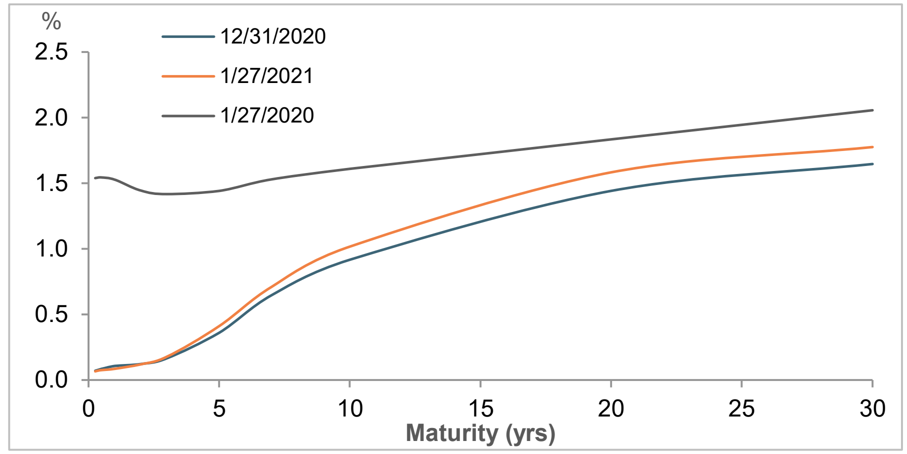
IR+M INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
January 22 – January 28, 2021

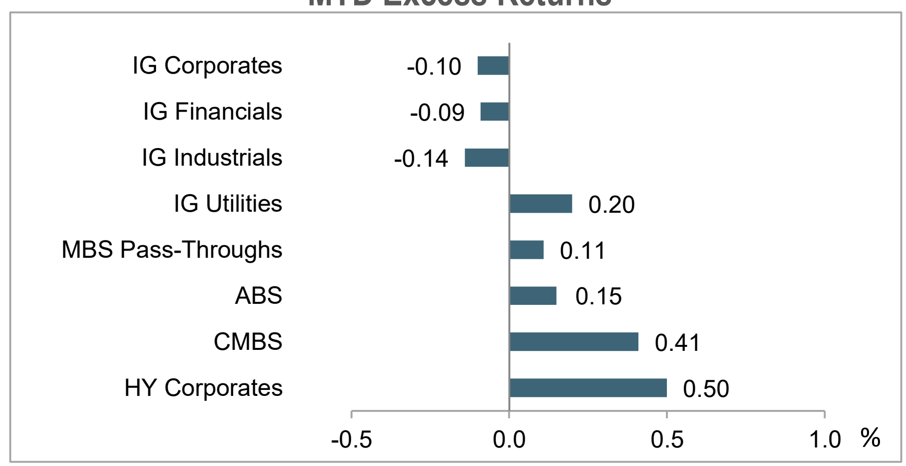
- Market exuberance moderated on mixed economic data and the Federal Reserve's (Fed) assessment that the pace of the US recovery was at risk due to the resurgence in coronavirus cases
  - US GDP grew at an annualized rate of 4% in the fourth quarter, down from a record 33.4% in the previous quarter; GDP contracted 3.5% in 2020, the first annual decline since the financial crisis and the largest since 1946
- The Fed held the fed funds target rate steady at its January meeting and opted to continue asset purchases of $120 billion per month, maintaining its looser monetary policy on the weakening recovery
  - Fed Chairman Powell noted that he had no intention of withdrawing support from the economy, and any plans around a taper would be clearly communicated well in advance
  - While US Treasury yields fell across the curve, the 10-year yield remained above 1%, closing at 1.02%
- Investment-grade corporate issuers priced over $27 billion of a projected $20-$25 billion; deals were heavily oversubscribed as investors looked to put cash to work amid higher yields
  - Corporate spreads widened 5bps week-over-week, from 93bps to 98bps, on the weaker market tone
- The high-yield new issue market, capitalizing on investor demand, saw over $7 billion; with month-to-date supply of $44 billion, this is already the busiest January on record, and on-track to be the third busiest month ever
  - High-yield spreads widened 17bps week-over-week, from 345bps to 362bps, on equity volatility and heavy supply
- Commercial mortgage-backed securities (CMBS) outperformed other securitized sectors, as the sector has only seen $2 billion in private-label issuance month-to-date, down from over $3 billion last January
- The 10-year muni/Treasury ratio ended the week at 68%, just off its record low, as positive technicals supported the municipal market
  - Investors added $3 billion to municipal bond mutual funds, while month-to-date issuance was down 20% from the previous year

Treasury Yield Curve



Maturity	2-year	5-year	10-year	20-year	30-year
1/27/2021	0.12	0.41	1.02	1.58	1.77
MTD Change	0.00	0.05	0.10	0.14	0.12

MTD Excess Returns



Sources: Bloomberg Barclays, Bloomberg, and Bloomberg Index Services Limited

Excess returns are the curve-adjusted excess return of a given index relative to a term-structure matched position in Treasuries.

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