IR+M INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
January 2021

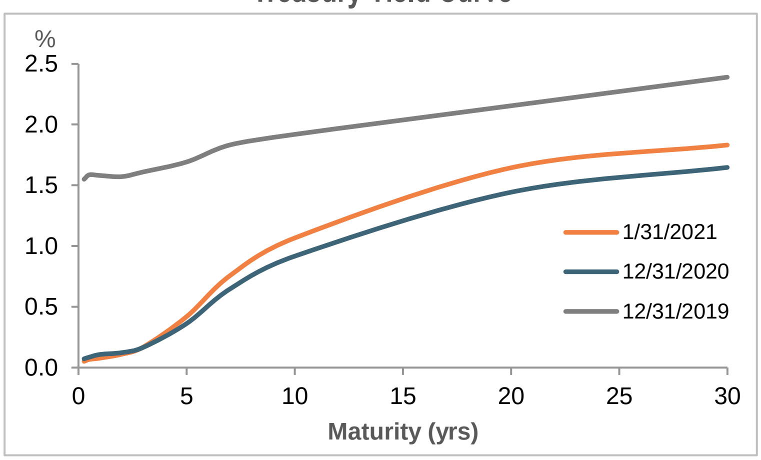
February 1, 2021

MARKET NEWS

- January saw an uptick in volatility and mixed risk asset performance as the market digested news including: political unrest at the Capitol, a Senate majority for Democrats, the spread of coronavirus mutations and President Biden taking office
    - The S&P 500 Index reached a new high of 3,871, before fading into month-end and closing down over 1%
- The Federal Reserve (Fed) left the fed funds target rate unchanged at 0.0%-0.25%, and commented they had no intention of withdrawing economic support, and tapering of asset purchases would be communicated well in-advance
- The Treasury curve steepened, as a Senate majority for Democrats increased the prospect of further stimulus and pushed longer-term rates higher; the difference between the 2- and 10-year rate reached 100ps, the steepest level since 2017
    - The 10-year Treasury rate closed above 1%, more than double the recent low of 0.51% set in August 2020
    - Treasury Secretary Yellen reintroduced the prospect of a 50-year Treasury Bond to take advantage of low yields; this tenor could also provide additional price transparency for longer-duration corporates and benefit LDI investors
- Investment-grade corporate issuance totaled roughly $128 billion, surpassing estimates of $115 billion, but still 1% behind last year's pace; high-yield corporate issuers priced almost $52 billion, the third highest monthly total on record
    - Investor demand for newly issued bonds showed no signs of letting up, with negative new issue concessions and oversubscription levels averaging over 3x
- Despite a generally solid start to quarterly earnings season and a continued appetite for risk, investment-grade corporate spreads leaked 1bp wider, from 96bps to 97bps, on the back of heavier-than-expected supply
    - High-yield corporate spreads followed suit, widening 2bps, from 360bps to 362bps
- Securitized sectors outperformed Treasuries, particularly commercial mortgage-backed securities (CMBS), as robust demand and muted supply were supportive of spreads; CMBS issuance of almost $6 billion was 54% behind last year's pace
- Municipals outpaced Treasuries and the 10-year muni/Treasury ratio closed at 65%, a new record low for at least the last 20 years, as taxable investors competed for limited supply

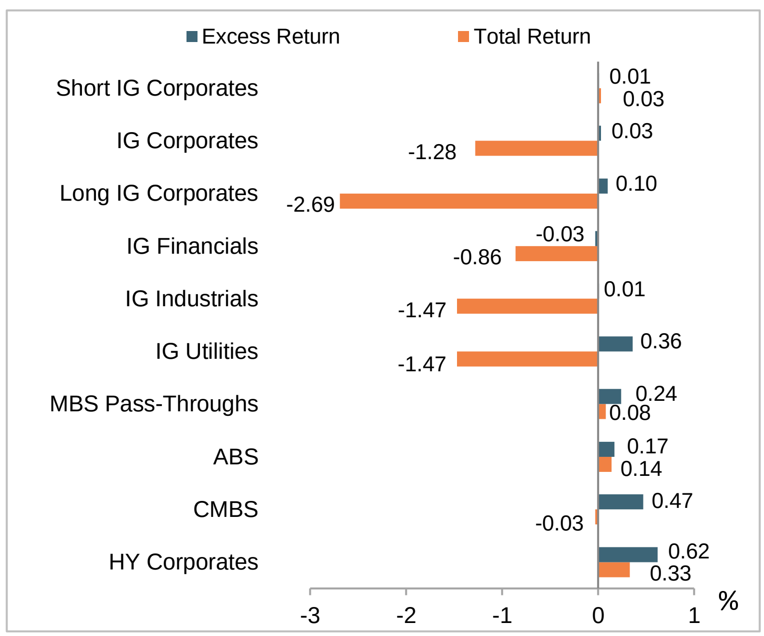
MARKET STATISTICS

Treasury Yield Curve



Maturity	2-year	5-year	10-year	20-year	30-year
1/31/2021	0.11	0.42	1.07	1.64	1.83
MTD Change	-0.01	0.06	0.15	0.20	0.18

MTD Returns



As of: 1/31/21. Sources: Bloomberg, Bloomberg Barclays.

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