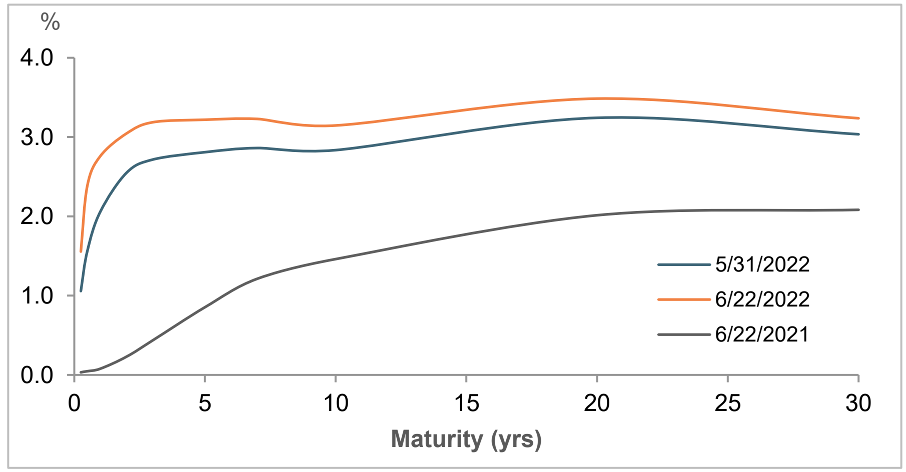
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

June 17 – June 23, 2022

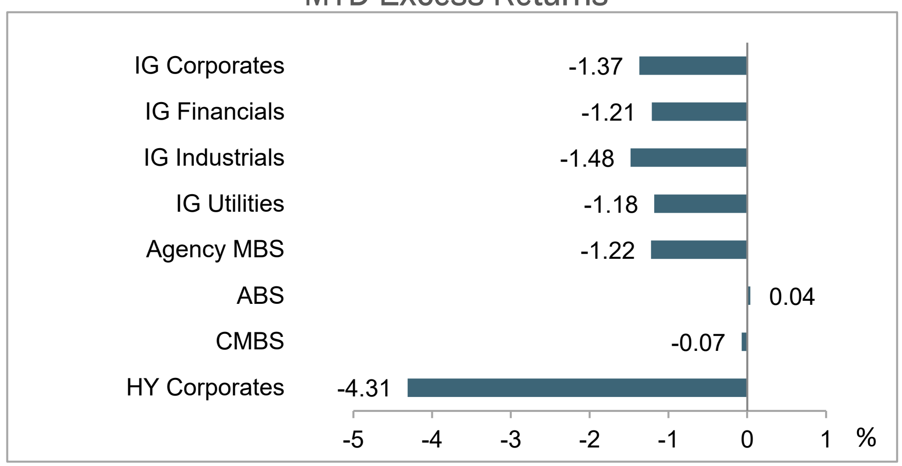
- The Federal Reserve (Fed) Chair Jerome Powell testified before the Senate and reiterated the Fed's goal of combatting inflation – which recently reached a 40-year high – and signaled ongoing rate increases
    - Powell discussed the difficulty of engineering a soft landing, and admitted a recession is "certainly a possibility"
    - The market anticipates eight additional rate hikes by 2023, implying a target federal funds rate of 3.5% by year-end
- The 2-year Treasury, which is typically more sensitive to monetary policy, fell 15bps during the Senate meeting
- Six issuers priced over $10 billion during the holiday-shortened week, ending a historic hiatus that saw no issuance for seven consecutive days – the longest period since 2008 and second-longest of all time
    - Month-to-date issuance totaled roughly $61 billion versus expectations of $91 billion; investors anticipate June to be one of the lowest months of new supply in 2022
    - Corporate spreads widened 5bps, from 144bps to 149bps
- There were no new issues in the high-yield market, continuing the slowing trend, as issuers were content sitting on the sidelines amid recessionary fears and higher rates
    - The yield of the Bloomberg US High Yield Index rose 26bps to 8.58%, and spreads widened 44bps to 521bps, a year-to-date wide
- Agency mortgage-backed securities (MBS) underperformed Treasuries and other securitized sectors as Powell highlighted the Fed's willingness to sell agency MBS holdings at a loss to transition its balance sheet to Treasuries
    - Mortgage refinancing also decreased by 3%, suggesting prepayments may remain slow at the current level of rates
- Municipals underperformed Treasuries on the week, with the muni/Treasury ratio increasing 3%, from 88% to 91%, amid continued outflows; however, issuance is expected to remain light for the foreseeable future

Treasury Yield Curve



Maturity	2-year	5-year	10-year	20-year	30-year
6/22/2022	3.05	3.22	3.15	3.49	3.24
MTD Change	0.50	0.41	0.31	0.25	0.20

MTD Excess Returns



Sources: Bloomberg and Bloomberg Index Services Limited