IR+M

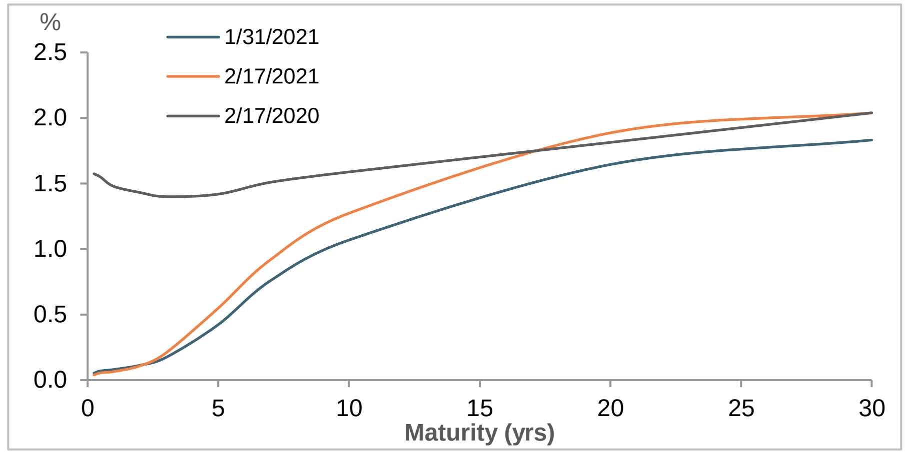
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

February 12 – February 18, 2021

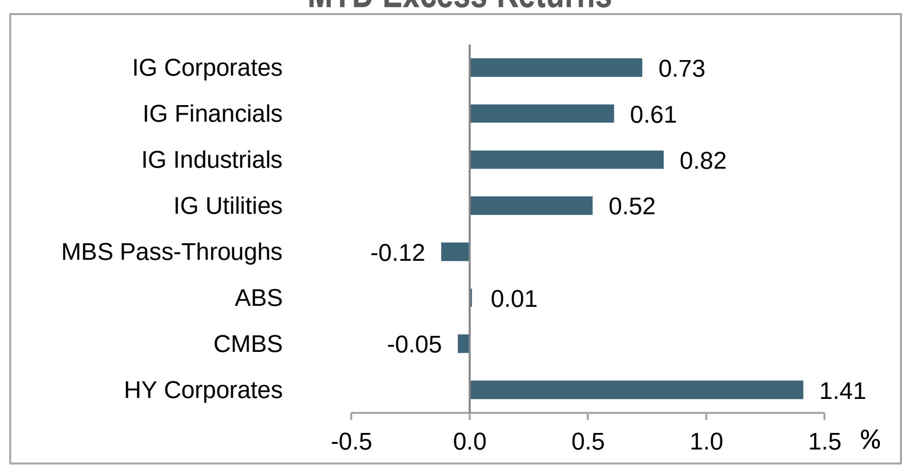
- Risk assets generally performed well, buoyed by falling coronavirus infections and positive earnings; however, varied economic data and increasing inflation expectations may become a headwind going forward
  - January retail sales jumped 5.3% following December’s decline of 0.7%, the largest increase in 7 months; the boost in spending was likely due, in part, to stimulus checks
  - Underscoring that the road to recovery may continue to be bumpy, initial jobless claims increased more than expected to 861,000
- In the January minutes, the Federal Reserve reiterated its accommodative posture until “substantial further progress has been made” towards its maximum employment and inflation goals
  - The 10-year and 30-year Treasuries settled at 1.27% and 2.04%, respectively, the highest levels since last February
- Investment-grade corporate supply totaled $14 billion, below expectations of $20 billion, amid a holiday-shortened week
  - Corporate spreads tightened 3bps, from 92bps to 89bps, due to limited supply and a continued search for yield
  - Industrials were the best performing sector, as WTI crude oil pushed over $60/barrel on supply disruptions caused by extreme winter weather
- High-yield issuers priced about $5 billion this week, bringing the month-to-date total to approximately $26 billion
  - Supported by the rise in equity markets, lighter supply, and higher oil prices, high-yield spreads tightened 8bps, from 327bps to 319bps
- Asset-backed securities (ABS) outperformed other securitized sectors due to increased demand for higher-quality, short-duration bonds
- Although the yield of the 10-year AAA-rated muni increased 7bps week-over-week, from 0.68% to 0.75%, muni/Treasury ratios continued to fall due to the large rise in Treasury rates; the 10-year muni/Treasury ratio fell 2% to 59%

Treasury Yield Curve



Maturity	2-year	5-year	10-year	20-year	30-year
2/17/2021	0.11	0.55	1.27	1.89	2.04
MTD Change	0.00	0.13	0.20	0.25	0.21

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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