IR+M INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
August 2022

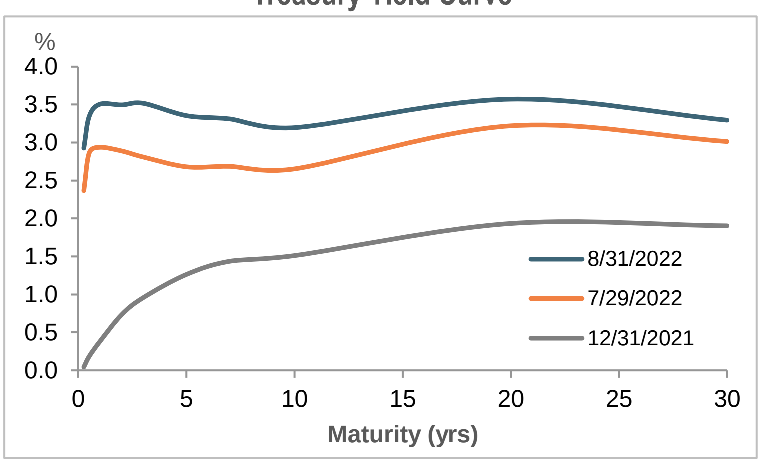
September 1, 2022

MARKET NEWS

- Better-than-expected economic data in the first half of the month supported markets before sentiment soured as the month progressed and investors became increasingly focused on the Jackson Hole symposium
    - July nonfarm payrolls rose more than expected with a gain of 528,000 jobs, while inflationary pressures appeared to slow as July CPI increased 8.5% year-over-year, down from 9.1% in June
    - The housing market showed some weakness as homebuilder sentiment dropped and new home sales fell 12.6%
- At the Federal Reserve's (Fed) Jackson Hole meeting, Fed Chair Powell reiterated the Fed's commitment to combating inflation until "the job is done," even if the result is "pain" for households and businesses
    - Other Fed officials echoed his comments and suggested the fed funds rate could remain elevated through 2023
- Treasury rates increased across the curve, as the Fed's hawkish rhetoric caused investors to reassess how tight financial conditions could get and the impact on the broader economy
    - The curve flattened further with the yields of 6-month through 7-year Treasuries now surpassing the 30-year rate
- August supply was heavy at the beginning of the month until the pace slowed approaching the Jackson Hole symposium; investment-grade corporate issuers ultimately priced almost $109 billion, which was above estimates of $70 billion
    - Investment-grade corporate spreads tightened 4bps month-over-month to 140bps, after reaching as low as 131bps mid-month, and leaked wider after the Fed's hawkish comments
- High-yield issuance rebounded from the meager $2 billion priced in July to total just over $8 billion, but remained relatively light, especially compared to the $34 billion issued in August 2021
    - The yield of the Bloomberg US High Yield Index increased 69bps to 8.42% and spreads widened 15bps to 484bps
- Agency mortgage-backed securities (MBS) underperformed Treasuries and other spread sectors amid weak technicals and soft housing-related economic data
- Municipals outperformed Treasuries in August, with the sector benefiting from relatively light supply of $25 billion; issuance over the next 30 days is expected to be below $14 billion, a potential tailwind for tax-exempt munis in September

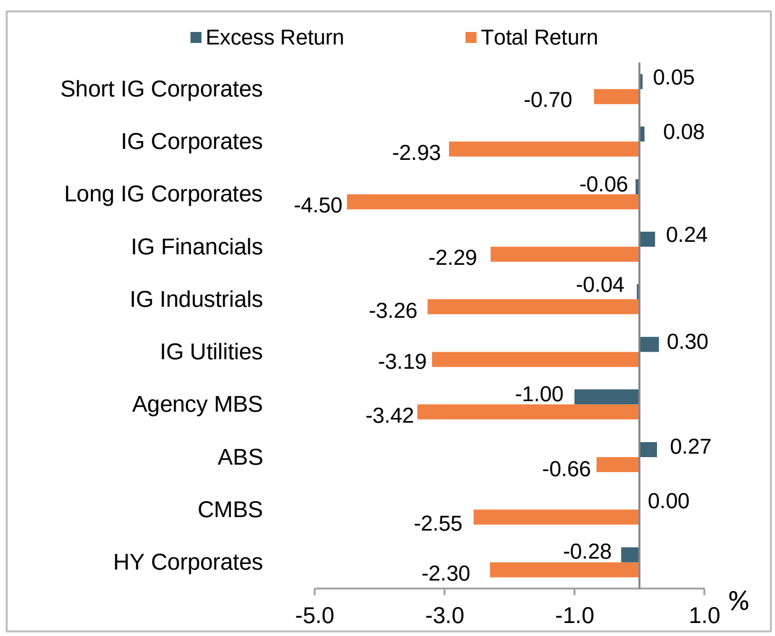
MARKET STATISTICS

Treasury Yield Curve



Maturity	2-year	5-year	10-year	20-year	30-year
8/31/2022	3.50	3.35	3.20	3.57	3.29
MTD Change	0.61	0.67	0.55	0.35	0.28

MTD Returns



As of: 8/31/22. Sources: Bloomberg

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