INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
February 2023

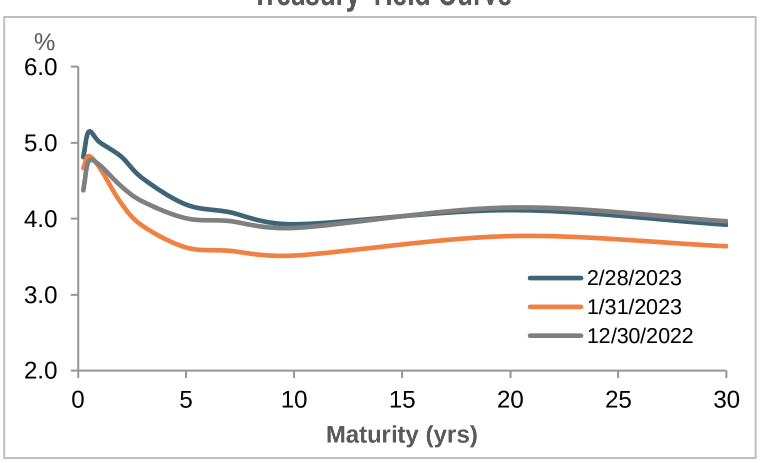
March 1, 2023

MARKET NEWS

- Following a strong January, risk assets felt some weakness in February after a surprisingly strong jobs print and inflation coming in above expectations for January
    - Non-farm payrolls increased 517,000 in January, significantly higher than market estimates of 188,000
    - CPI rose 6.4% year-over-year in January, slightly above the 6.2% anticipated by the market, and PPI was 6.0% year-over-year, which also exceeded expectations of 5.4%
- As projected by the market, the Federal Reserve (Fed) increased rates by 25bps at its February meeting, bringing the fed funds target range to 4.5% - 4.75%
    - Fed officials warned that the Fed may need to keep rates “higher for longer” to bring down inflation in the face of a strong jobs market; investors now anticipate further rate hikes through 3Q 2023
- The investment grade corporate market saw $150 billion of new bonds price during the month, setting a record for issuance in the month of February and blowing past dealer expectations of $100 billion
    - Dealers project $130-150 billion of issuance in March, which is below historical averages for the month
    - Corporate spreads widened 7bps in February, from 117bps to 124bps
- High yield borrowers were undeterred by the hawkish Fed tone, pricing over $14 billion during the month; year-to-date’s issuance of over $34 billion is 6% ahead of last year’s pace
    - The Bloomberg High Yield Index yield rose 49bps to 8.63%, and high yield spreads tightened 8bps to 412bps
    - High-yield funds saw notable outflows in February despite the strong issuance as investors rotated out of high-yield bonds and into investment-grade bonds
- Asset-backed securities outperformed other securitized sectors during the month with primary ABS issuance running about 10% lower compared to this time last year
- Taxable municipal bonds were one of the best performing sectors in February and in 2023, outperforming Treasuries by over 70bps month-to-date; the sector has rebounded after underperforming Treasuries and Corporates in 2022

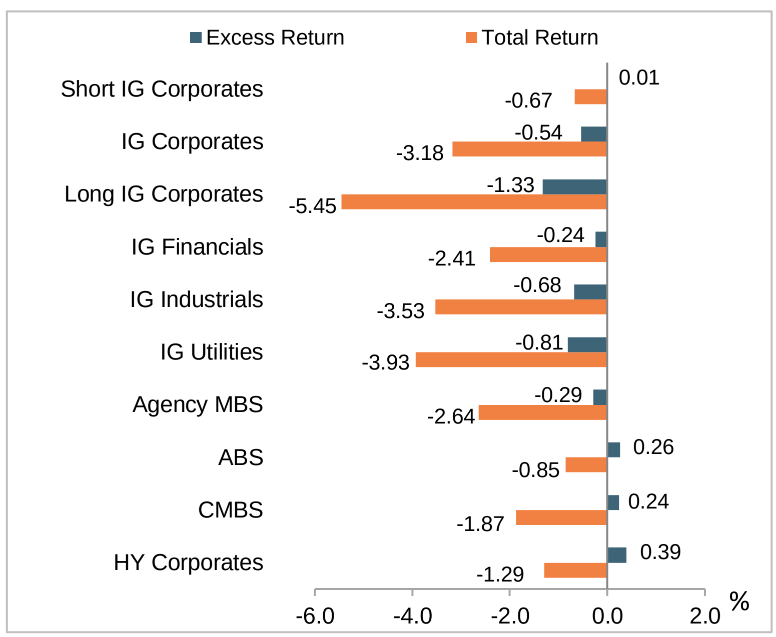
MARKET STATISTICS

Treasury Yield Curve



Maturity	2-year	5-year	10-year	20-year	30-year
2/28/2023	4.82	4.18	3.92	4.11	3.92
MTD Change	0.62	0.57	0.41	0.34	0.28
YTD Change	0.39	0.18	0.05	-0.04	-0.05

MTD Returns



As of: 02/28/23. Sources: Bloomberg

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

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