INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

December 2021

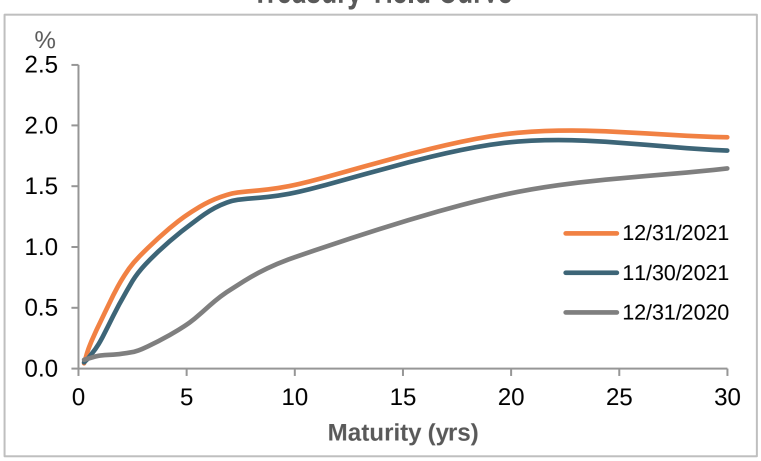
January 3, 2022

MARKET NEWS

- The rapid spread of the Omicron variant and persistent inflation concerns continued to weigh on risk assets in December, despite positive economic data
    - The Consumer Price Index (CPI) increased 6.8% year-over-year, a nearly four-decade high, as strong consumer demand continued to be hampered by pandemic-related supply constraints
    - The Producer Price Index (PPI) rose 9.6% in November from a year earlier, the largest annual gain since records began in 2010 and a cautionary tale that inflationary pressures could persist into 2022
- At the December meeting, the Federal Reserve (Fed) announced a unanimous agreement to increase the taper amount to $30 billion, which would bring an end to its large-scale asset purchase program in March, three months earlier than expected
    - Fed officials paved the way for three rate hikes in 2022, which was a notable change from September, when some officials believed rate increases would begin in 2023
- Due to an increasingly hawkish Fed, investment-grade corporate issuers rushed to the primary market and priced about $62 billion, which exceeded estimates of $50-55 billion and made it the busiest December on record; year-to-date supply reached over $1.4 trillion, the second largest annual volume after 2020's record-setting $1.8 trillion
    - Investment-grade spreads tightened by 7bps, from 99bps to 92bps, amid robust investor demand
- High-yield corporate issuance slowed to about $9 billion, the slowest December since 2018 when no deals priced; year-to-date supply was approximately $458 billion, surpassing 2020's volume of $432 billion
    - With the slowdown in supply and strong investor demand, the Bloomberg High Yield Index yield decreased from 4.80% to 4.21%; spreads tightened from 337bps to 283bps
- Supply of commercial mortgage-backed securities (CMBS) reached a post-crisis record of over $155 billion, approximately 155% higher year-over-year
- Municipals outperformed Treasuries as investors continued to put more money into tax-exempt funds; supply slowed ahead of the holidays, bringing year-to-date issuance to over $463 billion, just shy of 2020's record $470 billion

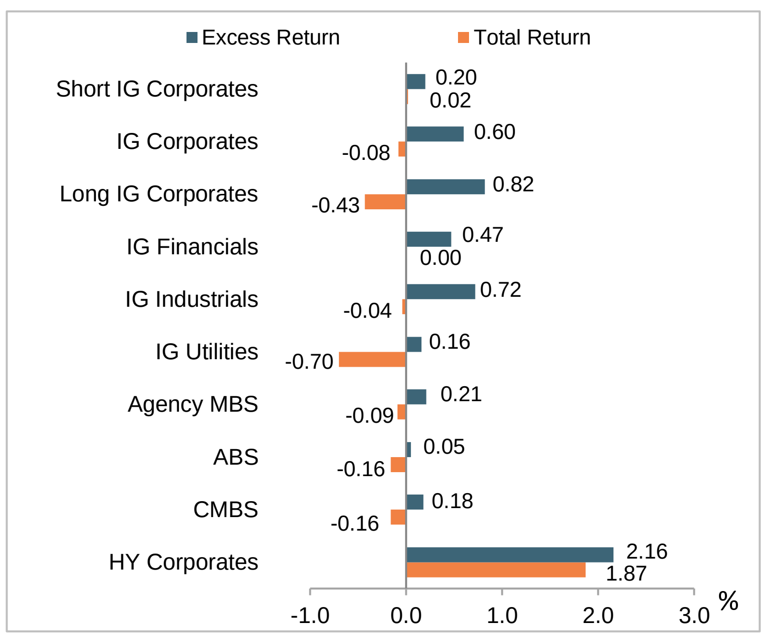
MARKET STATISTICS

Treasury Yield Curve



Maturity	2-year	5-year	10-year	20-year	30-year
12/31/2021	0.73	1.26	1.51	1.94	1.90
MTD Change	0.16	0.10	0.06	0.08	0.11
YTD Change	0.61	0.90	0.59	0.50	0.25

MTD Returns



As of: 12/31/21. Sources: Bloomberg

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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