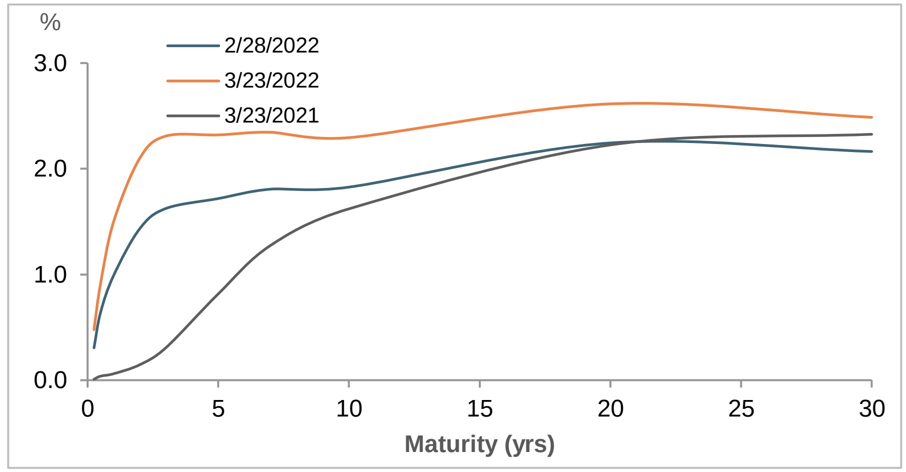
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
March 18 – March 24, 2022

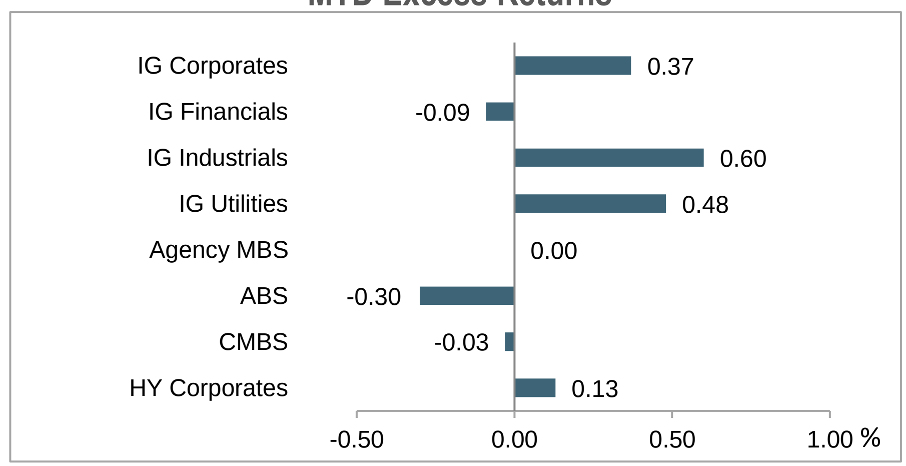
- Recession indicators flashed warning signals, inflation expectations rose, and further hawkish commentary out of the Federal Reserve (Fed) sent yields soaring; market sentiment remained relatively upbeat on the Fed's confidence in the US economy and stronger-than-expected economic data
  - The difference between the 2-year and 10-year Treasury yields approached inversion and closed as low as 17bps, the tightest level since March 2020
- 2-year inflation breakevens set a record at over 4.9% as commodity prices continued to climb on the ripple effects of the Russian invasion of Ukraine
  - Fed Chair Powell signaled he would be open to even more aggressive action to combat rising inflation
  - Almost eight additional rate increases are priced in for 2022, up from six last week, with two possible 50bp hikes in May and June
  - Treasury yields continued to flatten – the 10-year Treasury closed at 2.29%, up 12bps over the week, while the 2-year jumped over 18bps to close at 2.10%
- The investment grade primary market saw over $37 billion; issuance picked up despite rising borrowing costs as issuers continue to pull supply forward
  - Corporate spreads tightened 13bps, from 136bps to 123bps, retracing almost all their month-to-date widening
- High-yield issuers priced $2 billion on Wednesday, the busiest day since the beginning of February, although the week was otherwise quiet
  - The yield of the Bloomberg High Yield Index fell 9bps, from 6.29% to 6.20%, but remained elevated as investors withdrew over $1.6 billion in high yield ETFs; spreads compressed 28bps, from 386bps to 358bps, as equities showed strength
- Asset-backed securities (ABS) underperformed other securitized sectors on heavy supply; over $6.4 billion has priced this week and more is expected
- Investors pulled over $3.1 billion from municipal bond mutual funds and ETFs, the ninth consecutive week of outflows

Treasury Yield Curve



Maturity	2-year	5-year	10-year	20-year	30-year
3/23/2022	2.10	2.32	2.29	2.61	2.49
MTD Change	0.67	0.60	0.47	0.37	0.32

MTD Excess Returns



Sources: Bloomberg and Bloomberg Index Services Limited

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