



Summary

- The increase in equity market volatility, weaker oil prices, heavy new issue corporate supply and fiscal policy uncertainty provided a boost to Treasuries while risk sectors were slightly wider. The 10-year Treasury yield rallied five basis points (bps) to close the week at 0.67%. Corporate bonds held up fairly well despite the volatility as investment grade credit spreads widened two bps to 131 bps and high yield spreads widened eight bps to 496 bps.
- Elevated corporate bond supply was met with strong investor demand last week when nearly \$70 billion in supply came to market.
- Municipal yields were largely steady; however, the curve continued its steeping trend as short-term yields declined while longer-term yields increased. Demand for five-year and shorter bonds remains robust despite the five-year AAA muni yielding a meager 24 bps. The front-end rally resulted in muni/Treasury ratios of approximately 90% for the 1-5 year segment while the 10-year ratio remains elevated at 125%.

Treasury Yields			
Term	Treasury Yield	Δ MTD	Δ YTD
1 Year	0.13	0.02	-1.44
2 Year	0.13	0.00	-1.44
5 Year	0.25	-0.02	-1.44
10 Year	0.67	-0.04	-1.25
30 Year	1.41	-0.06	-0.98

Tax-Exempt

- The Federal Deposit Insurance Corporation (FDIC) reported that bank municipal ownership rose by \$19.85 billion in 2Q20, marking the second largest quarterly growth since 2013. Through the first two quarters of 2020, banks added \$85.6 billion in municipal issuance, securities and direct loans as the market dislocation earlier this year made the asset class more compelling since passage of the Tax Cuts and Jobs Act (TCJA) in December 2017. Buying activity that has occurred this year has replaced 64% of the \$67.36 billion net decline in banks' municipal portfolios.
- Moody's downgraded New York Metropolitan Transportation Authority (NY MTA) to A3 from A2 and maintained the negative outlook. According to Moody's, the downgrade "reflects an expectation that the system's ridership and revenue recovery from the coronavirus pandemic will be slower than originally forecast and result in larger budget gaps after 2020, higher leverage metrics, and significant capital program deferrals." The move comes as the NY MTA seeks to price \$900 million in bonds competitively on Tuesday.
- New Jersey's Office of Legislative Services (OLS) projected a \$4.2 billion deficit for the state in FY21. This figure is down from the \$5.6 billion deficit projected by the state treasurer's office just last month and represents the largest gap in revenue estimates on record between the two bodies. The revised figures by both the OLS and the treasurer's office may lead to a lower debt issuance amount, which is expected to price later this year and next.
- Texas closed its fiscal year on August 31 with tax revenues down 3.4% year-over-year. The decline was less than expected based on revised revenue forecasts put forth earlier this spring. The state realized a large rise in July retail sales tax collections, particularly in the home improvement space.

Municipal Yields

Term	Municipal Yield	Δ MTD	Δ YTD	Tax-Equivalent Yield	Municipal/Treasury Ratio (%)	Δ MTD	Δ YTD
1 Year	0.12	-0.03	-0.92	0.18	92.74	-48.11	26.32
2 Year	0.13	-0.03	-0.91	0.20	102.36	-20.71	36.08
5 Year	0.25	-0.01	-0.84	0.38	99.36	1.99	34.91
10 Year	0.84	0.03	-0.60	1.29	126.16	11.27	51.07
30 Year	1.58	0.02	-0.51	2.43	111.93	6.17	24.47

Taxable

- The corporate primary market roared back to life following the Labor Day holiday. A total of 48 investment grade issuers came to market to price \$67.9 billion worth of new bonds, led by Nissan (\$8 billion) and International Foods & Fragrances/Nutrition & Biosciences (\$6.25 billion). The market seemed to have no problems digesting all of this issuance as the demand stats were very strong and spreads were basically flat on the week. Supply this week should see some moderation with expectations in the \$35-50 billion range.
- Investment grade corporates saw \$7.5 billion of inflows last week with a big increase in overnight buying from Asia, which has been absent for a while. While investors may be getting more nervous about the macro picture, technicals remain the dominant force in the market which may remain the case for the short-to-intermediate term.
- Despite the mostly negative macro news, bonds of companies in some of the beaten-up COVID-impacted sectors performed well while energy sold off on a combination of lower Saudi pricing on sales to Asia, the end of the driving season, and what feels like a very technical correction in the stock market.
- Over the last couple weeks, high yield has diverged slightly from investment grade, but not by enough to make much of a difference. The spread ratio ended the week at 3.76x compared to 3.65x at the end of August, although the BB-BBB spread has moved out a more meaningful 21 bps to 186 bps.



Sectors¹

	Duration	Spread	Δ MTD	Δ YTD	52- Week High	52-Week Low
Investment Grade Corporate	8.72	131	3	38	373	93
-Financial	6.62	119	3	39	378	80
-Industrial	9.42	136	2	37	383	99
-Utility	11.20	135	1	38	298	95
High Yield	3.67	496	21	160	1100	315
Securitized	2.24	60	4	18	135	39
-Commercial Mortgage-Backed Securities	5.32	107	-3	35	260	64
-Asset-Backed Securities	2.11	44	-1	0	325	27
-Mortgage-Backed Securities	1.98	56	4	17	132	28

International Yields

	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	-0.69	-0.12	-0.13	-0.63	-0.13	-0.47	--
5 Year	-0.69	-0.10	-0.12	-0.56	0.41	-0.26	0.43
10 Year	-0.48	0.02	0.18	-0.19	0.98	0.31	1.12
30 Year	-0.04	0.58	0.75	0.51	1.93	1.12	--

Equity

	Current	Δ MTD	Δ YTD
Dow Jones	27,665.64	-980.02	-872.80
S&P 500	3,340.97	-185.68	110.19
Nasdaq	10,853.54	-1086.13	1880.94

Volatility

	Current	Δ MTD	Δ YTD
VIX	26.87	0.75	13.09
MOVE	43.12	-1.18	-15.16

Commodities

	Current	Δ MTD	Δ YTD
CRB	146.41	-6.93	-39.37
Gold	1,947.90	-31.00	424.80
Oil	37.33	-5.43	-23.73
Gas	109.49	-12.98	-59.56

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	14.1	-0.04	-22.34

Currency

	Current	Δ MTD	Δ YTD
US Dollar	93.333	0.995	-3.112
Euro	1.185	-0.007	0.063
Pound	1.280	-0.059	-0.046
Yen	106.160	0.200	-2.600
Canadian Dollar	1.318	0.012	0.019
Franc	0.909	0.000	-0.058

As of 09.11.2020. 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.
- Empire State Manufacturing Index:** The Empire State Manufacturing Index rates the relative level of general business conditions New York state. A level above 0.0 indicates improving conditions, below indicates worsening conditions. The reading is compiled from a survey of about 200 manufacturers in New York state.
- 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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