IR+M

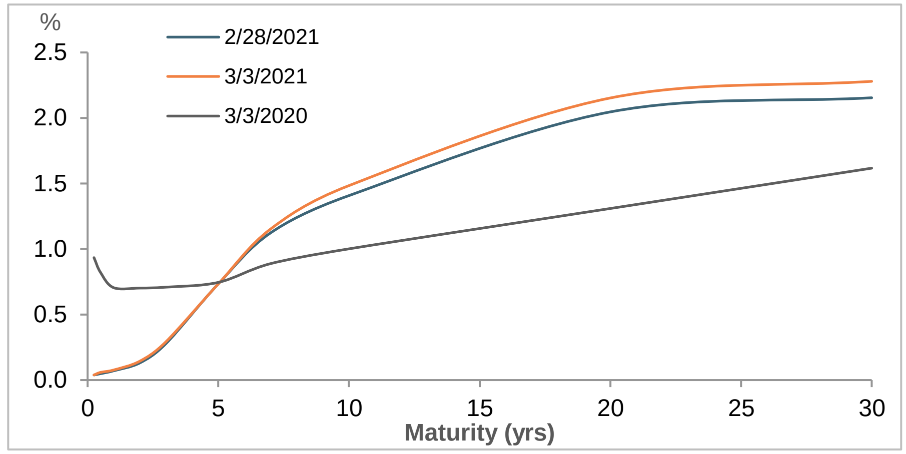
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

March 1 – March 4, 2021

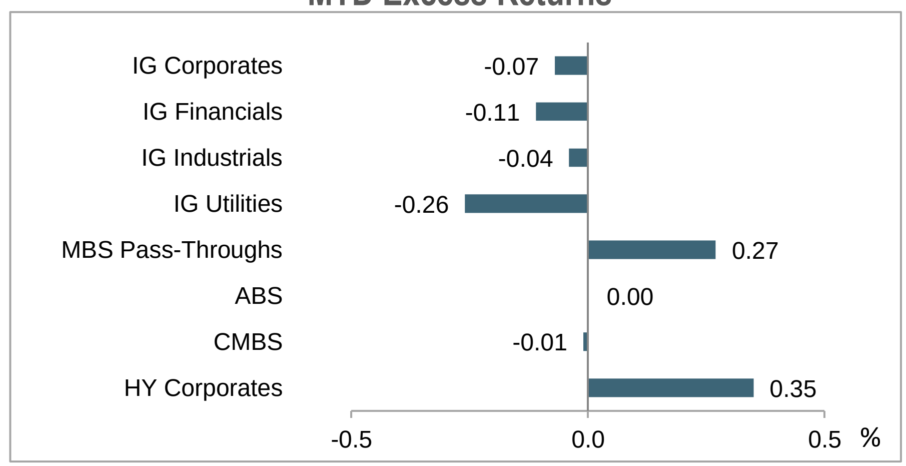
- Against a backdrop of positive economic data and the increasing likelihood of stimulus, Treasury yields continued to climb, driving a largely risk-off tone, as investors pulled forward expectations that the Federal Reserve (Fed) could tighten policy sooner than initially expected
  - February ISM Manufacturing PMI was stronger than expected, rising to 60.8; the Services PMI was weaker than expected at 55.3, but remains in expansion territory
  - Despite Chairman Jerome Powell’s speech this afternoon stating that the Fed would remain accommodative until their goals of maximum employment and inflation averaging 2% over time are met, the 10-year Treasury rose to 1.55%
- The Fed’s Beige Book noted that the US economy continued to grow modestly through mid-February and most businesses remained optimistic over the next 6-12 months as vaccines become more widely available
- Issuance in the investment-grade market started strong with over $65 billion as borrowers pulled supply forward on concerns of rising borrowing costs; issuance for March is projected to be $135 billion
  - Although demand was robust, the heavy supply caused corporate spreads to widen 1bp from 90bps to 91bps
- High-yield issuers priced over $8 billion this week as borrowers continue to capitalize on the favorable funding environment
  - High-yield spreads tightened 5bps, from 326bps to 321bps
  - The outperformance in high-yield was driven by the CCC-rated bucket, which posted modest gains despite equities falling for the week
- After their worst February returns in over a decade, mortgage-backed securities (MBS) outperformed other securitized sectors, as Fed officials signaled that quantitative easing would continue
- While issuance has returned to the municipal market, supply is down more than 15% with $60 billion pricing year-to-date, driven by a 20% decline in tax-exempt issuance

Treasury Yield Curve



Maturity	2-year	5-year	10-year	20-year	30-year
3/3/2021	0.14	0.73	1.48	2.15	2.28
MTD Change	0.01	0.00	0.07	0.10	0.13

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.