

Fixed Income Weekly Monitor

Treasuries substantially bull-flatten on incremental peak-of-peak talk and more obviously on global Delta-variant concerns. High-yield corporate spreads widen for second consecutive week.

PWM Fixed Income Research

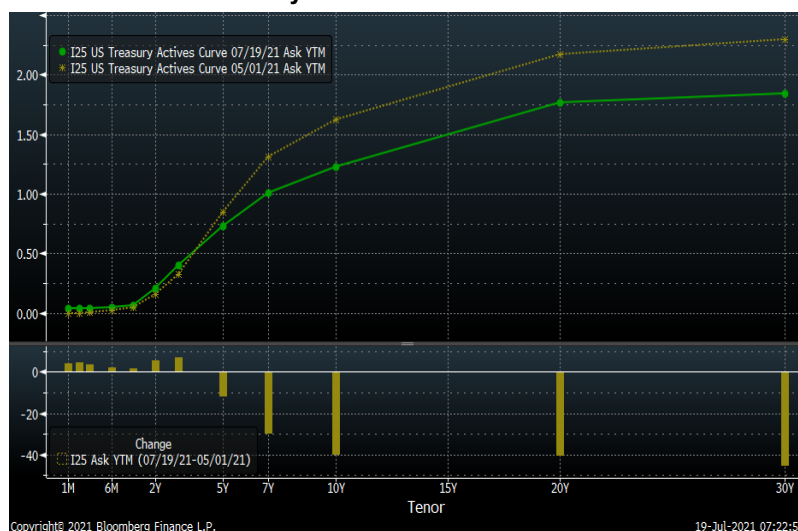
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Treasuries

- The Treasury curve has reminded us to ignore it at one's peril. It has been retracing its losses since May-ish. In fact, 10yr yields are now at levels last seen in February just as the pick-up in yields was about to begin. What has changed most notably has been the slope – with the curve much flatter. Why? Concerns about peak-peak talk, maybe a perceived too hawkish Fed and of course Delta-variant Covid resurgence concerns. The fall in yields has been accomplished in both inflation breakeven and real-yield space lending credence to the slowing of the reflation story. Of note also is the recent pick up in the equity market's cost of insurance (VIX) has risen substantially and also potential signs that the tightening of corporate credit spreads has ceased (in fact, high yield has seen two consecutive weeks of spread widening).

Treasury Curve: 5/1/21 vs. Now



- Treasury yields substantially bull-flattened; 3 mos. bills -0.8 bps at 0.04%, 1yr Treasury Notes +0.7 bps at 0.07%, 2-year Note yields +0.1 bps at 0.22%, 5-year Notes yields -5.2 bps at 0.73%, 10-year Notes yields -12.9 bps at 1.23% and 30-year bonds yields -14.5 bps at 1.84%.

Municipals

- Bloomberg Municipal Index yields barely budged; AAA-rated GO yields 2-year bonds -1 bps to 0.12%, 5-year bonds -1 bps to 0.42%, 10-year bond yields -1 bps to 0.85% and 30-year bonds were +1 bps at 1.41%.
- The 10yr AAA GO Ratio is 67.0.

Corporates

- BAML Investment-grade credit spreads were +1 wider over the past week at 91 bps OAS.
- BAML High-yield credit spreads were wider +11 bps over the past week to 318 bps OAS.

Looking Ahead

- 7/20: Housing Starts

7/19/2021					
Treasuries	Nominals	YTM %	5d chg. (bps)	1mo. chg. (bps)	YTD chg. (bps)
	1 yr	0.07	0	-1	-4
	2yr	0.21	-1	-4	9
	5yr	0.73	-6	-14	37
	7yr	1.01	-10	-20	37
	10yr	1.23	-13	-21	32
	30yr	1.84	-15	-17	20
	Inflation breakeven	YTM %	5d chg. (bps)	1mo. chg. (bps)	YTD chg. (bps)
	5yr	2.51	-1	13	54
	10yr	2.29	-4	5	31
	Real yield	YTM %	5d chg. (bps)	1mo. chg. (bps)	YTD chg. (bps)
	5yr	-1.81	-6	-28	-18
	10yr	-1.08	-10	-26	2
Municipals	AAA Rated GO	YTM %	5d chg. (bps)	1mo. chg. (bps)	YTD chg. (bps)
	2yr AAA GO	0.12	-1	2	-2
	5yr AAA Go	0.42	-1	1	21
	10yr AAA GO	0.86	-1	-4	17
	A Rated GO	YTM %	5d chg. (bps)	1mo. chg. (bps)	YTD chg. (bps)
	2yr A GO	0.24	-1	-7	-24
	5yr A GO	0.59	0	-13	1
	10yr A GO	1.12	0	-15	7
	A Rated Revenue	YTM %	5d chg. (bps)	1mo. chg. (bps)	YTD chg. (bps)
	2yr A Revenue	0.32	7	9	-17
	5yr A Revenue	0.70	9	3	7
	10yr A Revenue	1.18	7	-9	1
	GO Ratios	Ratio	5d Chg.	1 mo.Chg.	YTD Chg.
	5yr AAA GO Ratio	54.44	-0.5	8.7	-5.0
	10yr AAA GO Ratio	66.38	2.8	9.3	-8.5
MBS 30-yr		Curr. Cpn.	5d chg. (bps)	1mo. chg. (bps)	YTD chg. (bps)
	FNMA	1.75	-2	-21	41
	GNMA	1.82	-4	-17	55
Corporate	Yield %	OAS (bps)	Chg. OAS (bps)	Chg. OAS (bps)	Chg. OAS (bps)
Intermediate IG Index	1.36	63	2	4	-5
AA rated	1.72	54	2	6	-4
A Rated	#N/A Invalid Security	69	2	6	-5
BBB Rated	2.23	107	1	3	-17
Intermed. High-yield Index	#N/A Invalid Security	283	13	2	-80
BB Rated	3.03	208	8	-2	-56
B Rated	4.21	317	17	12	-62
CCC Rated	5.72	475	23	-3	-183
Preferred Index	4.73				
Other		Level	5d Chg.	1 mo.Chg.	YTD Chg.
	Fed Funds Rate (Eff.)	0.10%	0.00%	0.04%	0.01%
	3M Libor	0.13%	0.01%	0.01%	-0.10%
	Treas. Volatility Index	58.2	-2.5	-2.2	9.3
	S&P 500 Index	4327.2	-0.97%	3.86%	15.20%
	VIX Index	21.7	5.4	0.8	-1.1
	U.S Dollar Index	1149.9	0.80%	0.46%	2.64%

Appendix – Important Disclosures

Some of the potential risks associated with fixed income investments include call risk, reinvestment risk, default risk and inflation risk. Additionally, it is important that an investor is familiar with the inverse relationship between a bond's price and its yield. Bond prices will fall as interest rates rise and vice versa.

When considering a potential investment, investors should compare the credit qualities of available bond issues before they invest. The two most recognized rating agencies that assign credit ratings to bond issuers are Moody's Investors Service ("Moody's") and Standard & Poor's Corporation ("S&P"). Moody's lowest investment-grade rating for a bond is Baa3 and S&P's lowest investment-grade rating for a bond is BBB-. Ratings are measured on a scale that ranges from AAA or Aaa (highest) to D or C (lowest).

The Bond Buyer 20-Bond Index consists of 20 general obligation bonds that mature in 20 years. The average rating of the 20 bonds is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp.'s AA. The Bond Buyer 11-Bond Index uses a select group of 11 bonds in the 20-Bond Index. The average rating of the 11 bonds is roughly equivalent to Moody's Aa1 and S&P's AA-plus. The Bond Buyer Revenue Bond Index consists of 25 various revenue bonds that mature in 30 years. The average rating is roughly equivalent to Moody's A1 and S&P's A-plus. The indexes represent theoretical yields rather than actual price or yield quotations. Municipal bond traders are asked to estimate what a current-coupon bond for each issuer in the indexes would yield if the bond was sold at par value. The indexes are simple averages of the average estimated yields of the bonds, are unmanaged and a direct investment cannot be made in them.

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