IR+M

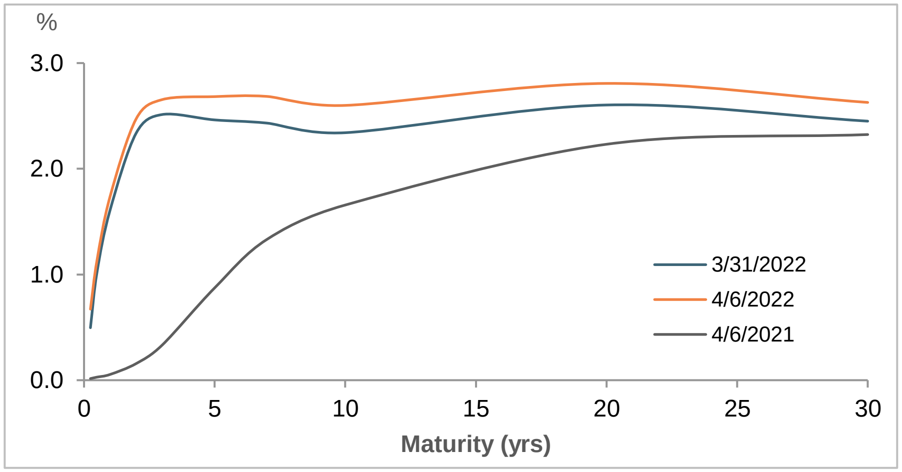
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

April 1 – April 7, 2022

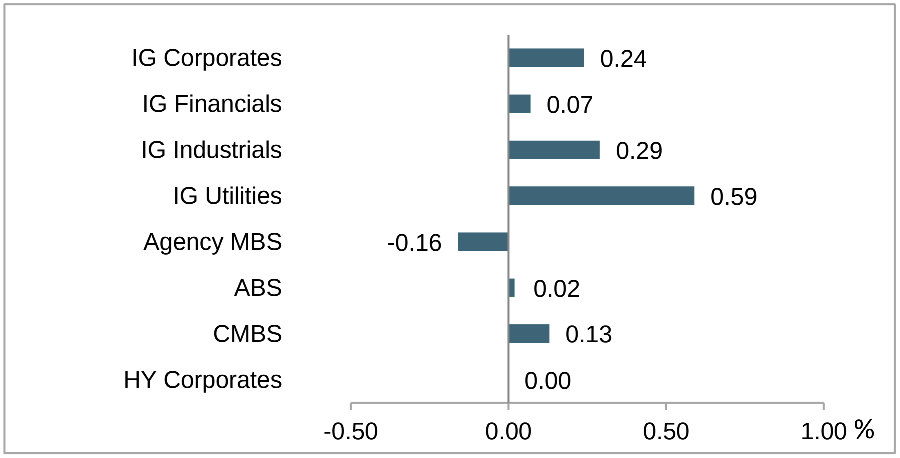
- Yields jumped and equity markets fell on more hawkish commentary from Federal Reserve (Fed) officials and the release of the Federal Open Market Committee (FOMC) March meeting minutes, which revealed the central bank's plan to aggressively reduce its balance sheet in response to inflation
    - Over three months, the balance sheet is expected to gradually shrink by caps of $60 billion/month for Treasuries and $35 billion/month for agency mortgage-backed securities (MBS) – almost double the combined cap of $50 billion during 2017-2019's runoff
    - The Committee now plans to begin as soon as the May meeting, as opposed to its earlier view of July
    - While the federal funds rate increased by 25bps due to uncertainty stemming from Russia's invasion of Ukraine, participants articulated that one or more half-point increases "could be appropriate at future meetings if inflation pressures remain elevated or intensified"
    - After touching 2.66% prior to the release, the 10-year Treasury closed at 2.60%, the highest level since early March 2019
- Investment grade supply neared $26 billion, which was higher than projections of $20 – 25 billion, with some of the week's biggest deals pricing on Thursday and new issue concessions increasing amid the softer tone
    - Corporate spreads tightened 3bps, from 116bps to 113bps
- High-yield issuers rushed to price over $4 billion ahead of the FOMC meeting minutes' release
    - The yield of the Bloomberg High Yield Index rose 25bps, from 6.01% to 6.26%; spreads widened 2bps, from 325bps to 327bps
- Agency MBS underperformed other securitized sectors in response to the Fed's plan to actively sell its MBS holdings at a later date "to enable a suitable progress" toward a Treasury-only portfolio
- Amid the continued rate volatility, investors pulled over $3.7 billion from municipal bond mutual funds and ETFs

Treasury Yield Curve



Maturity	2-year	5-year	10-year	20-year	30-year
4/6/2022	2.47	2.68	2.60	2.81	2.63
MTD Change	0.13	0.22	0.26	0.21	0.18

MTD Excess Returns



Sources: Bloomberg and Bloomberg Index Services Limited