



Summary

The Federal Reserve announced on Wednesday it will keep interest rates at the lower bound and remain highly accommodative until inflation has risen to 2% and is on track to moderately exceed 2% for some time. Credit spreads tightened on the announcement and Treasury yields remain anchored their tight trading range.

Tax-exempt bonds ended the last full trading week of the summer on a quiet note as a hefty supply calendar and the Jewish holiday of Rosh Hasharrah thinned participation. That said, 19 consecutive weeks of mutual fund inflows also kept buyers looking to put cash to work, resulting in unchanged yields for the sixth straight trading day.

Tax-Exempt

New Jersey Millionaire's Tax Offers Incremental Revenue Gain

New Jersey Governor Murphy announced an agreement with legislative leaders Thursday to increase income taxes on those making over \$1 million to 10.75% from 8.97% to provide annual rebates as high as \$500 for families earning less than \$150,000. The tax hike on the state's wealthiest, which the Democrat governor has pushed for since getting elected in 2017, is estimated to net New Jersey around \$390 million of annual revenue that would be largely offset by the estimated \$340 million cost of the rebate program.

Battle Heats Up Over California Split-Roll Property Tax Ballot Measure

With election day in sight, the battle is heating up over a California ballot measure that would create the biggest changes to the state's property tax system since Proposition 13, which established the concepts of a base year value for property tax assessments and limitations on the tax rate and assessment increase for real property, remade it in 1978. Proposition 15, on the Nov. 3 ballot, would eliminate the cap on how much the assessed value on a commercial real estate property can grow year-over-year. Property taxes on most commercial properties worth more than \$3 million would go up in order to provide new funding to local governments and schools.

S&P Places Oregon City, School District on Credit Watch

An Oregon city and school district ravaged by the fires that have consumed more than 1 million acres across the state had their ratings placed on credit watch with negative implications by S&P Global Ratings on Wednesday. The issuers involved were Phoenix, Oregon, which holds an AA-minus rating from S&P, and Phoenix-Talent School District No. 4, which serves students in Jackson County, and has an A-plus underlying rating. Fortunately for bond holders, bonds (issued by school districts) are enhanced through a state guarantee program.

Treasury Yields			
Term	Treasury Yield	Δ MTD	Δ YTD
1 Year	0.12	0.01	-1.45
2 Year	0.14	0.01	-1.43
5 Year	0.28	0.01	-1.41
10 Year	0.69	-0.01	-1.22
30 Year	1.45	-0.02	-0.94

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	102.83	-38.02	36.42
2 Year	0.13	-0.03	-0.91	0.20	93.46	-29.62	27.18
5 Year	0.24	-0.02	-0.85	0.37	85.14	-12.24	20.68
10 Year	0.84	0.03	-0.60	1.29	121.09	6.20	45.99
30 Year	1.58	0.02	-0.51	2.43	108.73	2.96	21.26

Taxable

New Issue Supply Lived Up to Expectations

\$44.3 billion in new issues priced in investment grade credit versus the estimate ~\$40 billion. Large deals last week included a \$4.1 billion deal from Coca-Cola which was launched alongside a euro deal and a tender offer. Delta borrowed \$9 billion in a high yield-style trade backed by their frequent flier program, the largest debt deal ever for an airline. Last week also saw a handful of new issue green bonds (bonds designed to support climate-related or environmental projects), including a 10-year from Verizon, a 6NC5 from Rabobank, and a 7-year from EDP. Supply estimates for this week look to be in line with last week around \$30-40 billion.

Inflows to Credit Remain Strong

Investment grade inflows totaled \$7.1 billion last week. Secondary trading volume returned to their normal \$25 billion per day range last week after several weeks of lackluster activity. Dealer inventories rose modestly, by about \$700 million. Domestic investors were buyers of <3-year bonds but sold the belly of the curve. Foreigners net sold about \$700 million worth of bonds, selling the front end fairly heavily, but remaining slight net buyers of the long end.

Rating Agencies' Negative Ratings Watches Recede

While companies are not being upgraded, many of the ratings watches are being softened to negative outlooks or removed altogether.

TikTok Reorganization Tentatively Approved

In company news, Oracle spreads were basically unchanged after they seemingly "won" the bidding for the U.S. operations of TikTok. The structure of the transaction, with Walmart also potentially involved, remains very unclear and could end up being more of a partnership than anything else.



Sectors¹

	Duration	Spread	Δ MTD	Δ YTD	52- Week High	52-Week Low
Investment Grade Corporate	8.73	128	0	35	373	93
-Financial	6.61	118	2	38	378	80
-Industrial	9.44	133	-1	34	383	99
-Utility	11.17	134	0	37	298	95
High Yield	3.70	490	15	154	1100	315
Securitized	2.39	69	13	27	135	39
-Commercial Mortgage-Backed Securities	5.31	104	-6	32	260	64
-Asset-Backed Securities	2.14	42	-3	-2	325	27
-Mortgage-Backed Securities	2.15	66	14	27	132	28

International Yields

	Germany	Japan	U.K.	France	Italy	Spain	Greece
2 Year	-0.70	-0.14	-0.11	-0.64	-0.18	-0.51	--
5 Year	-0.69	-0.11	-0.13	-0.59	0.34	-0.30	0.42
10 Year	-0.49	0.02	0.18	-0.22	0.96	0.29	1.08
30 Year	-0.04	0.59	0.75	0.48	1.89	1.10	--

Equity

	Current	Δ MTD	Δ YTD
Dow Jones	27,657.42	-988.24	-881.02
S&P 500	3,319.47	-207.18	88.69
Nasdaq	10,793.28	-1146.39	1820.68

Volatility

	Current	Δ MTD	Δ YTD
VIX	25.83	-0.29	12.05
MOVE	37.24	-7.06	-21.04

Commodities

	Current	Δ MTD	Δ YTD
CRB	151.54	-1.80	-34.25
Gold	1,962.10	-16.80	439.00
Oil	41.11	-1.65	-19.95
Gas	123.66	1.19	-45.39

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	14.4	0.25	-22.05

Currency

	Current	Δ MTD	Δ YTD
US Dollar	92.926	0.588	-3.519
Euro	1.184	-0.007	0.063
Pound	1.292	-0.047	-0.034
Yen	104.570	-1.390	-4.190
Canadian Dollar	1.320	0.014	0.022
Franc	0.912	0.002	-0.055

As of 09.18.2020. 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.

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