INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
November 2022

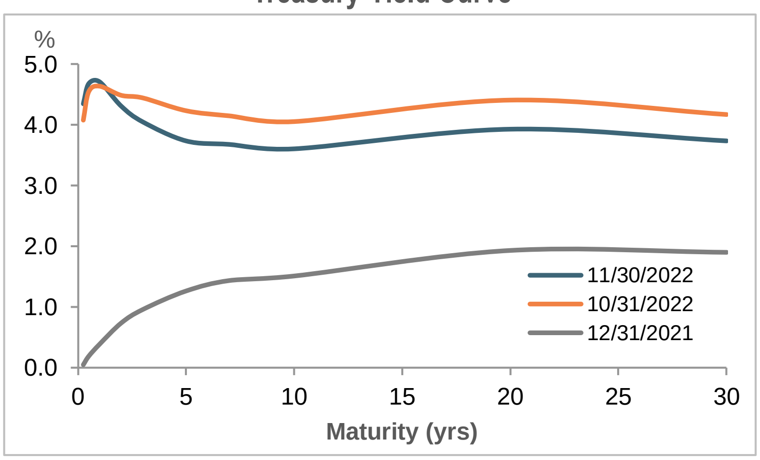
December 1, 2022

MARKET NEWS

- Despite continued rate volatility and on-again, off-again recessionary fears in November, spread product and equities rallied as inflation showed signs of easing, giving the Federal Reserve (Fed) room to slow its interest-rate hikes
  - CPI rose 7.7% year-over-year in October, slower than expected, and job openings eased, suggesting that tighter monetary policy may be slowing pricing and labor pressures
- At its November meeting, the Fed increased rates by 75bps for the fourth consecutive time in an effort to counter persistently high inflation, bringing the federal funds target range to 3.75% – 4%, up from 0 – 0.25% in March
  - Fed Chair Powell stated in a speech at the Brookings Institution at the end of the month that the Fed may slow the pace of interest rate increases "as soon as the December meeting;" the market is pricing in a 50bp rate hike
- Treasury bill yields increased in November while the rest of the curve decreased; the spread between the 2- and 10-year Treasury rate, often seen as a key predictor of a recession, closed the month inverted at -71bps, the most inverted since 1981
- Amid the positive tone, investment-grade corporate issuance surpassed the $100 billion mark for just the fifth time this year as issuers priced roughly $102 billion, well-above expectations of $75 billion
  - Corporate spreads tightened 25bps to 133bps, the tightest level since August
- Following the slowest month of new bond sales since 2008, high-yield supply continued to stall in November, marking the slowest November since 2018 with a modest $9 billion priced
  - Amidst light supply and an influx of cash, the yield of the Bloomberg US High Yield Index decreased 49bps to 8.63% and spreads tightened 16bps to 448bps
- Agency mortgage-backed securities (MBS) outperformed other securitized sectors in November despite softer housing data and had its best excess return month on record of 135bps
- Municipals had their biggest monthly rally since 1986, gaining 4.68% in November and outpacing Treasuries by the most since early in the pandemic as investor demand started to increase again; November saw the first weekly inflow to muni bond funds since August

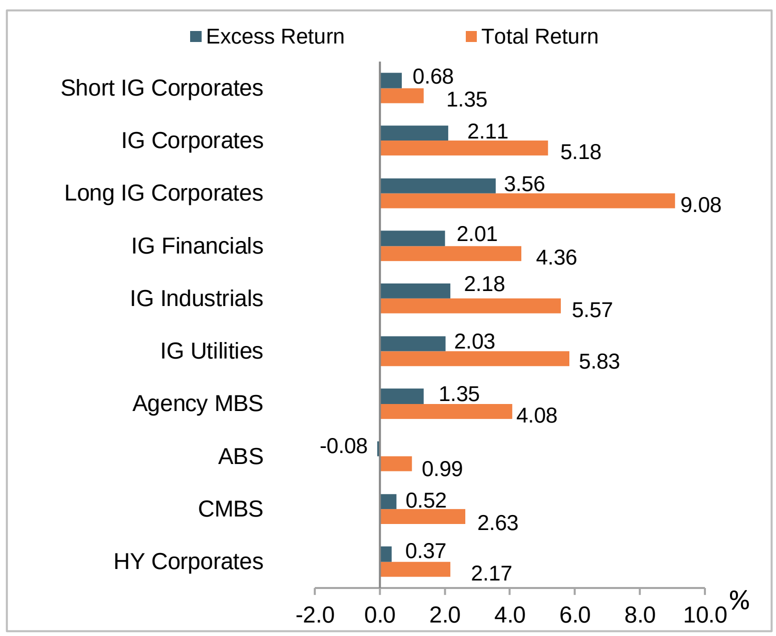
MARKET STATISTICS

Treasury Yield Curve



Maturity	2-year	5-year	10-year	20-year	30-year
11/30/2022	4.31	3.74	3.61	3.93	3.74
MTD Change	-0.17	-0.49	-0.44	-0.48	-0.43
YTD Change	3.58	2.48	2.10	2.00	1.83

MTD Returns



As of: 11/30/22. Sources: Bloomberg

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