IR+M
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
October 2022

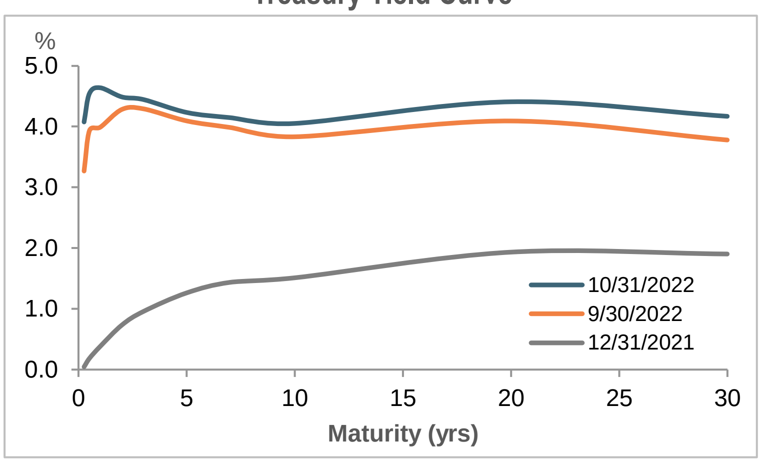
November 1, 2022

MARKET NEWS

- Despite mixed economic data, risk assets rallied in October as investors priced a higher likelihood the Federal Reserve (Fed) will ease interest rate hikes into the end of the year; the Dow Industrials was up 14%, the best monthly performance since 1976
    - The US economy rebounded in the third quarter after two quarterly contractions; GDP rose 2.6% year-over-year, slightly stronger than the consensus estimate of 2.4%, largely due to resilient consumers and businesses
    - Inflation came in faster than expected in September with core inflation hitting a new four-decade high, rising 6.6% year-over-year, while headline CPI rose 8.2%
- In the September FOMC meeting minutes, Fed officials noted they have been surprised at the pace of inflation and expect higher rates for longer; markets are pricing in a fourth consecutive 75bps rate hike at this week's FOMC meeting
    - Treasury yields continued to rise in October and the curve flattened; the difference between the 3-month and 10-year Treasury rate, a leading indicator for predicting recessions, closed the month inverted at -4bps
- Investment-grade corporate issuance gained momentum amidst the supportive market tone in September as issuers priced over $83 billion, surpassing projections of $75 billion; new issue volume of roughly $1.1 trillion is down 13% year-to-date, likely due to higher borrowing costs
    - Corporate spreads remained relatively unchanged, tightening only 1bp to 158bps, after widening earlier in the month to 165bps, the widest level since June 2020
- High yield supply remained dormant in October with a mere $3.7 billion of new issuance priced, 85% lower than 2021; year-to-date supply of $90 billion is on pace to be the lowest since 2008
    - Spreads tightened 88bps to 464bps amid light supply and the yield of the Bloomberg US High Yield Index plunged 56bps to 9.12% as investors returned to the asset class
- Agency mortgage-backed securities (MBS) underperformed Treasuries as mortgage rates continued to soar to a 22-year high of 7.32% earlier in the month
- Amid the worst year for munis since the 1980s, investors withdrew cash from muni funds for the twelfth consecutive week

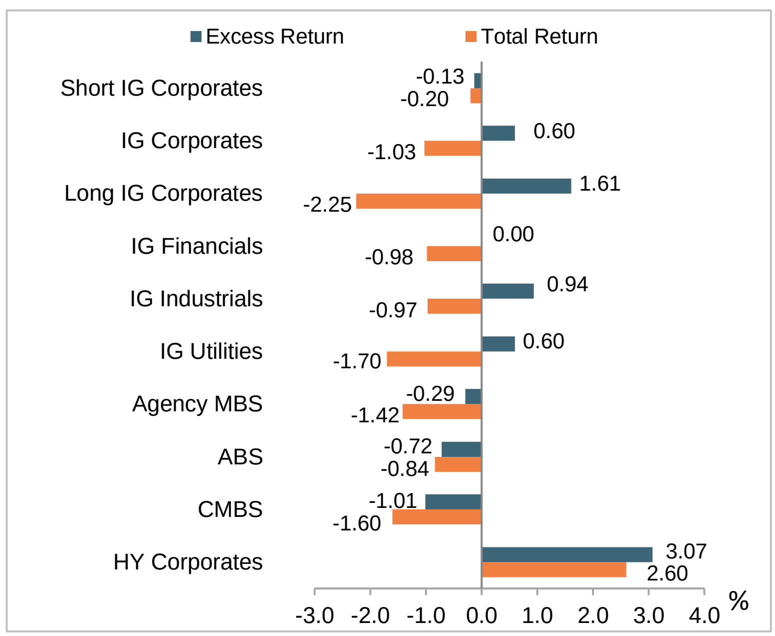
MARKET STATISTICS

Treasury Yield Curve



Maturity	2-year	5-year	10-year	20-year	30-year
10/31/2022	4.49	4.23	4.05	4.41	4.17
MTD Change	0.21	0.14	0.22	0.32	0.39

MTD Returns



As of: 10/31/22. Sources: Bloomberg

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