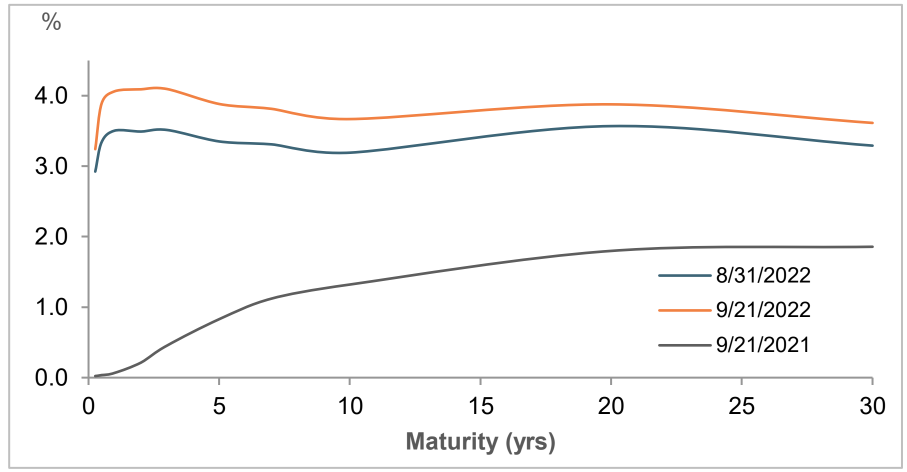
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

September 16 – September 22, 2022

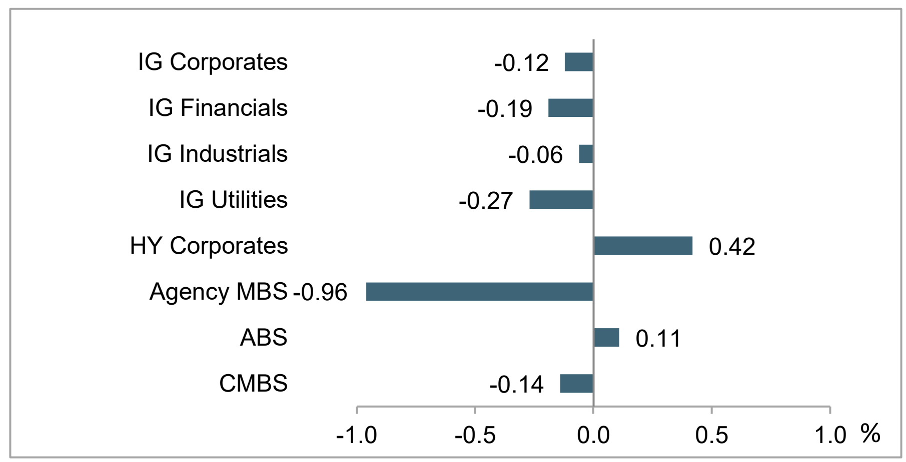
- Liquidity was challenged in both rates and spread sectors this week as the Federal Reserve's (Fed) measures to combat inflation escalated, signaling the most aggressive monetary tightening path since the 1980s
  - The Fed announced a third consecutive 75bp rate hike, which was in line with expectations; the Fed's hawkish sentiment continues to intensify as Fed Chair Powell signaled that rates may remain restrictive
  - The median Fed forecast shows rates at 4.6% in 2023, up from 3.75% projected in June; unemployment is expected to rise to 3.8% at year-end and 4.4% in 2023, up from 3.7% and 3.9%, respectively
- Treasuries sold off this week in response to the Fed's hawkish tone; the 2-year Treasury yield rose above 4% for the first time since 2007, closing at 4.1% on Wednesday
- Investment grade supply remained light this week as the Fed took center stage and spreads remained unchanged
- New issuance in the high yield market remains on hold as investors digest the impact of economic data; yields rose 30bps to 8.8% and spreads widened 19bps to 482bps week-over-week
- Agency MBS continued to underperform other securitized sectors as sales of previously owned US homes fell for the seventh straight month amid high prices and rising mortgage rates; Fed Chair Powell signaled there wouldn't be any MBS sales in the near term
- Municipals underperformed Treasuries as the 10-year muni/Treasury ratio rose from 83% to 85% due to continual outflows from municipal bond funds

Treasury Yield Curve



Maturity	2-year	5-year	10-year	20-year	30-year
9/21/2022	4.05	3.77	3.53	3.76	3.51
MTD Change	0.56	0.42	0.34	0.19	0.21

Month-to-Date Excess Returns



Sources: Bloomberg and Bloomberg Index Services Limited