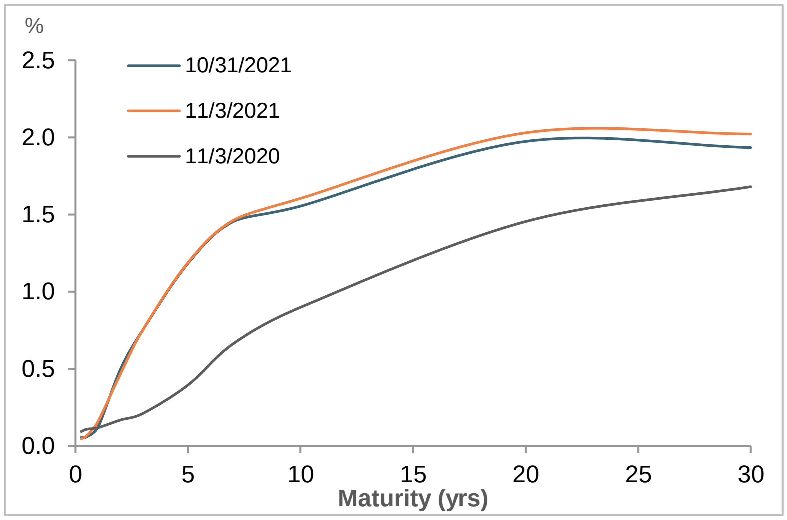
IR+M SPECIAL MARKET UPDATE
November 1 – November 3, 2021

INCOME RESEARCH + MANAGEMENT

FEDERAL RESERVE UPDATE

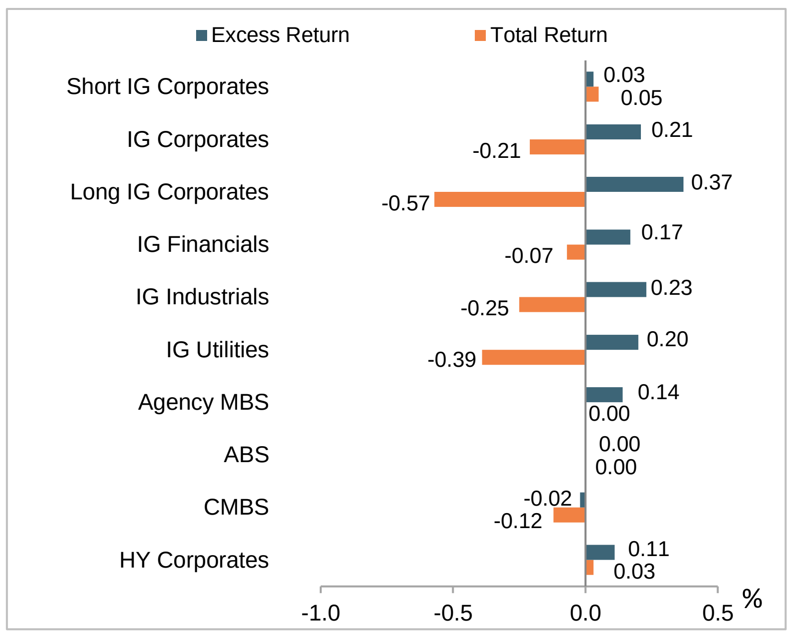
- As expected, the Federal Reserve (Fed) kept rates unchanged and announced the tapering of asset purchases at today's meeting
  - In November and December, Treasuries and Agency mortgage-backed securities (MBS) will be reduced by $10 billion and by $5 billion, respectively
  - Asset purchases are expected to continue decreasing by similar amounts until ultimately ending in mid-2022; however, the Fed is prepared to adjust as warranted and expects monetary policy to remain accommodative
- The Fed noted inflation remains "well-above" its 2% longer-term goal, but continues to believe this largely reflects pandemic-related factors and should ultimately be transitory
  - Chairman Powell stated that while supply bottlenecks and shortages will likely remain elevated "well into next year", the economy will adapt and inflation will subsequently decline
- While the Fed did not commit to a schedule for raising the fed funds rate, market expectations imply an initial hike by June 2022, and at least one additional hike next year

Treasury Yields Fall on Fed Action



Maturity	2-year	5-year	10-year	20-year	30-year
11/3/2021	0.47	1.19	1.61	2.03	2.02
DoD Change	0.02	0.04	0.03	0.06	0.06
MTD Change	-0.03	0.00	0.05	0.06	0.09

MTD Returns



MARKET NEWS

- The Treasury yield curve steepened on the announcement, while equities set a record on expectations of continued accommodative policy
  - Long-end rates rose on concerns of higher inflation, and the 10-year Treasury closed at 1.61%, up 5bps month-to-date
- Economic data remained upbeat despite the downshift in 3Q GDP growth and continued supply chain concerns
  - The ISM Services PMI rose to 66.7% in October, up from 61.9% in September and the highest rate of expansion on record; the manufacturing PMI fell slightly to 60.8%, but still registered the 17th consecutive month of growth
- The Treasury announced it would cut debt issuance, the first reduction in over five years, on lower borrowing needs as fiscal stimulus is expected to recede
- Investment-grade corporate issuance remained active early in the week, with over $16 billion priced, as issuers looked to get deals done in advance of the Fed announcement and the Thanksgiving holiday
  - Although spreads tightened 2bps to 85bps, demand for the new supply softened and concessions were elevated
- Risk appetite for high yield remained strong, and issuers took advantage of the strong tone, pricing almost $3 billion
  - Aided by the rally in equities, high yield spreads retraced some of their earlier widening to close 4bps wider at 291bps

Sources: 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.