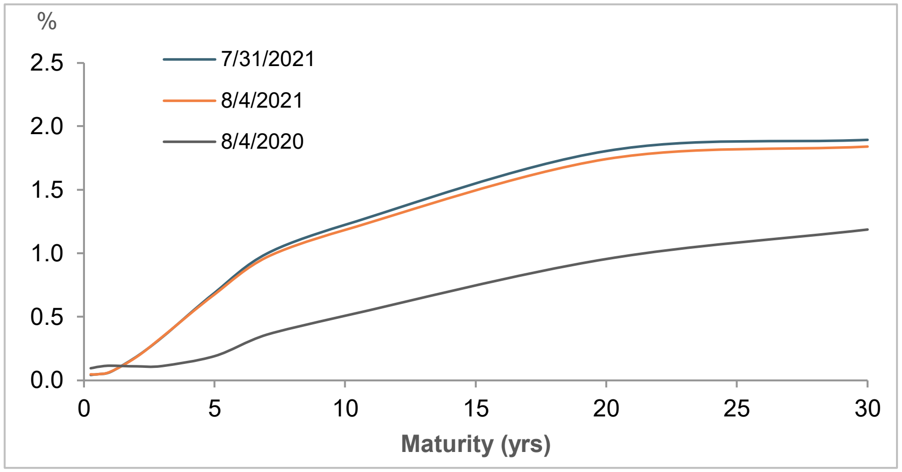
IR+M
INCOME RESEARCH + MANAGEMENT

# IR+M CLIENT UPDATE
## August 1 – August 5, 2021

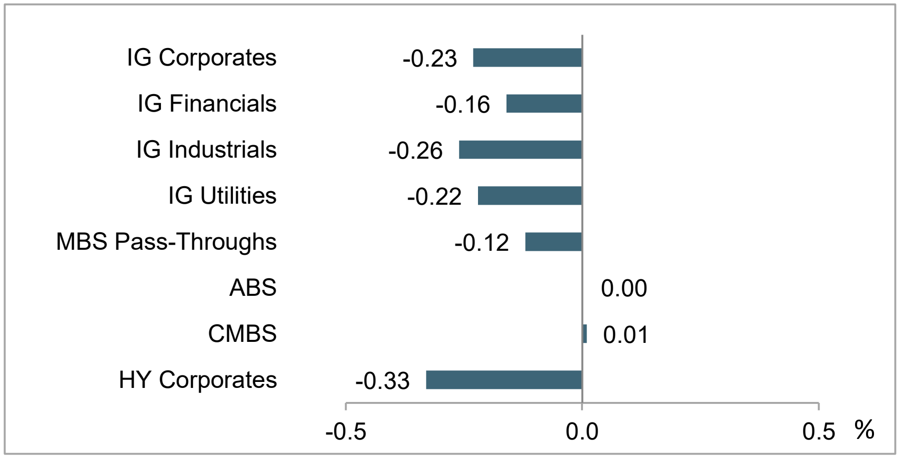
- While the US economic recovery remains on solid footing, a growing COVID resurgence, mixed economic data, and a likely reduction in Treasury issuance later this year weighed on bond yields
    - July's ISM Services Index jumped to a record high of 64.1, and could have been stronger if not for labor and materials shortages
    - The ADP Employment Report showed uneven progress in the labor market, as private companies added 330,000 jobs in July, which was well-below expectations of 695,000
- The US Treasury announced it is exploring reducing the size of debt sales this fall, paving the way for the first reduction in five years
    - The 10-year Treasury yield fell 4bps over the week, from 1.22% to 1.18%, despite commentary from some Federal Reserve (Fed) officials that tapering could begin as early as September
- Investment-grade corporate issuance sprung back to life, as issuers priced $32 billion of a projected $25-$30 billion; estimates for August vary widely, but supply is expected to be front loaded over the first two weeks
    - Many issuers repriced their deals tighter from initial price talk due to strong demand, and spreads were only 2bps wider at 88bps
- High-yield supply totaled over $11 billion, including several first-time issuers, as the primary market was resilient in the face of continued fund outflows and rising yields
    - High-yield spreads widened 15bps, from 294bps to 309bps
- As a testament to the heavy supply in mortgage-backed securities (MBS), the Fed Bank of New York (FRBNY) reported 2Q origination of $1.2 trillion, and one year origination of $4.6 trillion, a historic high
- Investors added $2.6 billion to municipal bond mutual funds for the week ended July 28th, up from $1.9 billion the prior week; fund flows have been positive for the last 21 consecutive weeks

### Treasury Yield Curve




| Maturity | 2-year | 5-year | 10-year | 20-year | 30-year |
|---|---|---|---|---|---|
| *8/4/2021* | 0.18 | 0.68 | 1.18 | 1.74 | 1.84 |
| *MTD Change* | -0.01 | -0.01 | -0.04 | -0.07 | -0.05 |

### 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.

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