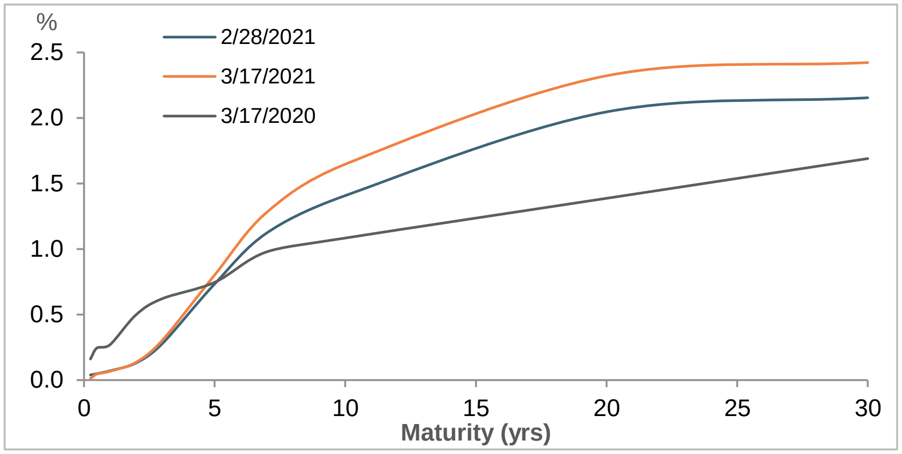
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

March 12 – March 18, 2021

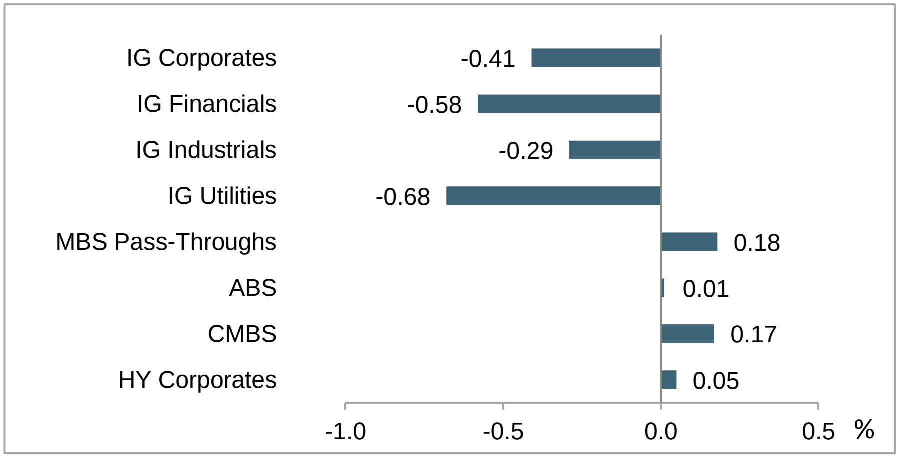
- Equity markets set new all-time highs amid upwardly-revised growth projections and the roll-out of the recently passed stimulus package; total returns in the bond market, however, continued to experience weakness on the expectation of higher rates
- The Federal Open Market Committee statement noted a commitment to maintaining interest rates near zero through 2023 and continuance of the monthly purchases of Treasuries and mortgage-backed securities (MBS) "until substantial further progress has been made"
    - Federal Reserve (Fed) officials increased their 2021 GDP growth projections from 4.2% to 6.5%, the largest annual rate since 1992
    - Chairman Jerome Powell stated in his press conference that while the Fed's revised inflation target increased from 1.8% to 2.4% for 2021, this increase should be temporary, and longer-run inflation is expected to be 2%
- Despite the Fed's assurances, the 10-year and 30-year Treasury yields touched 1.71% and 2.46%, an increase of 19bps and 21bps, respectively
    - The difference between the 2-year and 10-year reached 157bps, the steepest level since mid-2015
- Investment-grade corporate borrowers priced over $24 billion, below projections of $35 billion
    - Lighter than expected supply pushed corporate spreads 2bps tighter week-over-week, from 99bps to 97bps
- Continuing to capitalize on record low borrowing costs, high-yield issuers priced over $10 billion, bringing year-to-date supply to more than $127 billion, the second busiest quarter on record
    - Supported by the rally in equities, high-yield spreads tightened 2bps, from 334bps to 332bps
- MBS outperformed other securitized sectors, as the MBA Mortgage Applications Index declined by 2.2% week-over-week, driven by a 4% drop in the Refinance Index
- Municipal bonds continued to outperform Treasuries, and the 10-year muni/Treasury ratio fell from 67% to 64%

Treasury Yield Curve



Maturity	2-year	5-year	10-year	20-year	30-year
3/17/2021	0.13	0.80	1.65	2.32	2.42
MTD Change	0.00	0.07	0.24	0.27	0.27

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.

100 Federal Street, 30th Floor Boston, MA 02110 (617) 330-9333 www.incomeresearch.com