IR+M

INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

March 2021

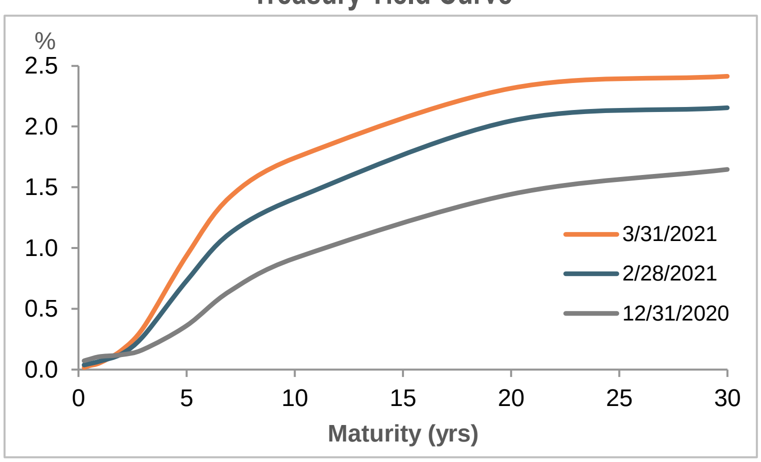
April 1, 2021

MARKET NEWS

- A firm market tone supported risk assets with the passage of the American Rescue Plan Act and accommodative FOMC comments; equities reached new highs, while fixed income total returns were generally negative as rates increased
- The Federal Reserve (Fed) delivered a dovish message, keeping the federal funds target range near zero, and vowing to continue purchasing Treasuries and agency mortgage-backed securities (MBS) until “further progress has been made”
    - The majority of the Fed officials do not expect the fed funds rate to increase until 2023, however, seven of the 18 members anticipate a hike in 2022, two more members than in December
- Treasury yields continued their ascent higher, especially in the long end, as investors favored risk assets over Treasuries, and long-term inflation expectations rose, with the 10-year breakeven inflation rate climbing 22bps to 2.37%
- Corporate supply was undeterred amid rising Treasury yields, and surpassed expectations, as this month’s investment-grade and high-yield totals were the second-highest March and highest monthly total, respectively, on record
    - Investment-grade issuers priced roughly $196 billion, behind the $259 billion issued in March 2020; expectations are for $90-100 billion of additional issuance in April, in-line with historical averages
    - High-yield borrowers took advantage of investors’ appetite for newly issued bonds, issuing roughly $59 billion and narrowly surpassing the previous record of $58 billion from June 2020
- The deluge of supply weighed on investment grade corporate spreads, which leaked 1bp wider, from 90bps to 91bps
    - High-yield spreads tightened 16bps, from 326bps to 310bps, as spreads were buoyed by higher equities and fund inflows; total returns were positive due to the higher coupon return offsetting the negative impact from higher yields
- Issuance of asset-backed securities (ABS) totaled roughly $27 billion, well-above March 2020’s total of $9 billion, but closer to the $21 billion that priced in March 2019
- Municipals outperformed Treasuries, as aid to state and local governments could total $360 billion, easing any credit concerns; the 10-year muni/Treasury ratio fell 18%, from 80% to 62%

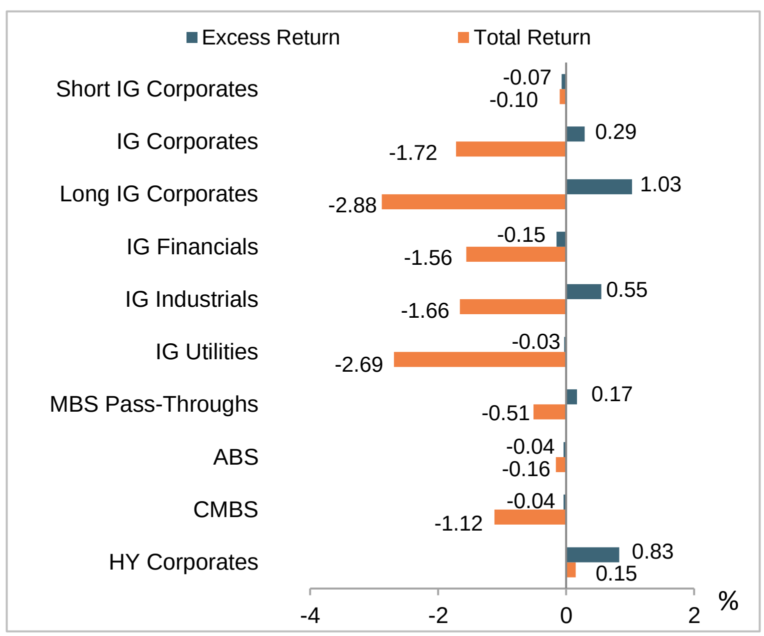
MARKET STATISTICS

Treasury Yield Curve



Maturity	2-year	5-year	10-year	20-year	30-year
3/31/2021	0.16	0.94	1.74	2.31	2.41
MTD Change	0.03	0.21	0.33	0.26	0.26
YTD Change	0.04	0.58	0.82	0.87	0.76

MTD Returns



As of: 3/31/21. 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.