IR+M

INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

February 2021

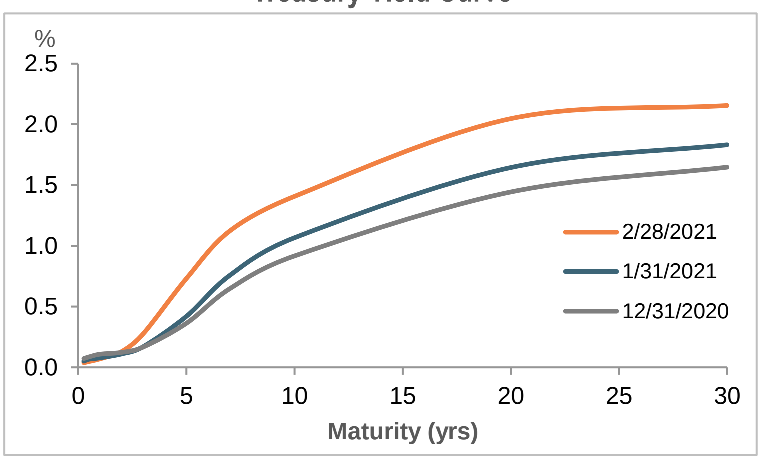
March 1, 2021

MARKET NEWS

- Optimism around future economic growth and higher inflation concerns lifted risk assets; coronarvius infections slowed, supply constraints pushed oil prices to $60 a barrel, and the proposed $1.9 trillion stimulus package advanced to the Senate
    - Inflation expectations pushed intermediate- and longer-maturity Treasury yields to their highest levels in over a year, with the 10-year and 30-year Treasury closing at 1.41% and 2.15%, respectively
- The Federal Reserve (Fed) reiterated its intention to remain accommodative until “substantial further progress has been made” toward its maximum employment and inflation goals
    - The 10-year breakeven inflation rate, a measure of expected future inflation, reached as high as 2.25%, the highest level since mid-2014, however, CPI, a measure of actual inflation, only increased by 1.4%, below expectations
- Investment-grade borrowers rushed to price new deals amid expectations of higher rates, with supply totaling roughly $115 billion; this month’s total set a new record for the month of February after surpassing the $113 billion issued in February 2015
    - Despite heavy supply, 16 straight weeks of inflows into investment grade funds supported spreads, which tightened 7bps, from 97bps to 90bps, fully recovering from the widening that began in February 2020
- High yield corporate spreads tightened 36bps, from 362bps to 326bps, as higher oil prices, positive corporate earnings and record-setting equity markets outweighed fund outflows and heavy supply
    - High-yield issuers priced almost $38 billion – a new record for the month of February – bringing the first quarter total to roughly $90 billion and only $1 billion behind the heaviest quarter of issuance on record
- Lower-coupon mortgage-backed securities (MBS) underperformed Treasuries and higher-coupon MBS, as the increase in rates reduced the incentive for lower-coupon borrowers to refinance, causing durations to extend
    - 2.5% coupons underperformed Treasuries by 100bps in February while 5% coupons outperformed by 72bps
- Municipals underperformed Treasuries, as muni/Treasury ratios increased after four consecutive months of falling ratios
    - The 10-year muni/Treasury ratio rose almost 15% to 80%, but still remains below the 5-year average of over 90%

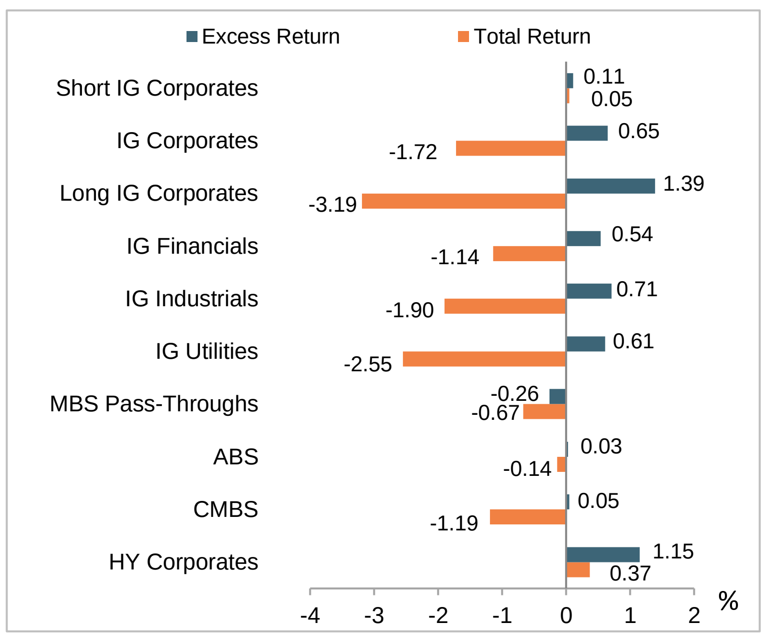
MARKET STATISTICS

Treasury Yield Curve



Maturity	2-year	5-year	10-year	20-year	30-year
2/28/2021	0.13	0.73	1.41	2.05	2.15
MTD Change	0.02	0.31	0.34	0.41	0.32
YTD Change	0.01	0.37	0.49	0.61	0.50

MTD Returns



As of: 2/28/21. 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.