IR+M

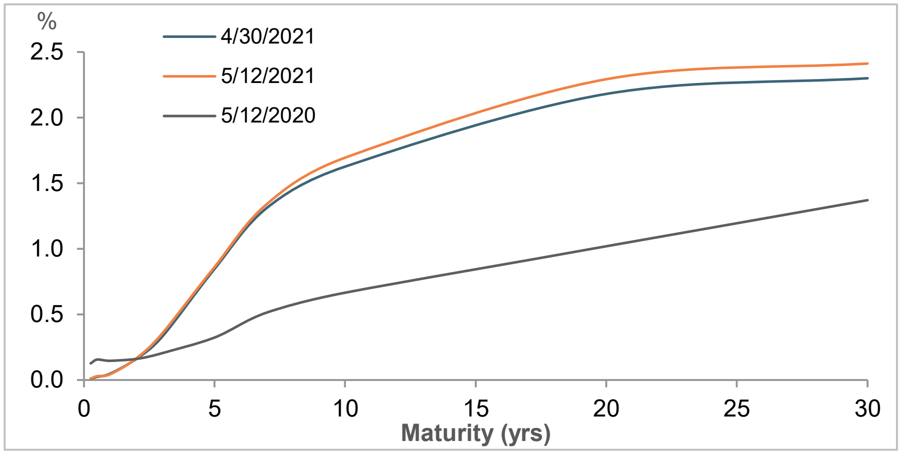
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

May 7 – May 13, 2021

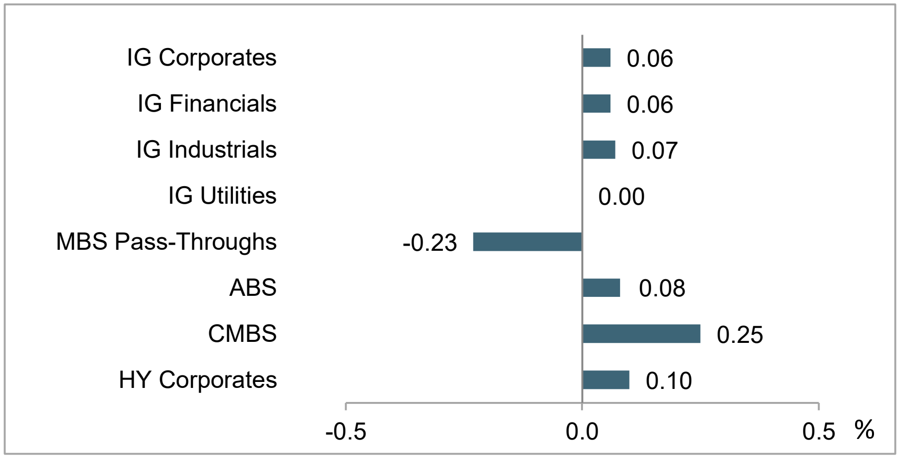
- The prospect of an overheating US economy contributed to a risk-off market sentiment, while softer-than-expected labor market data reflected an uneven recovery
  - The US Consumer Price Index increased 4.2% year-over-year in April, above expectations of 3.6%; while the jump was the biggest rise since 2008, inflation levels were also relatively low at the start of the pandemic
  - Despite job openings at a record high, US non-farm payroll in April underwhelmed, with 266,000 jobs added versus expectations of 1 million
- Federal Reserve (Fed) officials were surprised by the higher inflation readings, but continue to view inflation risks as transitory
  - Market-based inflation expectations rose, with the 10-year breakeven closing at 2.56%, the highest level in over five years
  - Treasury yields, which initially fell in the front-end on the weaker jobs data, climbed later in the week; the 10-year Treasury yield closed up 12bps to 1.69%, and longer yields also ended higher
- Investment-grade issuers priced roughly $42 billion of a projected $45 billion; over $27 billion was issued on Monday, the largest day by volume in over a year, as Amazon brought an $18 billion jumbo deal
  - Corporate spreads tightened 1bps, from 88bps to 87bps, as demand remained healthy despite the heavy supply
- High-yield issuers were undeterred by the weaker market tone and brought over $10 billion in new supply
  - Investor appetite for new issue remained resilient, but spreads widened in sympathy with equity market weakness, closing 11bps wider at 302bps
- Year-to-date new issue for collateralized loan obligations (CLOs) exceeded $55 billion, compared to $21 billion in 2020
- In the municipal market, $150 billion of debt is projected to mature or be called in the next three months, which could lead to net negative supply and help keep muni/Treasury ratios depressed

Treasury Yield Curve



Maturity	2-year	5-year	10-year	20-year	30-year
5/12/2021	0.17	0.86	1.69	2.29	2.41
MTD Change	0.01	0.01	0.06	0.11	0.11

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.