INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
June 2021

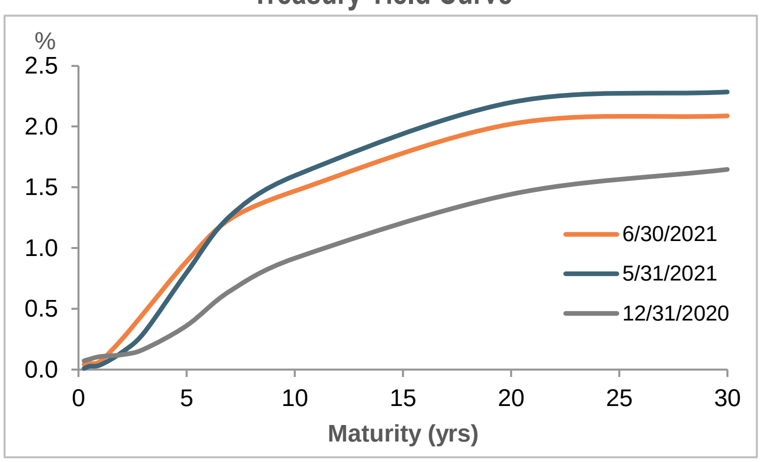
July 1, 2021

MARKET NEWS

- Investor appetite for risk persisted in June, despite mixed economic data and relatively hawkish FOMC meeting minutes, but the tone began to sour later in the month on growing concerns of a highly contagious strain of COVID-19
  - Initial jobless claims exceeded estimates each week throughout the month, suggesting ongoing labor market weakness; however, the unemployment rate dropped from 6.1% to 5.8%
  - The CPI index surged 5% year-over-year in May, the largest increase since August 2008
- Federal Reserve (Fed) Chair Powell emphasized the US economic recovery was incomplete and inflationary pressures were transitory, although FOMC meeting minutes showed the median dot plot shifted from one to two rate hikes in 2023
  - The Treasury curve flattened as investors priced in the possibility of rate hikes sooner-than-expected and lower inflation, with the difference between the 30-year and 5-year Treasury yield falling from 148bps to 119bps
  - The Fed announced it would wind down its Secondary Market Corporate Credit Facility (SMCCF); however, the facility only holds $5 billion of investment-grade bonds and $9 billion of high-grade and high-yield ETFs
- Borrowers took advantage of an attractive funding environment characterized by low yields, tight spreads, and unceasing demand by issuing almost $113 billion of investment-grade debt; year-to-date supply reached almost $800 billion
  - Investment-grade corporate spreads continued to grind tighter amidst a supportive market backdrop, falling 4bps, from 84bps to 80bps, and reaching the tightest level since March 2005
  - Investors continued to turn to lower-quality bonds in their search for yield, as the spread compensation between A- and BBB-rated corporates fell to 37bps, the tightest level in at least the last 10 years
- High-yield spreads tightened 28bps to 268bps, the lowest level since 2007, while yields fell to a new all-time low of 3.75%
- Securitized sectors lagged corporates during the month, with agency mortgage-backed securities (MBS) delivering the worst monthly excess return since January 2020, amid concerns of increased supply and a reduction in Fed support
- Taxable muni issuance totaled almost $10 billion in June, bringing the year-to-date total to $52 billion; although this year's pace is in-line with 2020, it is over 300% ahead of 2019's

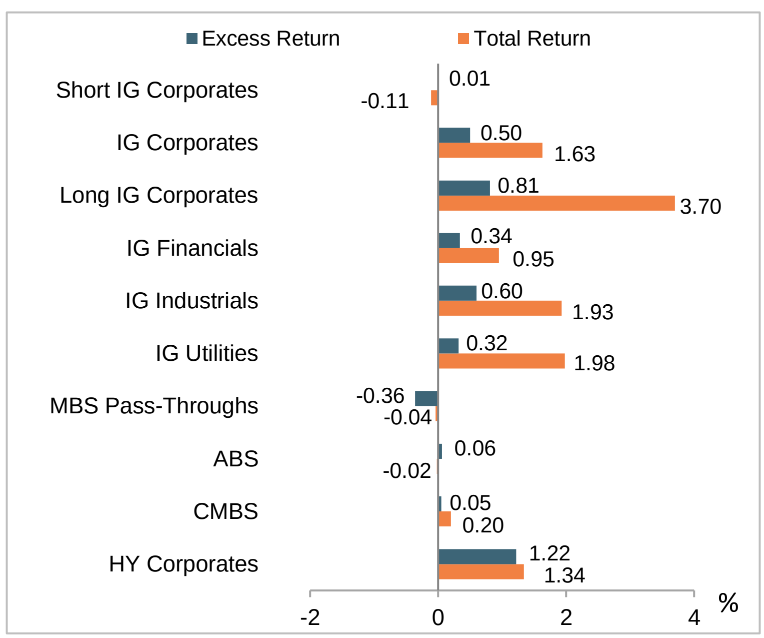
MARKET STATISTICS

Treasury Yield Curve



Maturity	2-year	5-year	10-year	20-year	30-year
6/30/2021	0.25	0.89	1.47	2.02	2.09
MTD Change	0.11	0.09	-0.13	-0.18	-0.19
YTD Change	0.13	0.53	0.55	0.58	0.44

MTD Returns



As of: 6/30/21. 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.