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INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
May 2022

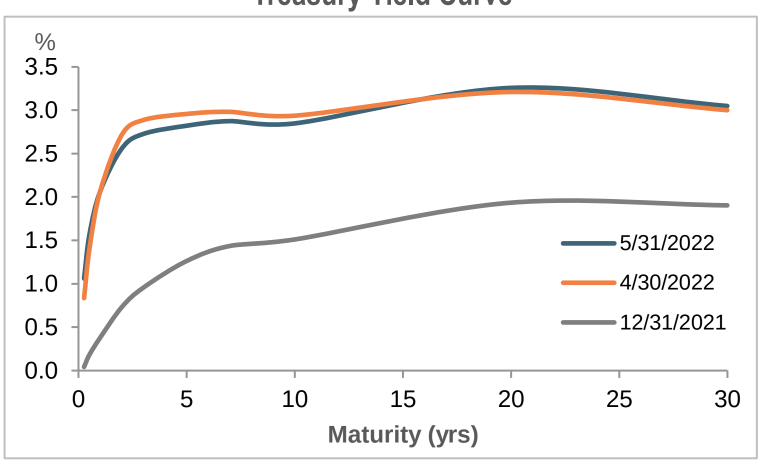
June 1, 2022

MARKET NEWS

- Risk-off sentiment permeated the markets amid inflationary concerns, rising rates, and continued uncertainty regarding supply-chain bottlenecks; however, sentiment improved following a slew of positive economic data at the end of the month and the release of the Federal Reserve (Fed)'s minutes which signaled that the pace of rate hikes may slow later in the year
    - April CPI increased 8.3% year-over-year, lower than the prior month, but still above expectations
    - Personal spending was up 0.9% in April, the fourth consecutive month of increases
- The Fed raised the fed funds rate by 50bps, the largest single rate hike in over 20 years, and announced its balance sheet reduction plan that will begin shrinking in June by up to $30 billion in Treasuries and $17.5 billion in agency mortgage-backed securities (MBS)
    - Front-end Treasury yields fell with the 2-year ending the month 16bps lower at 2.56%; ahead of the Fed's meeting earlier in the month, the yield reached a high of 2.78%, a level last seen in 2018
- Investment grade issuers disappointed in May with only $86 of a projected $135 billion priced as inflation woes and market volatility remained top of mind for investors
    - New issue concessions were elevated during the month as demand waned; corporate spreads tightened 5bps from 135bps to 130bps on the light supply
- Rising rates and recession concerns kept high-yield issuers on the sidelines with only $4 billion new bond sales in May, the lowest since 2002; the yield of the Bloomberg US High Yield Index reached a two-year high of 7.82%, but ultimately closed 11bps higher at 7.09% as investors returned to the asset class; spreads widened 27bps to 406bps
- Agency MBS outperformed other securitized sectors, aided by expectations of lower supply
    - New and existing home sales fell 16.6% and 2.4%, respectively, in April
- Municipal bonds underperformed Treasuries for most of the month, but roared back in the final week with the biggest rally in two years as investors viewed the asset class more favorably amid recessionary fears; the Bloomberg Municipal Bond Index gained a cumulative 2.9% since the rally started, the biggest six-day rally since April 2020

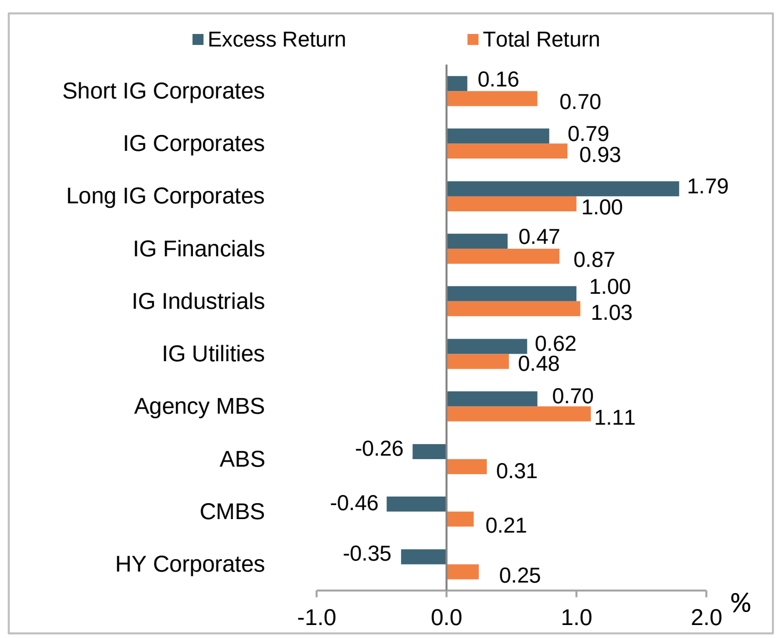
MARKET STATISTICS

Treasury Yield Curve



Maturity	2-year	5-year	10-year	20-year	30-year
5/31/2022	2.56	2.82	2.85	3.26	3.05
MTD Change	-0.16	-0.14	-0.09	0.05	0.05

MTD Returns



As of: 5/31/22. Sources: Bloomberg

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

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