INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
September 2023

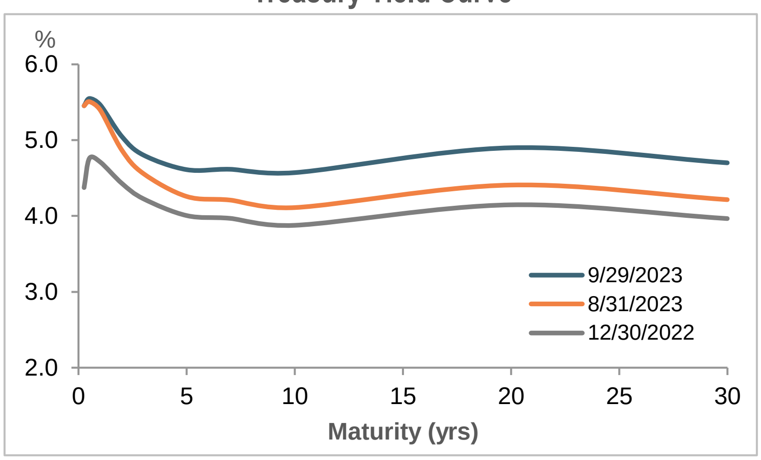
October 2, 2023

MARKET NEWS

- Volatility ticked back up in September, and stocks suffered their worst-performing month of 2023 as the S&P 500 fell 4.87%; Congress narrowly averted a government shutdown, agreeing to a temporary funding bill in the final hours of the month
- Core PCE, the Federal Reserve's (Fed) preferred inflation measure, grew 0.1% in August, the slowest monthly increase since November 2020, and CPI rose 0.6%, the largest monthly gain since June 2022
- Fed officials unanimously voted to leave the federal funds target range unchanged at September's FOMC meeting, between 5.25 – 5.50%, and the Fed's updated dot plot signaled another rate hike is possible before year-end; Treasury yields jumped over the month to the highest levels in over a decade as markets reacted to the Fed's higher-for-longer stance
    - The 2-year Treasury yield reached 5.18% during September, the highest level since 2006, before closing the month at 5.05%, while the 10- and 30-year rates rose to their highest levels since 2007 and 2011, respectively, and closed at 4.57% and 4.70%
- Issuance returned to the market after a quiet August, with investment-grade bringing $124 billion of new supply in September, which was modestly above expectations but lower than the five-year historical average of $133 billion
    - Investment-grade spreads closed at 121bps, widening 3bps on the month, while yields jumped 43bps to 6.04%
- High-yield companies seized the opportunity to issue new debt ahead of potential rate hikes before year-end, as almost $24 billion of new issuance priced, marking the busiest month of primary market activity since January 2022
    - High-yield bonds experienced their worst month since February, posting a loss of 1.18% month-over-month; yields spiked, rising 47bps to 8.88%, and spreads widened 22bps, from 372bps to 394bps
- Asset-backed securities (ABS) saw a resurgence in supply with over $31 billion of new deals pricing; despite the abundance of issuance, ABS outperformed Treasuries, posting an excess return of 1bp month-over-month
- Municipals underperformed Treasuries in September amid continued outflows from investors; the 10-year muni/Treasury ratio rose 5% month-over-month, from 70% to 75%
    - Withdrawals from municipal bond funds stretched into their second consecutive month, bringing the streak of outflows to $5 billion

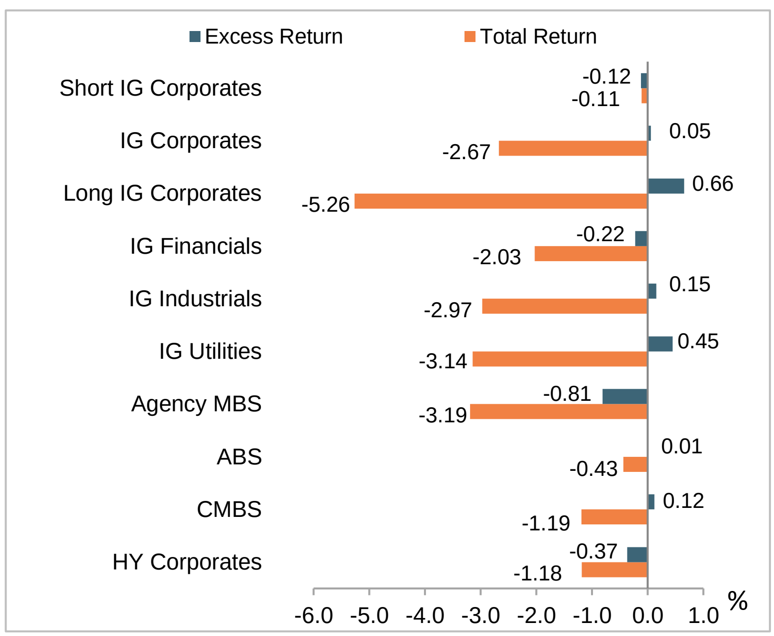
MARKET STATISTICS

Treasury Yield Curve



Maturity	2-year	5-year	10-year	20-year	30-year
9/29/2023	5.05	4.61	4.57	4.90	4.70
MTD Change	0.18	0.36	0.46	0.49	0.49
YTD Change	0.62	0.61	0.70	0.75	0.73

MTD Returns



As of: 09/30/23. Sources: Bloomberg

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