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INCOME RESEARCH + MANAGEMENT

IR+M SPECIAL MARKET UPDATE

March 13, 2023

MARKET OBSERVATIONS

- The Federal Reserve (Fed), Treasury, and FDIC backed depositors by announcing the Bank Term Funding Program (BTFP), which reassured depositors would have access to their money on Monday, March 13th, calming markets and avoiding contagion.
    - Signature Bank was closed on March 12, 2023, by the New York State Department of Financial Services.
- BTFP was created to provide liquidity to US depository institutions and to hopefully eliminate the need for institutions to sell securities in times of stress.
    - The BTFP offers loans of up to one year to banks, savings associations, credit unions, and other eligible depository institutions pledging US Treasuries, agency debt and mortgage-backed securities (MBS).
    - Importantly, the collateral will be valued at par despite most of it being priced below par due to higher interest rates.
- After many overseas markets closed down over 3%, US equities began the day down over 1% before finishing down slightly.
- The majority of today's volatility was felt in the front-end of the Treasury market with the curve steepening; the 2-year Treasury yield fell by roughly 61bps day-over-day (to 3.98%), while the 30-year Treasury rate was flat (to 3.71%).
- Investment-grade corporate spreads were 2-15bps wider day-over-day; spreads initially widened in the morning but stabilized as the day progressed.
    - The banking sector, specifically regional banks, was meaningfully wider with regional banks 45-75bps wider and some outliers 100-150bps wider.
    - Corporate trading volume was relatively light and highlights that spreads were primarily quotes and not necessarily levels at which trades were executed.
    - There were talks of eight issuers prepared to issue new debt that decided to hold off given the soft market tone; expectations are for $25 billion of new issuance this week.
- Rate volatility spilled into securitized sectors and caused spreads to widen but, like the corporate market, there was not much trading activity.
    - Higher-quality asset-backed securities (ABS) and commercial mortgage-backed securities (CMBS) were 10-15bps wider, while non-traditional ABS were 30-50bps wider depending on the sector.

WHAT WE ARE WATCHING

- **Regional Banks:** Larger banks are more heavily regulated via capital, liquidity, and stress testing requirements than smaller banks. Going forward there could be a greater emphasis on imposing similar standards on smaller banks. Regional banks, which historically had tighter spreads to money center banks, could begin trading relatively wider with more perceived risk.
- **Depositors:** It remains to be seen whether depositors with balances over $250,000 at other banks will look to diversify their exposure in case of a similar situation. In this case, uninsured depositors will receive a dividend and uninsured deposits will receive a receivership certificate for the remaining amount of uninsured funds.
- **The Fed:** There is currently a blackout period ahead of their meeting on 3/22/23. The market had expected either a 25 or 50bp rate hike at the meeting, however, recent events and fresh concerns could cause the Fed to pause. The market is currently pricing in a 65% chance of a rate hike at the meeting, and a terminal rate below 5%.
- **Economic Data:** CPI will be released tomorrow, 3/14, and expectations are for a 0.4% month-over-month rise. An acceleration compared to estimates could further cloud the Fed's decision at the upcoming meeting which could cause more volatility.

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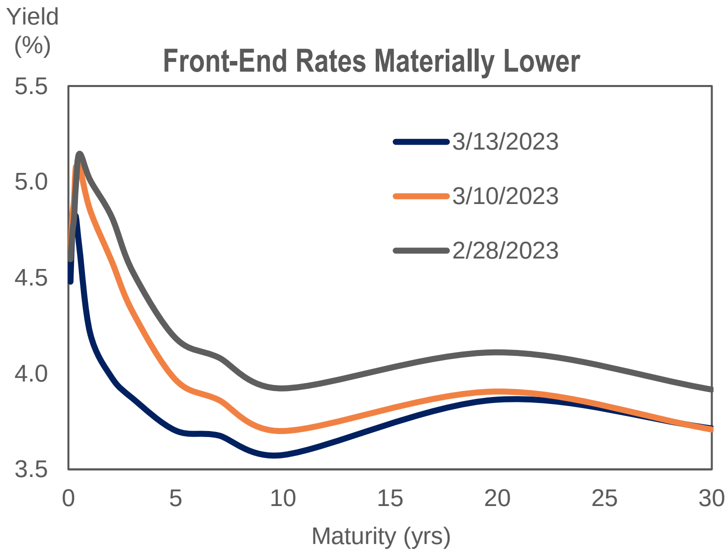

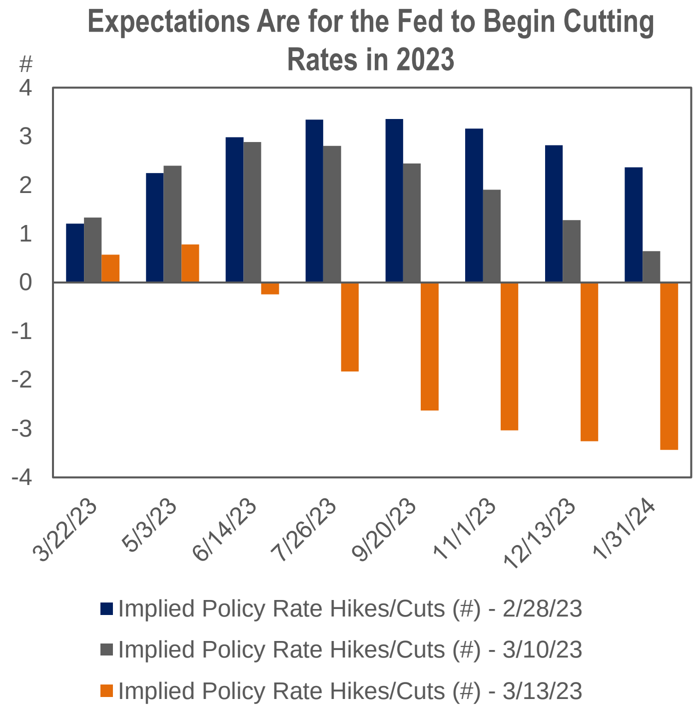

Maturity	2-year	5-year	10-year	20-year	30-year
3/13/2023	3.98	3.70	3.58	3.86	3.71
DoD Change	-0.61	-0.27	-0.12	-0.05	0.00

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