IR+M
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
March 2022

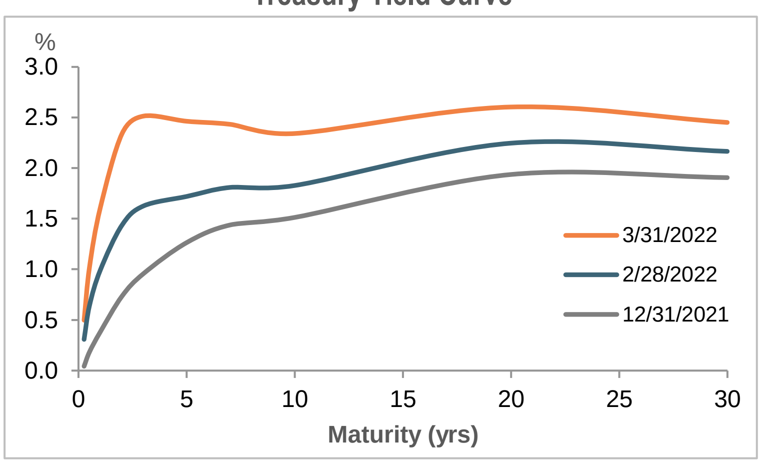
April 1, 2022

MARKET NEWS

- Continued concerns over inflation, tightening monetary policy, and soaring commodity prices as a result of the Russian invasion of Ukraine drove heightened volatility in March
    - The February Consumer Price Index (CPI) reached a four-decade high, rising 7.9% year-over-year, driven by increases in gas, shelter, and food
- At the March meeting, the Federal Reserve (Fed) raised the fed funds rate by 25bps, as expected, but took a more aggressive stance on the growing threat of inflation; eight additional rate hikes are priced in for 2022, with two possible 50bp hikes in May and June
    - Treasury yields surged, particularly in the front-end, and the curve continued to flatten; the 2- and 10-year Treasury yields rose 90bps and 51bps, respectively, and both closed at 2.34%
- The investment grade primary market, which stalled late last month, came back to life; issuers priced roughly $230 billion, the fourth highest monthly total on record, and well-above the $135 billion projected
    - Despite the heavy supply, demand was strong; corporate spreads tightened 6bps from 122bps to 116bps as investors took advantage of higher yields
- High yield borrowers stayed away from the primary market amidst rising inflation and a more hawkish Fed, pricing only $10 billion in March, the slowest month in two years
    - The yield of the Bloomberg High Yield Index closed 39bps higher at 6.01%; the yield had reached a 20-month high of 6.47% earlier in the month, but recovered some ground with risk-on sentiment returning later in the month
    - Spreads which widened to a 1-year high of 411bps ultimately recovered and closed 24bps tighter at 324bps
- Private-label issuance of commercial mortgage-backed securities (CMBS) continued to see heavy supply with $11 billion priced in March; issuance year-to-date surged 85% to roughly $44 billion
- Municipals underperformed Treasuries as investor demand for municipal bonds waned on rising rates; the 10-year muni/Treasury ratio increased from 88% to 96%

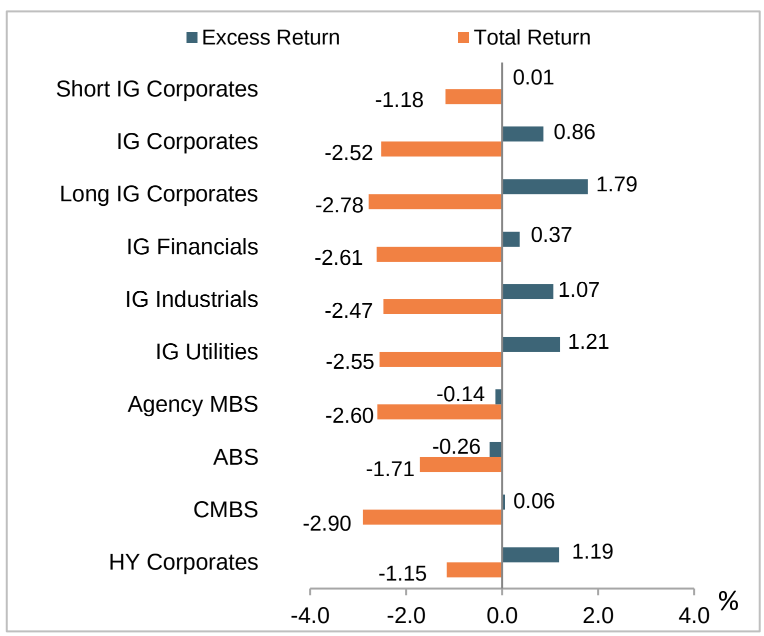
MARKET STATISTICS

Treasury Yield Curve



Maturity	2-year	5-year	10-year	20-year	30-year
3/31/2022	2.34	2.46	2.34	2.60	2.45
MTD Change	0.90	0.74	0.51	0.36	0.29

MTD Returns



As of: 3/31/22. Sources: Bloomberg

Excess returns are the curve-adjusted excess return of a given index relative to a term structure-matched position in Treasuries.