11
-Commercial Mortgage-Backed Securities	5.16	62	0	-19	112	54
-Asset-Backed Securities	2.22	28	2	-5	46	22
-Mortgage-Backed Securities	4.15	34	3	-5	69	7

International Yields

	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	-0.74	-0.11	0.12	-0.71	-0.50	-0.61	--
5 Year	-0.71	-0.11	0.29	-0.48	-0.05	-0.38	-0.08
10 Year	-0.42	0.02	0.58	-0.07	0.63	0.29	0.70
30 Year	0.05	0.65	1.00	0.73	1.64	1.20	--

Equity

	Current	Δ MTD	Δ YTD
Dow Jones	35,455.80	520.33	4849.32
S&P 500	4,509.37	114.11	753.30
Nasdaq	15,129.50	456.82	2241.22

Volatility

	Current	Δ MTD	Δ YTD
VIX	16.39	-1.85	-6.36
MOVE	57.98	-3.21	9.00

Commodities

	Current	Δ MTD	Δ YTD
CRB	219.18	1.10	51.38
Gold	1,819.50	2.30	-75.60
Oil	68.74	-5.21	20.22
Gas	227.42	-6.05	86.41

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	7.4	-0.27	-10.58

Currency

	Current	Δ MTD	Δ YTD
U.S. Dollar	92.686	0.512	2.749
Euro	1.180	-0.008	-0.042
Pound	1.376	-0.014	0.009
Yen	109.840	0.120	6.640
Canadian Dollar	1.262	0.014	-0.011
Franc	0.911	0.005	0.025

As of 08.27.2021. Source: Bloomberg. Please see page 3 for important disclosures and definitions.

¹Sectors are represented by the following indices: Investment Grade Corporate – Bloomberg U.S. Corporate Bond; Financial – Bloomberg U.S. Aggregate Investment Grade Finance; Industrial – Bloomberg U.S. Aggregate Investment Grade Industrial; Utility – Bloomberg U.S. Investment Grade Utility; High Yield – Bloomberg U.S. Corporate High Yield; Securitized – Bloomberg U.S. Securitized; Commercial Mortgage-Backed Securities – Bloomberg U.S. Aggregate CMBS; Asset-Backed Securities – Bloomberg U.S. Aggregate ABS; Mortgage-Backed Securities – Bloomberg 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 U.S. Aggregate ABS Index: A component of the Bloomberg U.S. Aggregate Index, the Bloomberg 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 U.S. Aggregate CMBS Index: A component of the Bloomberg U.S. Aggregate Index, the Bloomberg U.S. Aggregate CMBS Index includes investment grade securities that are ERISA-eligible under the underwriter's exemption.

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

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

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

Bloomberg U.S. Corporate Bond Index: The Bloomberg 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 U.S. Corporate High Yield Bond Index: The Bloomberg 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 U.S. Securitized Index: Bloomberg U.S. Securitized Index is comprised of predominantly MBS Agency securities, but also includes ABS, CMBS and covered securities. Bloomberg 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 depository 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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