INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

August 2023

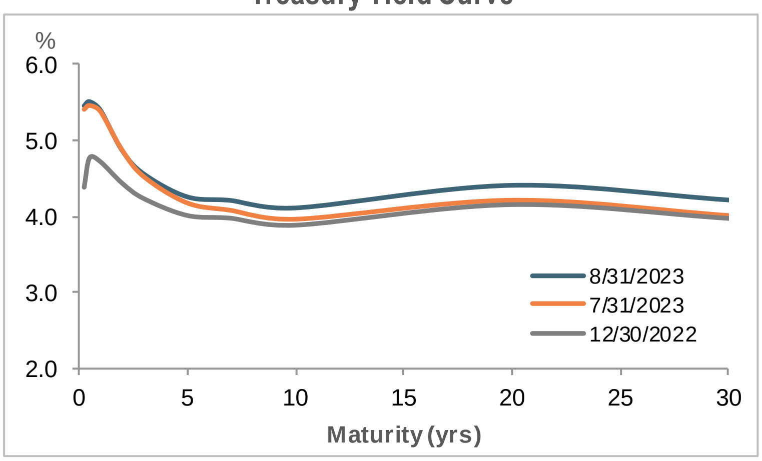
September 1, 2023

MARKET NEWS

- The summer rally in risk assets abated in August amid mixed economic data paired with uncertainty about the future path of interest rates and trajectory of the economy; the S&P 500 index declined month-over-month for the first time since February
  - The most recent Manufacturing PMI reading of 47 was below economist expectations, and the JOLTS job openings figure dropped to 8.8 million; personal spending, however, rose 0.8% month-over-month in July, above market expectations and higher than the 0.2% increase in personal income over the same period
  - July CPI rose by 3.2% year-over-year, slightly lower than expectations; the increase from 3.0% in June marked the end of a streak of disinflation that lasted 12 consecutive months
- At Jackson Hole, Chair Powell reiterated the Federal Reserve's (Fed) determination to reduce inflation, noting signs that the economy may not be cooling as expected; investors currently anticipate the federal funds target range to remain unchanged through the end of the year
  - The 10-year Treasury yield rose by 15bps on the month and the Treasury curve steepened; the spread between the 2-year and 10-year Treasury yields rose by 16bps from -92bps to -76bps
- The investment-grade primary market was active for the first two weeks of the month before slowing considerably through the end of August; $74 billion of new supply came to market, falling short of investor projections
  - Corporate spreads widened by 6bps during the month, from 112bps to 118bps, and yields rose by 16bps to 5.61%
- High-yield supply was similarly quiet in August with about $12 billion of new issuance, the majority of which came during the first week of the month
  - High-yield spreads rose by 5bps during the month, from 367bps to 372bps, and yields increased by 11bps to 8.41%
- Mortgage-backed securities (MBS) underperformed other securitized products on the month and have had lower excess returns than other spread products year-to-date as well; 30-year mortgage rates climbed considerably in August, reaching their highest levels since 2000
- Municipal bonds slumped in August, posting a -1.4% return and underperforming Treasuries; the 10-year muni/Treasury ratio rose by 6% from 64% to 70%

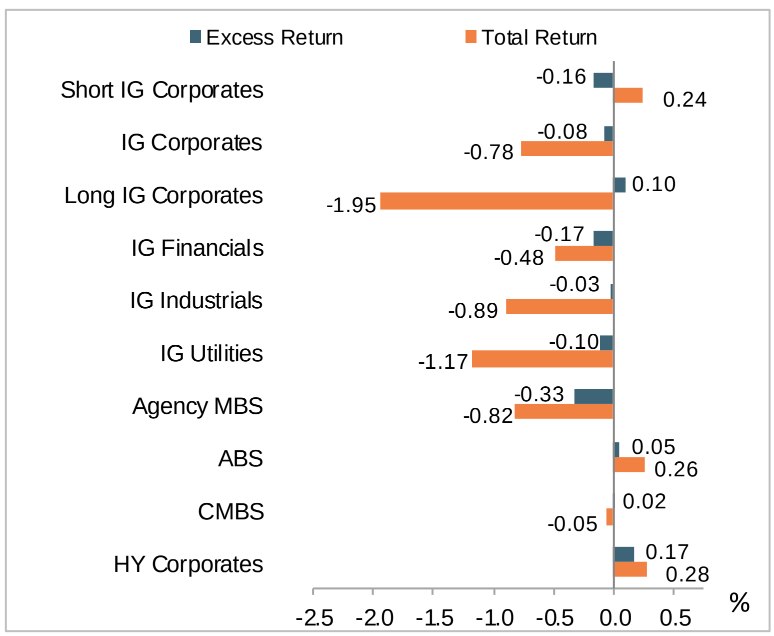
MARKET STATISTICS

Treasury Yield Curve



Maturity	2-year	5-year	10-year	20-year	30-year
8/31/2023	4.87	4.26	4.11	4.41	4.21
MTD Change	-0.01	0.08	0.15	0.19	0.20
YTD Change	0.44	0.25	0.23	0.26	0.25

MTD Returns



As of: 08/31/23. Sources: Bloomberg

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