IR+M INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
December 2023

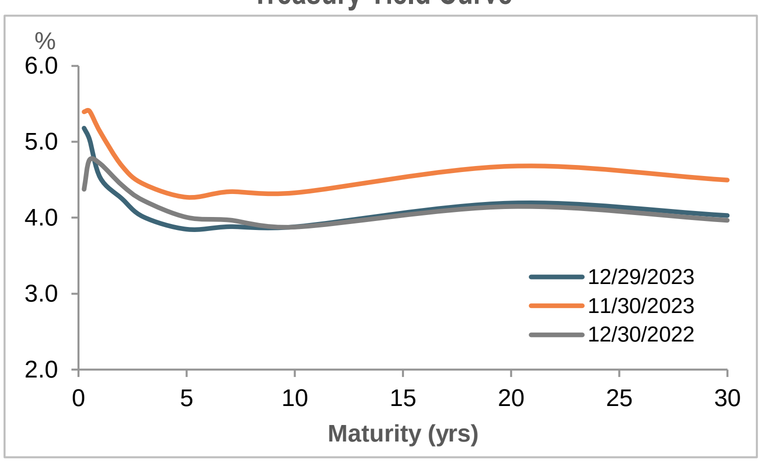
January 2, 2024

MARKET NEWS

- Risk assets continued their positive trajectory from November and posted strong returns in December as the Federal Reserve (Fed) pivoted to a more dovish tone on the future path of interest rates
  - The rate of inflation continued to inch closer to the Fed's 2% target, with the November CPI print showing a 3.1% increase year-over-year, in line with expectations; PCE inflation, the Fed's preferred metric, rose by 2.6%, slightly lower than median survey estimates
  - Measures of consumer confidence and the change in non-farm payrolls exceeded investor estimates, though job openings dropped to their lowest level since March 2021
- The Fed kept the federal funds target rate range at 5.25% - 5.50% at its most recent FOMC meeting; the updated dot plot indicated an estimated target rate of 4.625% at the end of 2024, implying three rate cuts in the coming year
  - The Treasury yield curve deepened its inversion with the 30-year rate dropping by 47bps to 4.03%, while Treasury Bill yields 4 months and shorter ended the month within 5bps of where they began the period
- Investment-grade supply totaled $24 billion, over three times the historically-low amount issued in December 2022
  - Amid the positive market backdrop and decline in yields, January issuance is expected to be heavy; dealers are anticipating $160 billion of supply for the month, $60 billion of which is projected to come in the first week
  - Investment-grade corporate spreads fell by 5bps to 99bps, and yields dropped by 54bps to 5.06%
- Supply in the high-yield market came in at $13 billion, nearly five times the amount issued in December of last year
  - High-yield spreads tightened by 47bps from 370bps to 323bps, and yields dropped by 84bps to 7.59%, their lowest level since June 2022
- Securitized products broadly posted positive excess returns in December, driven by lower Treasury yields; weakening consumer health began to affect areas of the asset-backed security (ABS) market, particularly subprime auto loans, as the personal savings rate fell below pre-pandemic levels
- Municipal bonds outperformed Treasuries as muni/Treasury yield ratios continued to drop; the 10-year ratio dropped by 3% to 58%, its lowest level since June 2021.

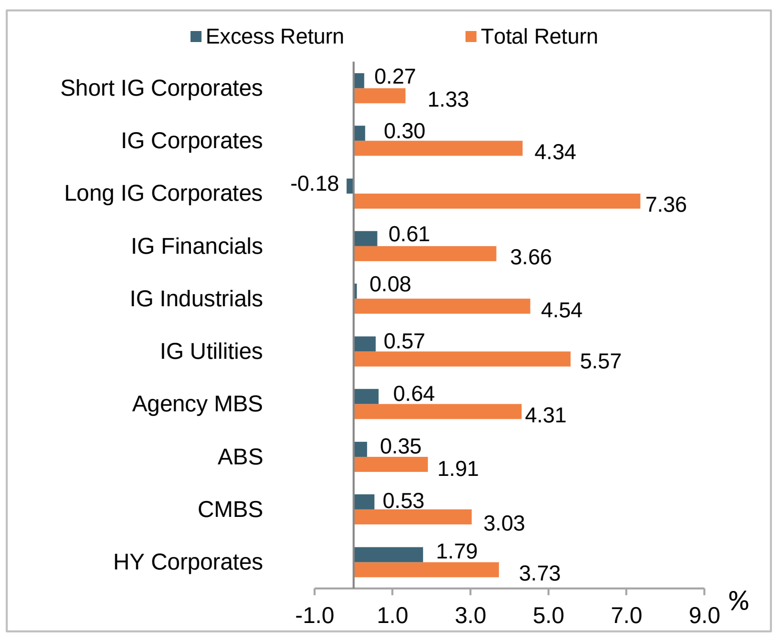
MARKET STATISTICS

Treasury Yield Curve



Maturity	2-year	5-year	10-year	20-year	30-year
12/29/2023	4.25	3.85	3.88	4.19	4.03
MTD Change	-0.43	-0.42	-0.45	-0.49	-0.47
YTD Change	-0.18	-0.16	0.00	0.05	0.06

MTD Returns



As of: 12/31/23. Sources: Bloomberg

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