IR+M INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
December 2022

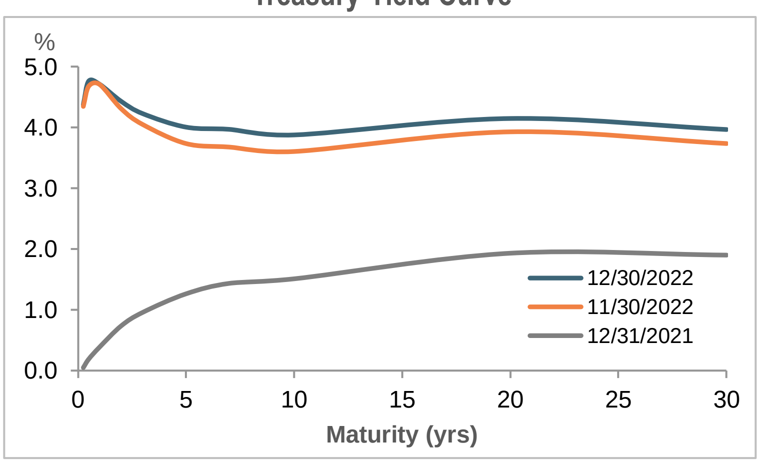
January 3, 2023

MARKET NEWS

- Mixed economic and inflation data led to heightened market volatility in December as investors grappled with the probability of the Federal Reserve (Fed) engineering a "soft landing" – lowering inflation by raising rates while avoiding a recession
    - Job openings came in higher than expected but manufacturing PMI and retail sales fell below expectations
    - CPI rose 7.1% year-over-year in November, slower than expected, but PPI rose 7.4% which was above expectations
- The Fed increased rates by 50bps at its December meeting, marking the end of a streak of four consecutive 75bp hikes and bringing the fed funds target range to 4.25% - 4.5%, up from 0 - 0.25% in March
    - Fed Chair Powell emphasized that though the Fed was slowing the rate of hikes, there is still a "ways to go" in the Fed's effort to mitigate high inflation
- Investment-grade corporate issuance was nearly non-existent in December with just over $7 billion coming to market, the slowest December in the last 15 years
    - The $1.2 trillion priced during the year was 14% lower than the amount of new issuance in 2021, likely due to higher borrowing costs and increased market volatility
    - Corporate spreads tightened 3bps on the month, from 133bps to 130bps, and ended the year 38bps wider
- High yield supply was similarly quiet with only $2.3 billion worth of new issuance; the year-to-date total was just over $100 billion which was 75% lower than the average amount issued in the last two years and the lowest since 2008
    - The Bloomberg High Yield Index yield rose 33bps to 8.96%, and high yield spreads widened 21bps from 448bps to 469bps
- Asset-backed securities reversed a long slide since the start of the year and rallied in December, outperforming other securitized sectors given the attractiveness of the sector relative to the recent tightening in corporates and the lack of supply
- Municipals outperformed Treasuries in December in the intermediate and long-end of the curve; the 10-year Muni/Treasury ratio decreased 8% to 68%

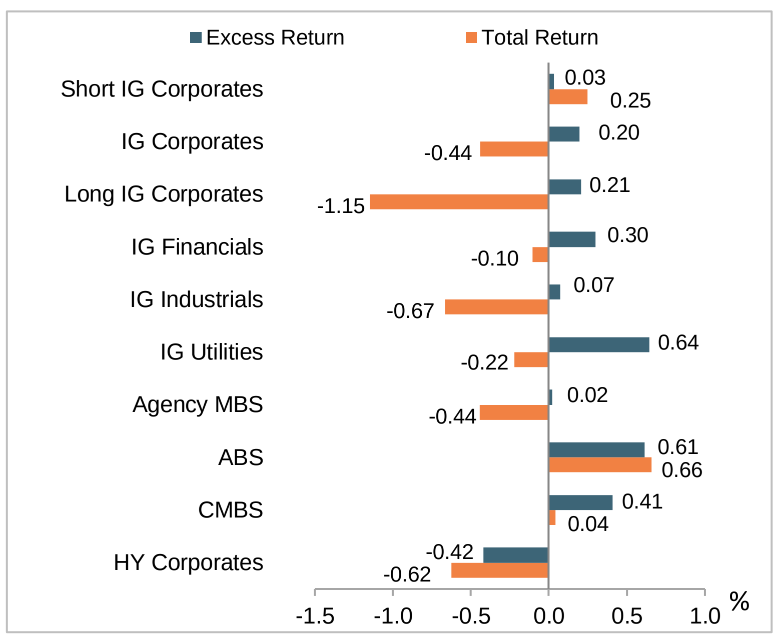
MARKET STATISTICS

Treasury Yield Curve



Maturity	2-year	5-year	10-year	20-year	30-year
12/30/2022	4.43	4.01	3.88	4.15	3.97
MTD Change	0.12	0.27	0.27	0.22	0.23
YTD Change	3.70	2.74	2.37	2.21	2.06

MTD Returns



As of: 12/31/22. Sources: Bloomberg

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