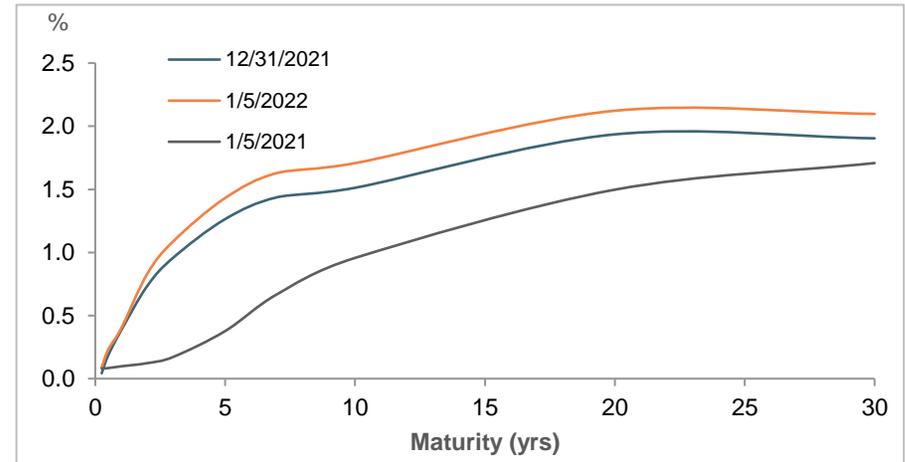




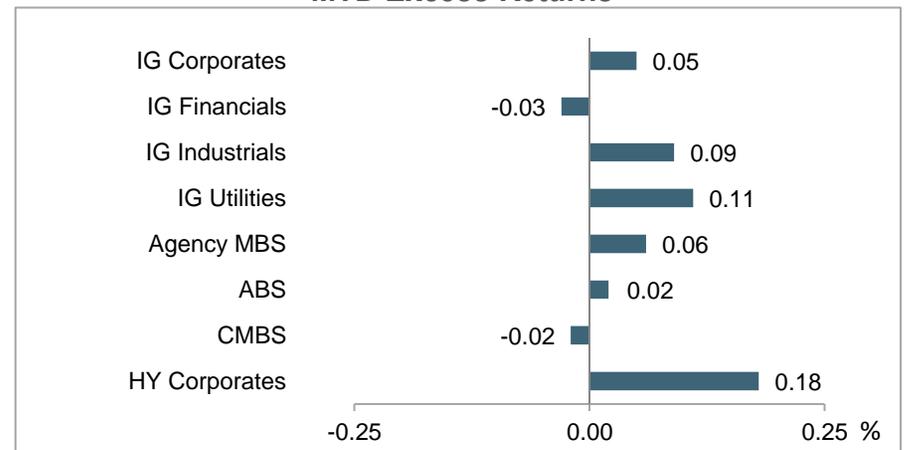
- While the US economy rang in the new year with signs of continued health, sentiment soured on the release of the FOMC meeting minutes, which markets interpreted as more hawkish than expected
 - ADP's December employment report showed private payrolls increased by 807,000, well-above the expected 350,000
- The FOMC's December meeting minutes indicated the Committee believes the strength of the US economy and growing concerns around inflation may precipitate more aggressive monetary tightening
 - Committee members thought it may be warranted to increase the federal funds rate sooner or at a faster pace; markets expect over three hikes this year, with an 80% chance of an initial hike in March
 - The minutes also suggested the Federal Reserve (Fed) could begin reducing the size of its balance sheet after the first rate increase
 - Treasury yields rose and the curve steepened; the 2-year yield increased 9bps to 0.83%, while the 10-year rose 20bps to 1.71%
- Investment-grade issuance of almost \$60 billion was well-ahead of the \$40 billion projected; financial issuers made up over 80% of the supply, capitalizing on attractive funding conditions in advance of rising rates
 - Despite the deluge, spreads were relatively flat, tightening from 92bps to 91bps
- High-yield issuers, seemingly unconcerned about the risk-off tone, priced over \$4 billion of new bonds, including some debut issuers
 - The Bloomberg High Yield Index yield rose from 4.21% to 4.39%, and spreads widened from 283bps to 286bps
- Agency residential mortgage-backed securities (RMBS) outperformed other securitized sectors on lower supply; the MBA Mortgage Applications Index fell 2.7% as mortgage rates continued to creep higher
- Municipal mutual funds and ETFs took in almost \$97 billion 2021, the highest amount on record; fund flows in 2022, though expected to remain positive, will likely be lower

Treasury Yield Curve



Maturity	2-year	5-year	10-year	20-year	30-year
1/5/2022	0.83	1.43	1.71	2.12	2.10
MTD Change	0.10	0.17	0.20	0.18	0.20

MTD Excess 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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