IR+M

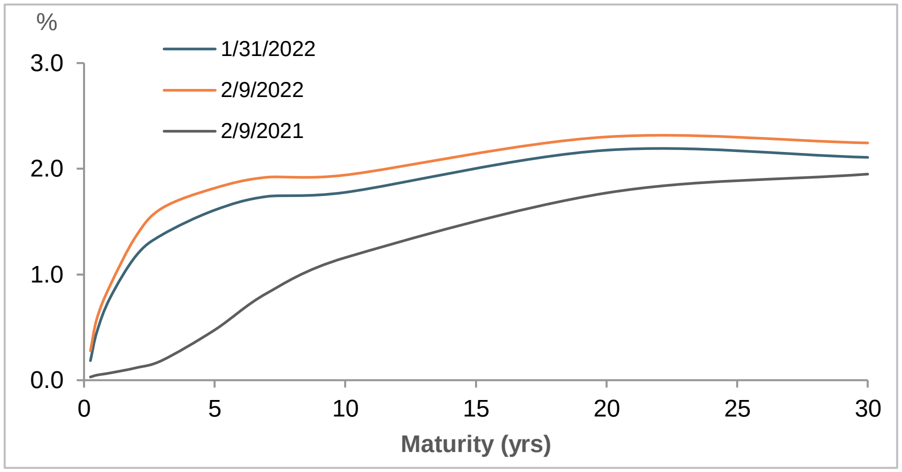
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

February 4 – February 10, 2022

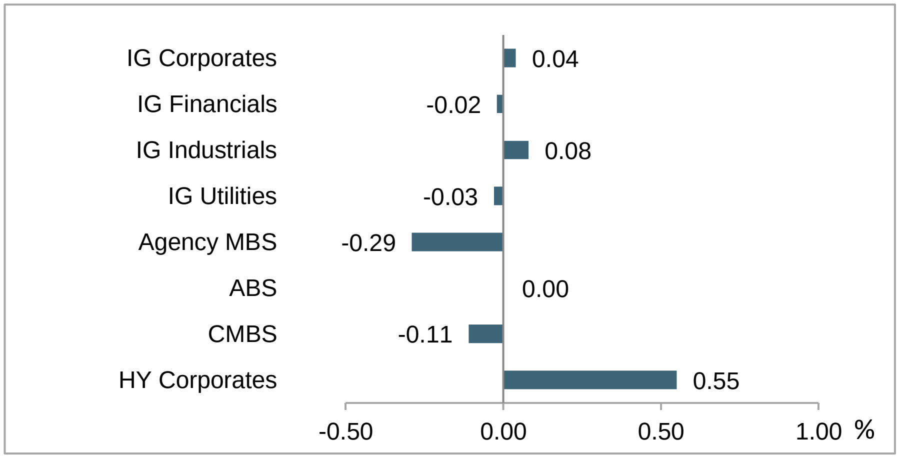
- Risk sentiment recovered early in the week on strong economic data and corporate earnings; however, a higher-than-expected inflation print, and its potential impact on Federal Reserve (Fed) decisions, weighed on markets
  - US CPI rose 7.5% year-over-year in January, the fastest pace in 40 years; the 0.6% month-over-month increase was driven by food, energy, and shelter
  - January's nonfarm payroll report handily beat expectations, as the US economy added 467,000 jobs versus an estimated 125,000, while previous months also saw significant upward revisions
- Treasury yields jumped on the CPI announcement, as markets anticipated even more aggressive action by the Fed to mitigate the red-hot inflation
  - The probability of a 50bps rate hike at the March FOMC meeting surged to over 75%; markets are pricing in over six rate hikes this year, up from five at the beginning of the month
  - The 2-year Treasury yield vaulted over 20bps from its Wednesday close of 1.37%, while the 10-year broke 2% for the first time since 2019
- Investment grade corporate issuance was light, as issuers priced approximately $14 billion of a projected $20 billion
  - Corporate spreads held steady at 105bps on the reduced supply
- Rising rate expectations gave high yield issuers pause, and new supply totaled just over $1 billion
  - The yield of the Bloomberg High Yield Index rose 31bps to 5.37% and spreads increased 8bps to 334bps, as investors moved assets out of traditional high yield funds into more floating-rate structures
- Commercial mortgage-backed securities (CMBS) continued to see heavy issuance; over $7 billion has priced month-to-date, with the $22 billion year-to-date total three times last year's pace
- The municipal bond mutual fund market saw its largest weekly outflow since March 2020, as investors withdrew over $4 billion in funds

Treasury Yield Curve



Maturity	2-year	5-year	10-year	20-year	30-year
2/9/2022	1.37	1.82	1.94	2.30	2.25
MTD Change	0.19	0.21	0.16	0.13	0.14

MTD Excess Returns



Sources: Bloomberg and Bloomberg Index Services Limited