IR+M

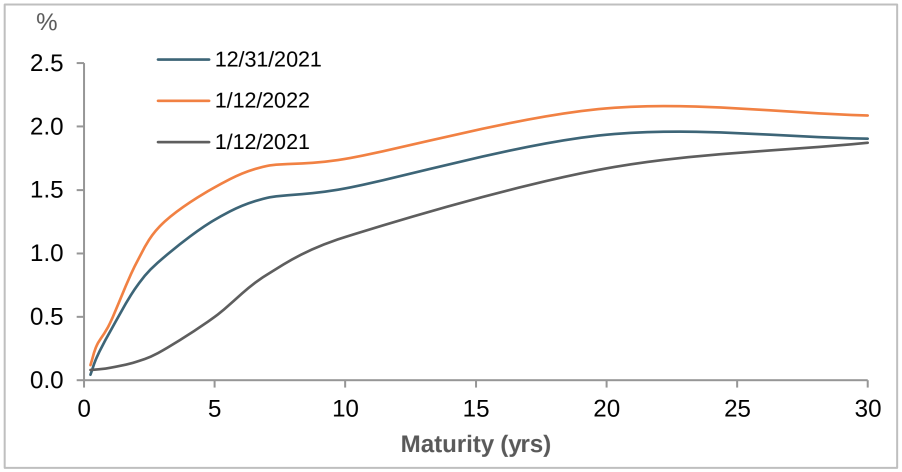
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

January 7 – January 13, 2022

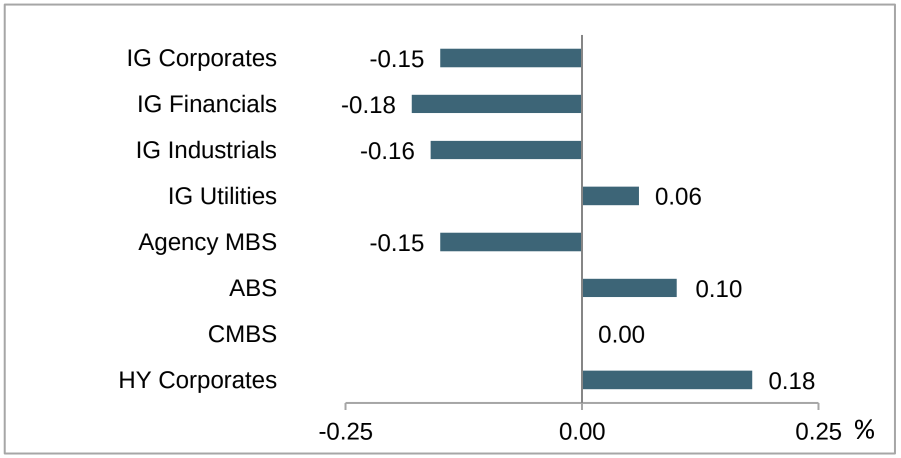
- Volatility hit equity markets and bond yields fell following the release of the hottest inflation reading in nearly four decades, which was in-line with expectations
    - CPI rose 7% in December, the fastest annual pace since 1982 and the third straight month in which annualized inflation exceeded 6%; core CPI, which excludes food and energy, increased to 5.5%, the highest rate since February 1991
    - Much of the inflationary surge over the year has been driven by autos, with the price of new vehicles and used cars and trucks soaring 11.8% and 37.3%, respectively
    - With some Federal Reserve (Fed) officials signaling support for a rate hike as soon as March, the markets are now pricing over a 90% chance
- During his Senate confirmation hearing, Chair Jay Powell stated high inflation was a “severe threat” and the Fed will use rate increases and other measures to bring inflation down to the central bank’s 2% target
- Investment-grade issuers priced about $40 billion, which was more than the estimated $30-35 billion and driven by foreign banks capitalizing on attractive funding levels ahead of an expected issuance wave from domestic banks
    - Spreads widened 3bps, from 91bps to 94bps, on the heavy supply
- High-yield issuance reached $4 billion, with 75% of this supply pricing on Wednesday
    - The Bloomberg High Yield Index yield rose from 4.39% to 4.45%, though it was as high as 4.68%; spreads were flat at 286bps, after widening to 302bps earlier in the week
- Asset-backed securities (ABS) outperformed other securitized sectors despite issuers pricing close to $7 billion, kicking off supply for the year
- Visible supply in the municipal bond market rose to $12.8 billion, above the 2021 weekly average of $11.4 billion

Treasury Yield Curve



Maturity	2-year	5-year	10-year	20-year	30-year
1/12/2022	0.92	1.52	1.75	2.14	2.09
MTD Change	0.19	0.26	0.24	0.20	0.19

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.