IR+M INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
October 2021

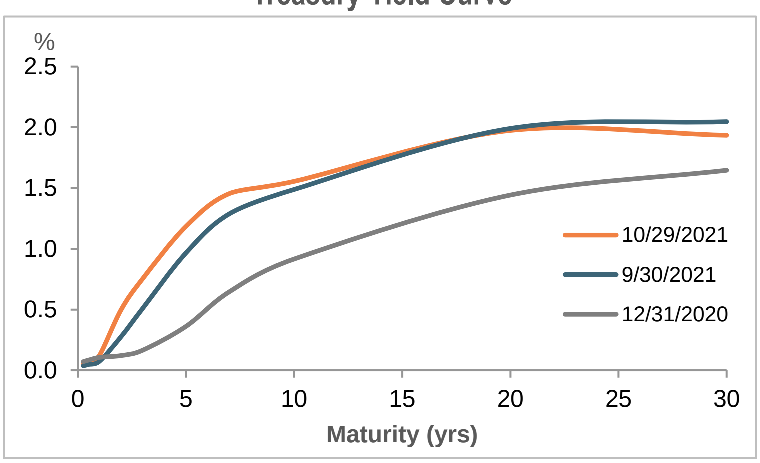
November 1, 2021

MARKET NEWS

- Persistent inflationary fears and concerns about slowing growth fueled by supply-chain bottlenecks weighed on fixed income markets, however, equity markets continued to rally on strong earnings, closing the month at a record high
    - 3Q GDP growth slowed in the third quarter to 2.0% year-over-year, slightly weaker than the consensus estimate of 2.6%, largely due to supply-chain disruptions and a COVID resurgence
    - September CPI exceeded expectations, rising to 5.4% year-over-year from 5.3% in August, and was driven by higher prices within non-reopening sectors
    - Inflation expectations rose to their highest level since 2006 with the 10-year breakeven rate closing as high as 2.69%
- The Treasury yield curve flattened during the month with the 30-year Treasury yield falling below the 20-year Treasury yield, as investors anticipated a more hawkish change to Fed policy at the upcoming meeting in early November; since the reintroduction of the 20-year Treasury bond in May 2020, the basis between the two rates has averaged 15bps
- Investment-grade corporate issuers took advantage of the improved market sentiment during the month, borrowing roughly $115 billion and surpassing estimates of $90-100 billion
    - Although spreads widened 3bps to 87bps from 84bps on the heavy supply, demand remained healthy
- High-yield supply remained resilient in October as high-yield issuers priced roughly $30 billion during the month, making it the third busiest October on record
    - High-yield spreads tightened 2bps from 289bps to 287bps as demand for high yield showed no signs of fading as investors continued their search for yield
- Heavy supply of asset-backed securities (ABS) weighed on performance, as October's $34 billion of issuance marked the highest of any month since 2016; year-to-date issuance totaled approximately $266 billion
- Longer-duration munis continued to underperform Treasuries with the 30-year muni/Treasury ratio increasing 7% to 91%, the highest level in 2021

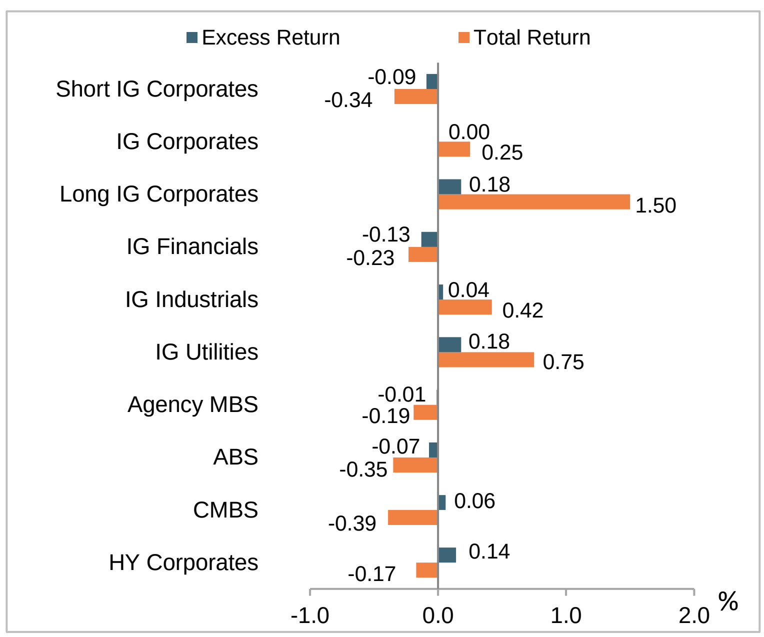
MARKET STATISTICS

Treasury Yield Curve



Maturity	2-year	5-year	10-year	20-year	30-year
10/29/2021	0.50	1.19	1.56	1.97	1.93
MTD Change	0.22	0.22	0.07	-0.02	-0.12
YTD Change	0.38	0.82	0.64	0.53	0.29

MTD Returns



As of: 10/29/21. Sources: Bloomberg

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