IR+M

INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
June 2022

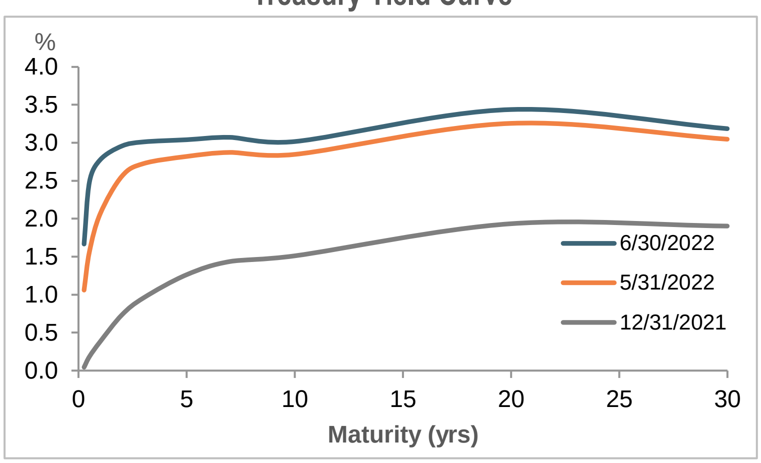
July 1, 2022

MARKET NEWS

- Despite some positive economic data in June, investors continued to remain cautious amid persistent inflationary concerns, tightening monetary policy, and renewed worries of a slowdown in global growth
    - The U.S. economy added 390,000 jobs in May, higher than estimated; meanwhile, May CPI rose 8.6% year-over-year versus expectations of 8.3% and US real GDP contracted at an annualized rate of 1.6% in the first quarter
- The Federal Reserve (Fed) raised interest rates by 75bps, the biggest single rate hike since 1994, signaling its urgency in combatting inflation, which is at a 40-year high; Fed Chair Powell discussed the difficulty of engineering a soft landing and admitted a recession is “certainly a possibility” in his Senate testimony
    - The market anticipates at least six additional rate hikes by 2023
- Treasury yields increased across the curve and the curve flattened; the difference between the 2- and 10-year Treasury rate ended at 6bps after briefly inverting earlier in the month
- Investment grade corporate issuance remained light in June, with only $69 of a projected $90 billion priced, as the market tone weakened and the cost of issuing new debt increased
    - Issuers paid as high as 32bps in new issue concessions during the month, as demand waned; corporate spreads widened 25bps from 130bps to 155bps, the widest level since June 2020
- High-yield issuance continued its slowing trend in June with only $10 billion priced, as rising yields and fears of slowing economic growth kept issuers on the sidelines; year-to-date, $68 billion has been issued, down 76% from the same time last year, making it the slowest first-half of supply since 2009
    - The yield of the Bloomberg US High Yield Index surged 180bps to a 26-month high of 8.89% and spreads widened 163bps to 569bps, as renewed concerns over global growth permeated the markets
- Agency mortgage-backed securities (MBS) underperformed other securitized sectors in response to the Fed’s willingness to actively sell its agency MBS holdings at a loss to transition its balance sheet to Treasuries
- Despite ending a 15-week outflow cycle earlier in the month, investors continued to pull cash from municipal bonds for 18 of the past 19 weeks; munis underperformed Treasuries with the 10-year muni/Treasury ratio increasing 3%, from 88% to 91%

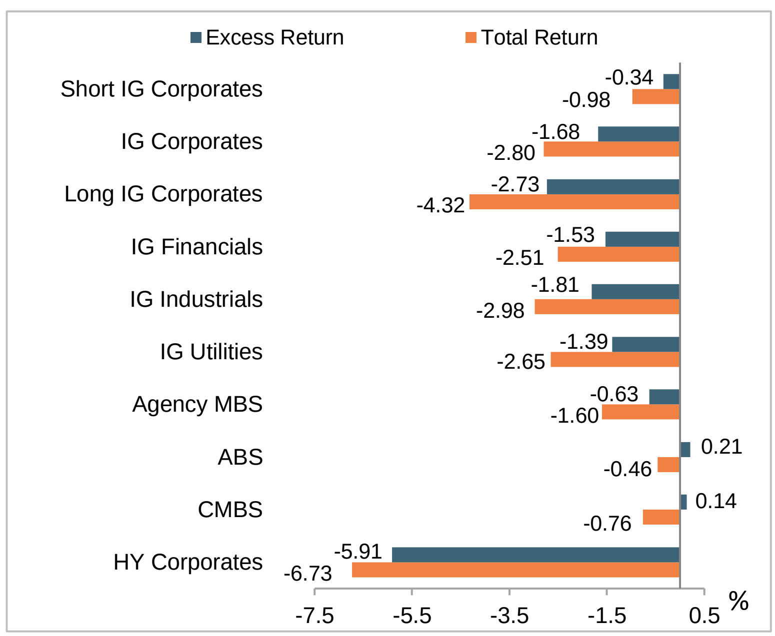
MARKET STATISTICS

Treasury Yield Curve



Maturity	2-year	5-year	10-year	20-year	30-year
6/30/2022	2.96	3.04	3.02	3.44	3.19
MTD Change	0.40	0.22	0.17	0.18	0.14

MTD Returns



As of: 6/30/22. Sources: Bloomberg

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