INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
January 2023

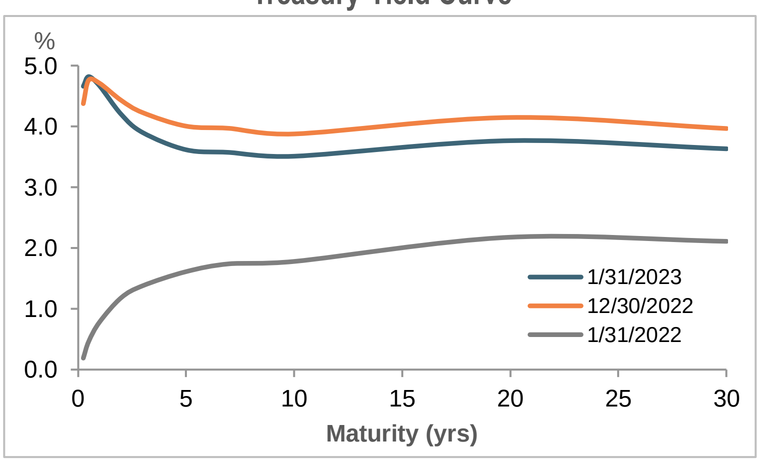
February 1, 2023

MARKET NEWS

- Risk assets got off to a strong start in 2023 as the rate of inflation continued to drop and the labor market remained firm; the S&P 500 was up 6.2% on the month and investment-grade bonds returned 4%
  - Despite layoffs at some tech companies and money centers banks making the headlines, weekly jobless claims came in at 194,000, which was below the consensus estimate of 214,000
  - CPI rose 6.5% year-over-year in December, in line with expectations and down from 7.1% in November; the most recent -0.1% month-over-month CPI figure was the first deflation print since May 2020
- In the December FOMC meeting minutes, the Federal Reserve continued to emphasize its determination to bring inflation to its 2% target and warned investors against anticipating easing financial conditions in the second half of 2023
  - The market is currently pricing in a 25bp rate hike at the next FOMC meeting on February 1st; the consensus expectation is that the FOMC will continue to hike in the first half of 2023 and then cut in the second half
- Investment-grade corporate issuance was strong with $144 billion of new bonds coming to market, the second busiest January on record; dealers are projecting roughly $100 billion for February primary issuance
  - The corporate bond supply was a welcomed sight for a market that is beginning to see growing demand for bonds; the second week of January saw a surge in high-grade bond inflows following net outflows in 4Q22
  - Corporate spreads tightened 13bps on the month, from 130bps to 117bps
- The high yield market emerged from hibernation and saw about $23 billion of supply in January
  - The Bloomberg High Yield Index yield fell 82bps to 8.14%, and high yield spreads tightened 49bps from 469bps to 420bps; the yield drop of high yield bonds was the largest decline since July of 2022
- Agency mortgage-backed securities outperformed other securitized sectors during January, benefitting from decreased volatility over the month
- Amid light supply and strong investor demand, municipal bonds had their strongest start to the year since January 2009 with a 2.9% return during the month

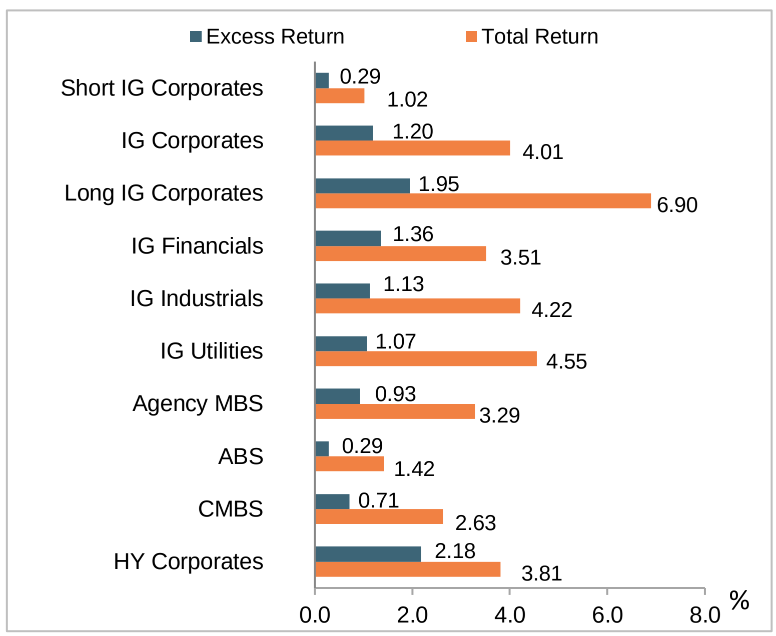
MARKET STATISTICS

Treasury Yield Curve



Maturity	2-year	5-year	10-year	20-year	30-year
1/31/2023	4.20	3.62	3.51	3.77	3.63
MTD Change	-0.23	-0.39	-0.37	-0.38	-0.33
YTD Change	-0.23	-0.39	-0.37	-0.38	-0.33

MTD Returns



As of: 1/31/23. Sources: Bloomberg

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

The views contained in this report are those of Income Research & Management ("IR+M") and are based on information obtained by IR+M from sources that are believed to be reliable but IR+M makes no guarantee as to the accuracy or completeness of the underlying third-party data used to form IR+M's views and opinions. This report is for informational purposes only and is not intended to provide specific advice, recommendations, or projected returns for any particular IR+M product. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission from Income Research + Management. "Bloomberg®" and Bloomberg Indices are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited ("BISL"), the administrator of the index (collectively, "Bloomberg") and have been licensed for use for certain purposes by IR+M. Bloomberg is not affiliated with IR+M, and Bloomberg does not approve, endorse, review, or recommend the products described herein. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to any IR+M product.