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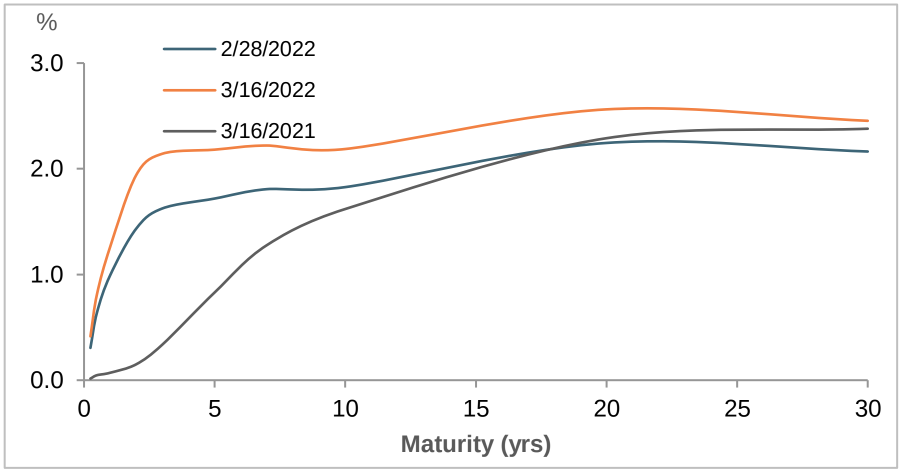
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

March 11 – March 17, 2022

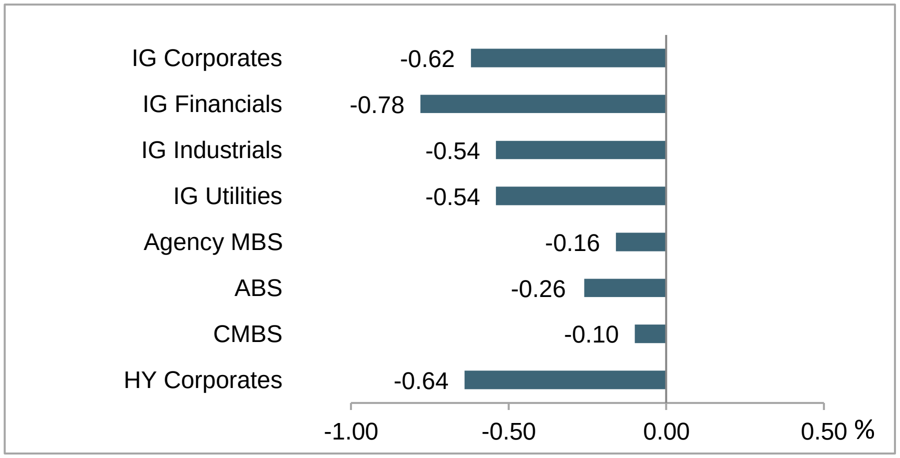
- Despite turbulent commodity prices and weaker economic data, market sentiment turned positive later in the week as investors believed the Federal Reserve (Fed) would be able to fight inflation without hurting longer-term growth prospects
- The Fed raised the fed funds rate by 25bps as expected, but took a more aggressive stance on the growing threat of inflation
    - The Fed upwardly revised its economic projections, with PCE inflation in 2022 jumping from 2.6% to 4.1%
    - The median rate projection by the end of 2022 rose from 0.9% to 1.9%, indicating at least six additional hikes are expected this year; markets are pricing in a 75% chance of a 50bp hike in June
    - Treasury yields surged, particularly in the front-end, on the hawkish announcement; the 2-year Treasury rose 23bps to 1.94%, while the 10-year increased 18bps to 2.19%
- Investment grade issuers priced $29 billion of a projected $20-25 billion; several issuers opted to pull their deals early in the week, but issuance bounced back on Thursday
    - Corporate spreads, which had widened out to as much as 145bps, closed 2bps tighter at 136bps
- The high yield primary market remained largely closed this week leading up to the Fed's meeting, although several deals looked to price on Thursday
    - The yield of the Bloomberg High Yield index rose 26bps to 6.29%, while spreads increased 2bps to 386bps; both yields and spreads recovered significant ground on Wednesday as the Fed stressed the continued strength of the US economy
- Mortgage-backed securities underperformed on extension fears, as the average 30-year mortgage rate rose above 4% for the first time since 2019
- Rising bond yields weighed on municipal bond issuance; state and local governments are scheduled to sell $6 billion of bonds this week, about 17% less than the weekly average for the year

Treasury Yield Curve



Maturity	2-year	5-year	10-year	20-year	30-year
3/16/2022	1.94	2.18	2.19	2.56	2.46
MTD Change	0.51	0.46	0.36	0.32	0.29

MTD Excess Returns



Sources: Bloomberg and Bloomberg Index Services Limited