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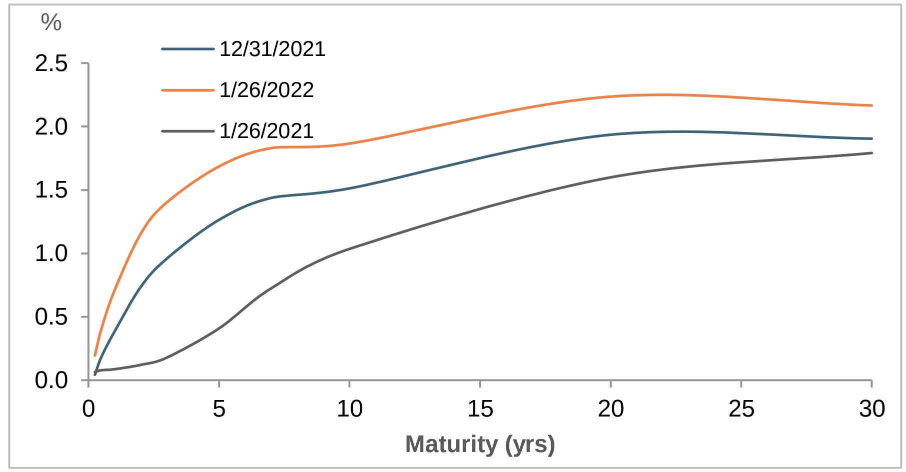
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

January 21 – January 27, 2022

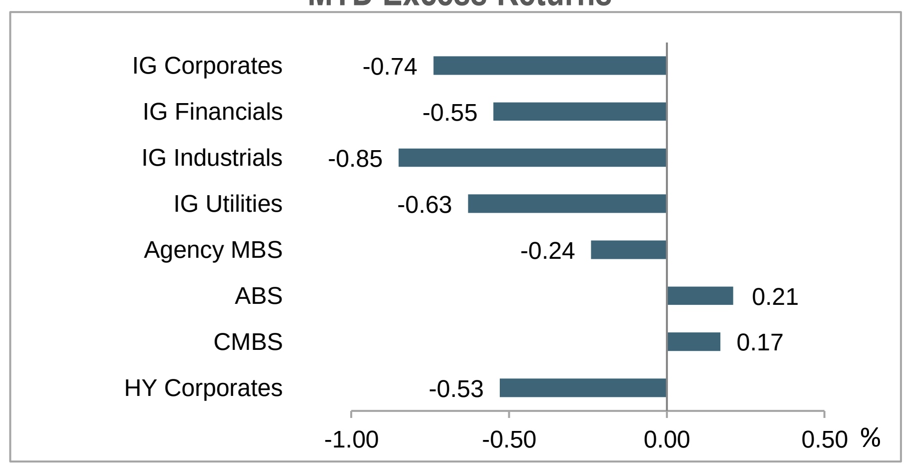
- Despite a flurry of positive economic data, a bomb cyclone of concerns over Federal Reserve (Fed) tightening, inflation, and geopolitical tensions drove heightened market volatility and a risk-off sentiment
    - In the fourth quarter, GDP grew 6.9% year-over-year, boosted by consumer spending; In 2021 the US economy grew 5.7%, the biggest annual increase since 1984
- The Fed kept interest rates unchanged at its January meeting, but Chairman Jerome Powell reiterated his concerns on inflation and stated he believed full employment had been reached
    - The Fed reinforced the likelihood of an initial rate hike at the March meeting; Powell noted there was “quite a bit of room” to raise rates without jeopardizing the labor market recovery
    - A timetable for balance sheet reduction was not specified, but the Fed commented it would likely commence after raising rates; over the long-term the Fed intends to hold mostly Treasury securities
    - Front-end Treasury yields jumped on the announcement, with the 2-year up 13bps to 1.15%, the highest level since February 2020
- Investment grade corporate issuers hunkered down in advance of the Fed meeting, only pricing $2.6 billion
    - Corporate spreads widened 3bps, from 97bps to 100bps, as the light supply was offset by the weaker tone
- The high yield primary market brushed off the equity volatility, pricing $1.8 billion in new supply, and demand remained robust for higher-yielding debt
    - The Bloomberg High Yield Index yield rose as high as 4.99%, the most in over 14 months, and spreads were up 20bps to 315bps
- Issuers of asset-backed securities (ABS) flooded the market with over $21 billion of new supply month-to-date, well-above last January’s total
- The Bloomberg US Municipal Bond Index had a month-to-date loss of 1.85% and is on track for its largest monthly loss since the start of the pandemic as investors await Fed rate hikes

Treasury Yield Curve



Maturity	2-year	5-year	10-year	20-year	30-year
1/26/2022	1.15	1.69	1.87	2.24	2.17
MTD Change	0.42	0.42	0.36	0.30	0.26

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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