INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
June 2023

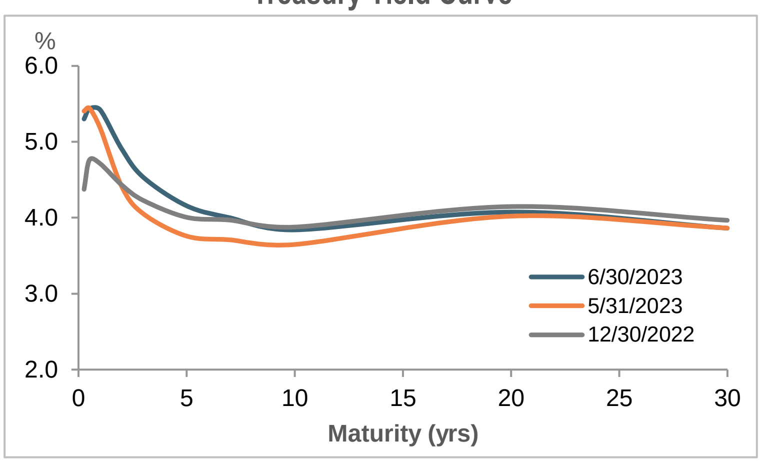
July 3, 2023

MARKET NEWS

- Risk assets performed well in June amid continued strength in the economy; consumer confidence rose to the highest level since early 2022 and the S&P 500 was up 6.5%, climbing for four straight months
  - US job growth remained strong in May as employers added 339,000 jobs, surpassing market estimates of 195,000
  - CPI cooled for the 11th straight month in May, rising 4% year-over-year, which is the lowest level since March 2021
- After hiking at the previous 10 FOMC meetings, the Federal Reserve (Fed) paused rate hikes in June and kept the fed funds target range at 5.00 – 5.25%, but they signaled future hikes would likely resume
  - The Treasury yield curve bear flattened in June as the market repriced the expected Fed's terminal rate, with one more rate hike projected in 2023, followed by cuts in early 2024; the spread between the 2- and 10-year Treasury yield closed the month inverted at -106bps, the most inverted in over four decades
- Activity in the investment-grade primary market was healthy in June, with $91 billion priced; Yankee banks were particularly active as 15 issuers priced $27 billion, nearly double the $14 billion issued in June last year
  - Investment-grade corporate spreads tightened by 15bps during the month, from 138bps to 123bps
- High-yield issuance slowed in June to roughly $13 billion, following May's $22 billion, bringing year-to-date supply to almost $93 billion; high-yield corporates had the highest monthly performance since January, posting an excess return of 2.54% in June, after receiving a boost from light supply and stronger than expected economic data
  - The yield of the Bloomberg High Yield Index fell by 31bps to 8.50%, the sharpest monthly decline since January, and high-yield spreads tightened by 69bps to a nearly four-month low of 390bps
- Securitized supply across sectors is running lower year-to-date as issuers remain challenged by the higher interest rate environment; private-label commercial mortgage-backed securities (CMBS) issuance is down 75% year-over-year at roughly $19 billion, the lowest in a decade
- Municipal bonds posted a 1% gain in June and outperformed Treasuries by 2%, marking the best monthly outperformance in more than two years, as municipalities delayed issuance amid the elevated rate environment, leaving investors to grapple with maturing debt and a supply/demand imbalance

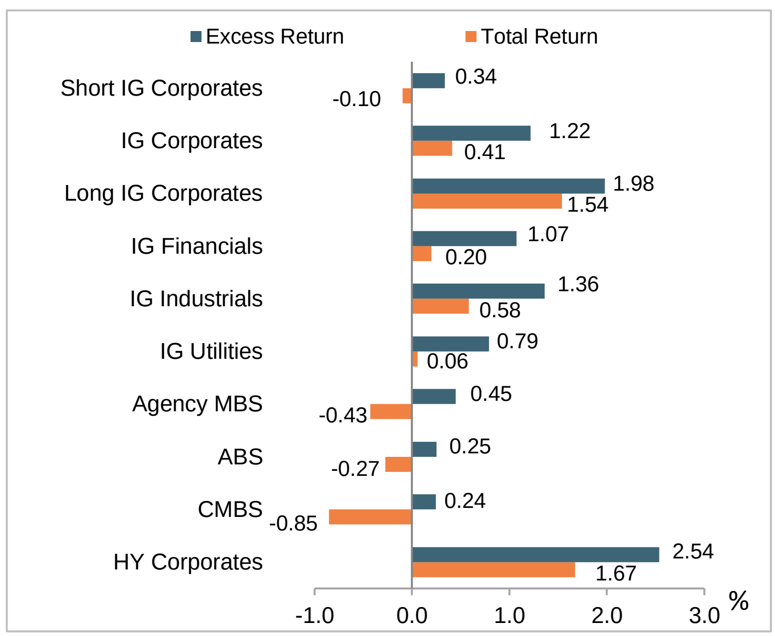
MARKET STATISTICS

Treasury Yield Curve



Maturity	2-year	5-year	10-year	20-year	30-year
6/30/2023	4.90	4.16	3.84	4.07	3.86
MTD Change	0.50	0.40	0.19	0.06	0.00
YTD Change	0.47	0.15	-0.04	-0.07	-0.10

MTD Returns



As of: 06/30/23. Sources: Bloomberg

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