IR+M
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
May 2023

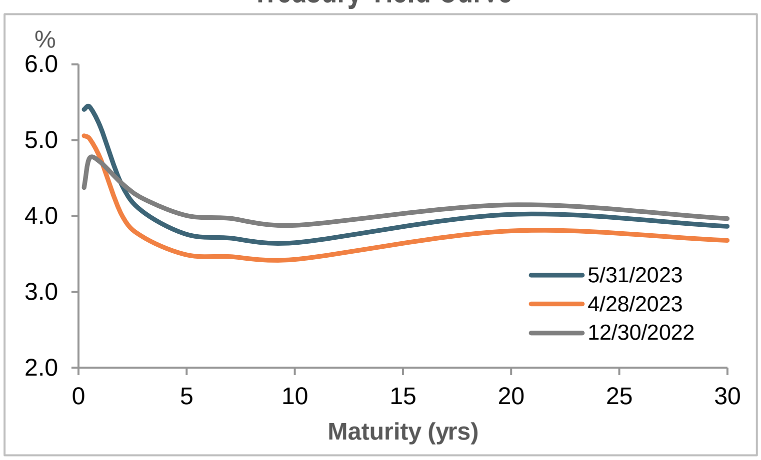
June 1, 2023

MARKET NEWS

- Debt ceiling negotiations drove investor sentiment in May, pushing Treasury yields higher and stock prices down; equity assets rebounded toward the close of the month as Congress approached a resolution to avoid default
  - The US House of Representatives approved debt-limit legislation on the evening of month-end, sending the measure to the Senate for consideration as Janet Yellen's June 5 default deadline draws near
  - CPI grew 4.9% year-over-year in April, only 0.1% lower than March's figure; Core CPI grew 0.4% month-over-month for the second consecutive cycle
- The Federal Reserve (Fed) raised the federal funds target range by 25bps to 5.00% - 5.25%, the tenth consecutive rate hike since March 2022; markets are now pricing in the possibility of additional rate hikes, a notable shift from earlier in the year when investors were expecting looser monetary policy in the second half of 2023
  - Treasury yields rose across the curve, driving fixed income returns into negative territory; the 10-year Treasury rate rose by 22bps, from 3.43% to 3.65%
- Investment-grade supply came back to life in May following a slow April with $149 billion pricing, exceeding investor expectations of $135 billion for the month; the $31 billion Pfizer deal that priced during May was the fourth-largest corporate bond deal ever in the US investment-grade market
  - Investment-grade corporate spreads widened by 2bps during the month, from 136bps to 138bps
- Despite net outflows from junk bonds during most of the month, high-yield supply remained strong as issuers accelerated deals in fear of higher potential borrowing costs resulting from debt ceiling uncertainty; the $22 billion that priced during the month was the highest monthly supply figure since January 2022
  - The Bloomberg High Yield Index yield rose by 33bps to 8.81%, and high-yield spreads widened by 7bps to 459bps
- Securitized sectors posted positive excess returns on the month led by agency mortgage-backed securities (MBS); within MBS, the Fannie Mae 30-year current-coupon spread reached its highest level in over 10 years
- Municipal bond mutual funds saw outflows for five consecutive weeks in May as muni bonds declined by 0.87% on the month; the 10-year muni/Treasury yield ratio ended the month at 72.1%, up 12.4% from its lowest mark of 59.7% in mid-April

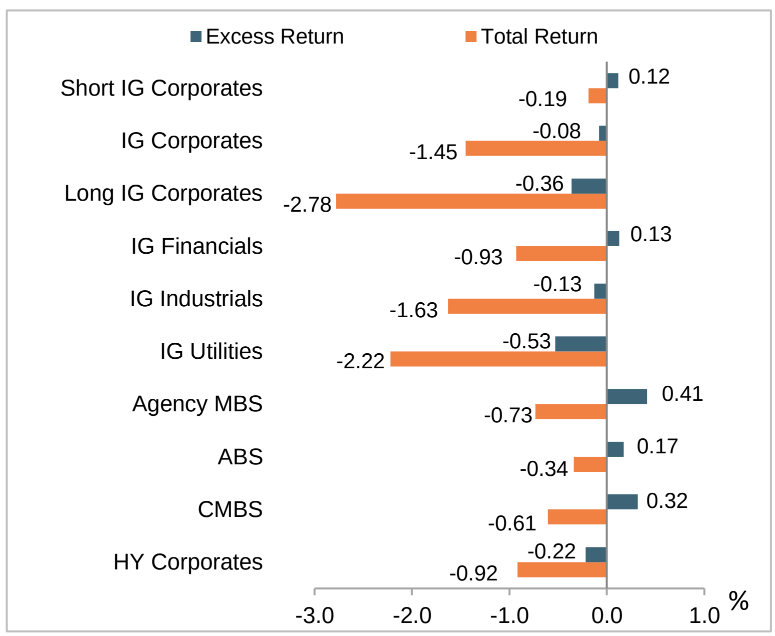
MARKET STATISTICS

Treasury Yield Curve



Maturity	2-year	5-year	10-year	20-year	30-year
05/31/2023	4.41	3.76	3.65	4.02	3.86
MTD Change	0.40	0.27	0.22	0.22	0.19
YTD Change	-0.02	-0.25	-0.23	-0.13	-0.10

MTD Returns



As of: 05/31/23. Sources: Bloomberg

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