

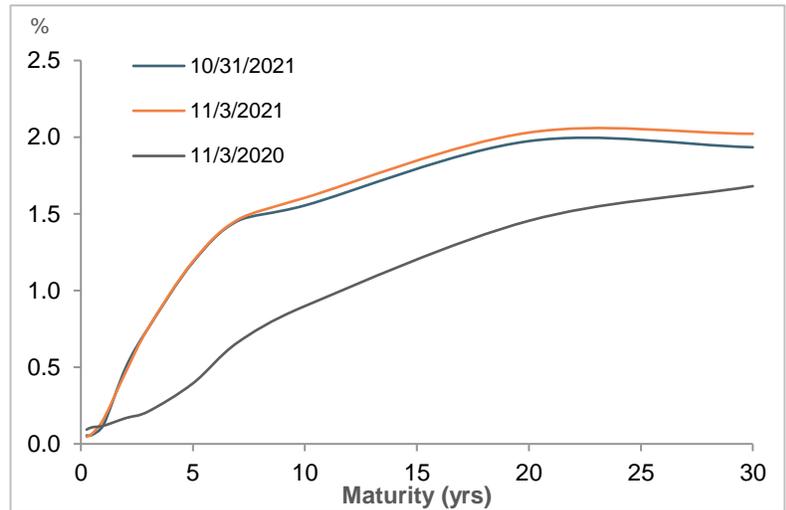
FEDERAL RESERVE UPDATE

- 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

MARKET NEWS

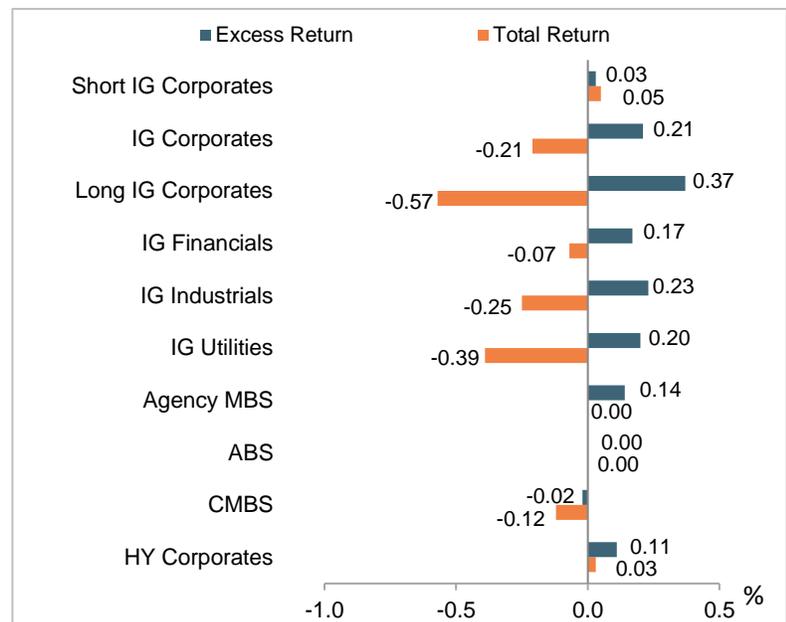
- The Treasury yield curve steepened on the announcement, while equities set a record on expectations of continued accommodative policy
 - Long-end rates rose on concerns of higher inflation, and the 10-year Treasury closed at 1.61%, up 5bps month-to-date
- Economic data remained upbeat despite the downshift 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

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



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.

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