INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
May 2021

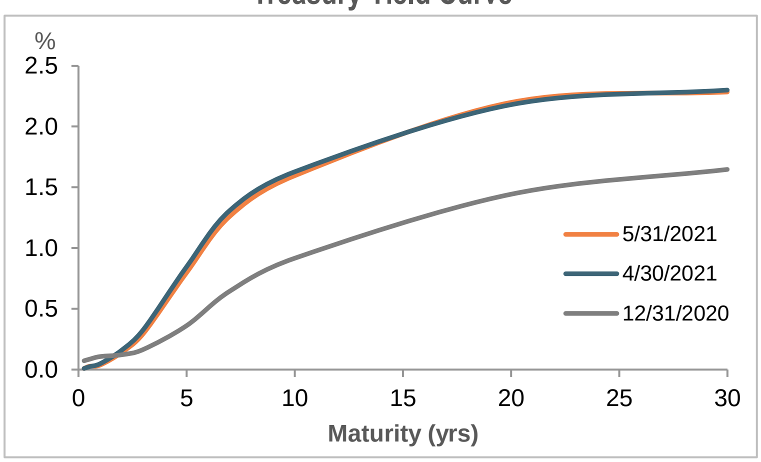
June 1, 2021

MARKET NEWS

- Market sentiment ended May on a high-note after see-sawing throughout the month, as investors had to digest mixed economic data, FOMC meeting minutes from April, and a growing optimism surrounding the reopening of the economy
    - April CPI increased 4.2% year-over-year, above expectations of 3.6%; however, Federal Reserve (Fed) officials reiterated inflationary pressures were transitory
    - Despite job openings at a record high, US non-farm payroll in April underwhelmed with 266,000 jobs added versus expectations of 1 million
- The 10-year and 30-year Treasury rate fell by 3bps and 2bps respectively, however, the 20-year Treasury yield increased by 2bps month-over-month to 2.2%; although the 20-year Treasury became the official benchmark for 20-year corporates on May 1st, the tenor underperformed other long-maturities as market sponsorship is still relatively light
- Investment-grade corporate spreads were range-bound, with spread moves limited to 1bp or less day-over-day, but eventually closed 4bps tighter, from 88bps to 84bps, the tightest levels since early 2007
    - Issuance totaled roughly $136 billion, behind expectations of $150 billion; the year-to-date total of $684 billion is 30% behind 2020's pace, but more than 30% ahead of 2019's
- High-yield corporate spreads widened 5bps, from 291bps to 296bps, in sympathy with periods of equity market volatility; lower-quality outperformed higher-quality, with the average CCC-rated issuer outperforming Treasuries by 55bps
    - Despite some equity market weakness, the high-yield corporate market continued its record-setting pace and priced another $47 billion of new bonds, the highest total during the month of May on record
    - Year-to-date issuance of $244 billion is well-ahead of the $152 billion priced by this time in 2020
- Agency mortgage-backed securities (MBS) underperformed Treasuries, as the potential tapering of asset purchases by the Fed – which totaled over $113 billion of MBS in May – garnered increased attention
- Muni/Treasury ratios hovered near historically low levels, despite shorter-maturity municipals underperforming Treasuries; less than $7 billion of supply is expected next month, a tailwind that could potentially anchor ratios at these low levels

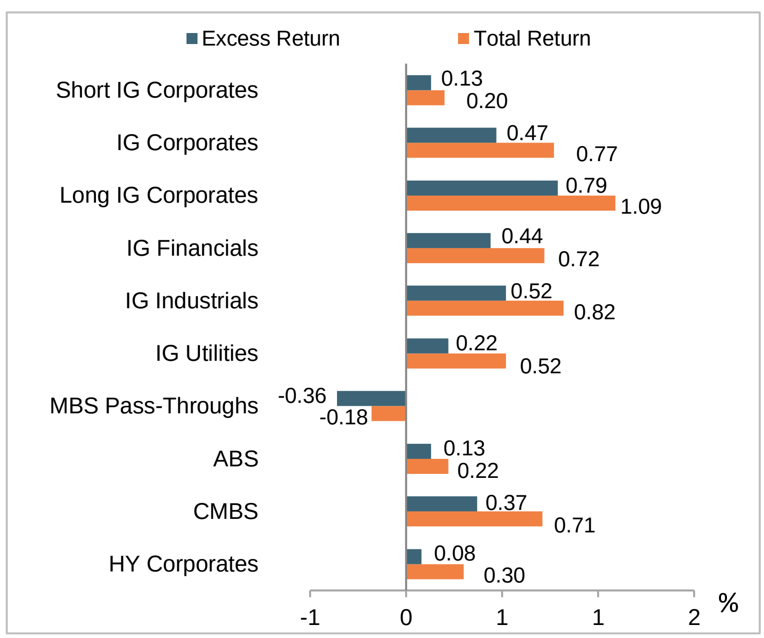
MARKET STATISTICS

Treasury Yield Curve



Maturity	2-year	5-year	10-year	20-year	30-year
5/31/2021	0.14	0.80	1.60	2.20	2.28
MTD Change	-0.02	-0.05	-0.03	0.02	-0.02
YTD Change	0.02	0.44	0.68	0.76	0.63

MTD Returns



As of: 5/31/21. 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.