INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
August 2021

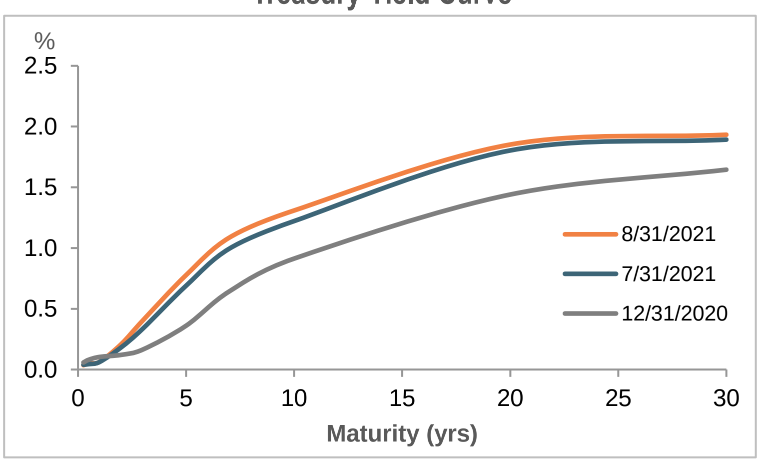
September 1, 2021

MARKET NEWS

- The summer doldrums took hold of August as the month progressed, despite varied economic data and continued delta variant concerns, with investors becoming increasingly focused on the Federal Reserve (Fed) Chair Powell's Jackson Hole speech at the end of the month
    - July CPI increased 5.4% year-over year; although elevated, the monthly increase of 0.5% moderated from June, as many categories related to reopening showed signs of easing
    - The US labor market strengthened in July, with employers adding 943,000 jobs, the best pace in nearly a year; the unemployment rate fell from 5.9% to 5.4%
- At the Fed's Jackson Hole meeting, Fed Chair Powell reiterated that the Fed will be as patient as possible given the "transitory" inflation pressures, noting that there is still "much ground to cover to reach maximum employment"
- Treasury yields increased across the curve, most notably in the belly of the curve, as investors favored higher-yielding spread product; the 10-year Treasury yield rose 9bps, from 1.22% to 1.31%
- August supply was front-loaded over the first two weeks, while the final two weeks accounted for less than 15% of the month's total; investment-grade corporate issuers priced $85 billion in August, down 35% year-over-year
    - Corporate spreads were range-bound during the month, ending 1bp wider at 87bps from 86bps
- August marked the second busiest August on record with high-yield borrowers issuing more than $34 billion during the month
    - Despite robust supply, high-yield spreads tightened 6bps, from 294bps to 288bps, as oil rebounded off monthly lows and risk appetite returned
- Securitized sectors performed relatively well, outperforming investment-grade corporates; agency mortgage-backed securities (MBS), however, underperformed Treasuries in August on concerns of a sooner-than-expected Fed taper
- Munis underperformed Treasuries across the curve, with the 10- and 30-year muni/Treasury ratio increasing 2% and 6%, respectively, to 71% and 81%, the highest levels since February

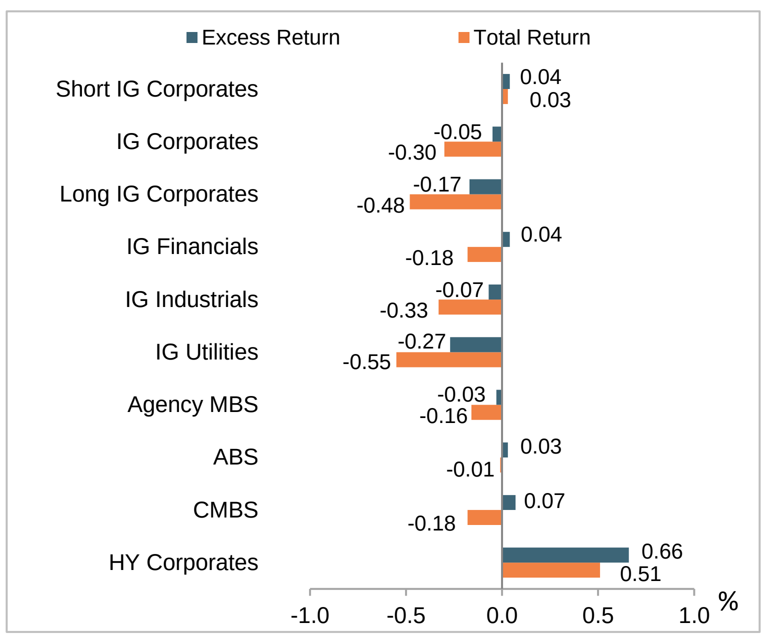
MARKET STATISTICS

Treasury Yield Curve



Maturity	2-year	5-year	10-year	20-year	30-year
8/31/2021	0.21	0.78	1.31	1.85	1.93
MTD Change	0.03	0.09	0.09	0.05	0.04
YTD Change	0.09	0.42	0.40	0.41	0.29

MTD Returns



As of: 8/31/21. Sources: Bloomberg

Excess returns are the curve-adjusted excess return of a given index relative to a term structure-matched position in Treasuries.

100 Federal Street, 30th Floor Boston, MA 02110 (617) 330-9333 www.incomeresearch.com