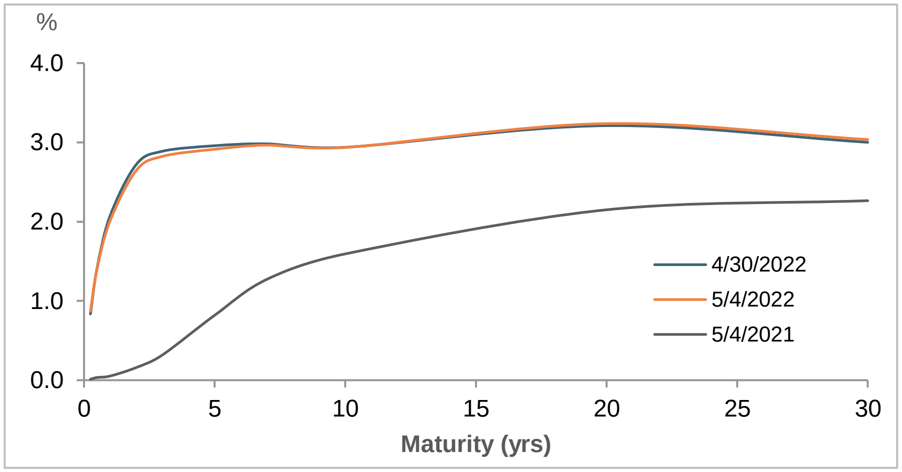
IR+M CLIENT UPDATE

May 1 – May 5, 2022

INCOME RESEARCH + MANAGEMENT

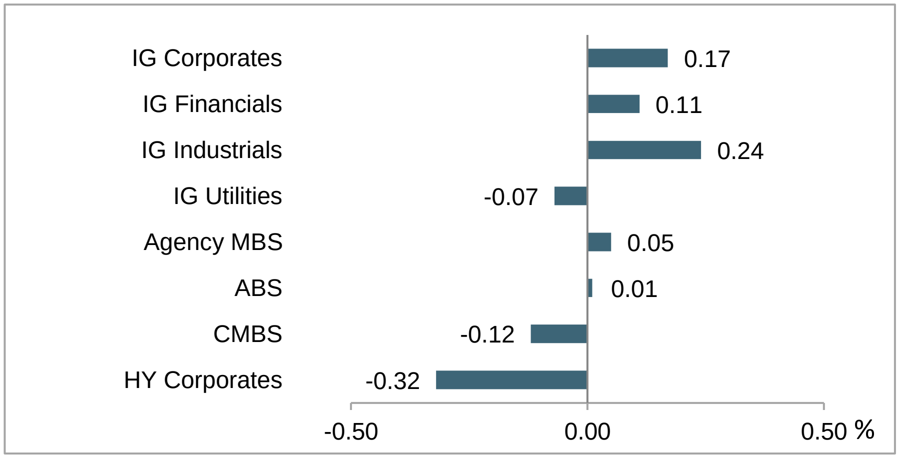
- On Wednesday, the Federal Reserve (Fed) unveiled the largest single rate hike in over 20 years and its balance sheet reduction plan to fight rising inflation; yields fell and equities rose following the announcement as markets interpreted the Fed's comments as less aggressive than expected, although sentiment reversed course on Thursday
  - The Fed raised the fed funds rate by 50bps; Fed Chair Powell downplayed the possibility of a 75bp hike, but commented that 50bp hikes "should be on the table for the next couple of meetings"
  - The balance sheet will begin shrinking in June by up to $30 billion in Treasuries and $17.5 billion in agency mortgage-backed securities (MBS); these caps will increase to $60 billion and $35 billion, respectively, in September
  - The 10-year Treasury, which hit 3% for the first time since 2018 earlier in the week, closed unchanged at 2.94%; the yield climbed above 3% on Thursday
- Investment grade new issue remained light with only $16 billion priced of a projected $20-$25 billion; almost half of the total supply came on Thursday, as many issuers pulled their deals before the Fed meeting
  - Spreads tightened 1bp to close at 134bps on the lighter supply
- There was no high yield issuance this week, as issuers waited for calmer waters amidst rising yields and choppy market conditions
  - The yield of the Bloomberg High Yield Index broke 7% for the first time in almost two years, while spreads rose 11bps to 390bps
- Agency MBS outperformed other securitized sectors on the Fed's decision to start balance sheet reduction in June instead of May, which could result in an additional $30 billion of MBS purchases
- Municipal bonds underperformed Treasuries, with the 10-year muni/Treasury increasing from 92% to 94%; supply and demand trends could be more favorable going forward with potentially lower issuance and less redemption following the US tax deadline

Treasury Yield Curve



Maturity	2-year	5-year	10-year	20-year	30-year
5/4/2022	2.65	2.91	2.94	3.24	3.04
MTD Change	-0.07	-0.05	0.00	0.03	0.04

MTD Excess Returns



Sources: Bloomberg and Bloomberg Index Services Limited