

TAXABLE BOND MARKET

- ▶ Volatility is set to remain elevated for at least the near future. Uncertainty around the path of rate hikes, spiking commodity prices, and geopolitical tail risks are likely to be an overhang indefinitely. Economic fundamentals are robust, given a solid labor market and resilient corporate profits, so technicals will probably be the main driver for now as headlines continue to direct flows.

FEBRUARY 2022 REVIEW

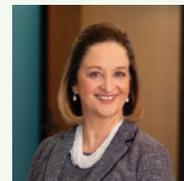
Fixed income markets experienced extraordinary volatility in February. Initially, investors' focus was on the highest inflation since the early 1980s and what an increasingly hawkish Fed might do to tame it. Then the narrative shifted sharply amid the massive geopolitical shock resulting from Russia's invasion of Ukraine. Ultimately, the elevated level of uncertainty drove risk premia higher across the board.

FED

During his January press conference, Fed Chair Powell signaled a March rate hike and emphasized the high degree of uncertainty facing policy makers in the current environment. He also neglected to rule out raising rates at every meeting in 2022, but with respect to balance sheet reduction he guided toward a predictable pace of passive runoff. Market-implied estimates show investors expect five hikes this year, up from three in December and barely one in September.

INTEREST RATES

The yield curve experienced a bear flattening in response to robust economic data and rising prices. Rates at the front end shot higher in anticipation of an accelerated pace of hikes, while longer rates were comparatively anchored by subdued inflation and growth expectations. The Ukraine-related flight-to-safety was not enough to offset the rally, suggesting investor concerns that the invasion could have implications for inflation.



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TAXABLE BOND MARKET *continued*

CREDIT

Credits sold off for a second month, struggling amid the risk-off impulses from the monetary and geopolitical arenas. Spreads across the quality spectrum reached their widest levels in more than a year. Despite this weakness, credit fundamentals remain strong and the default rate over the next year is expected to sit well below historical levels.

MBS

Mortgage spreads moved wider in response to Fed hawkishness, particularly given concerns around the eventual advent of quantitative tightening. The technical environment consequently remains a headwind for the sector, though fundamentals have begun to improve as prepayment speeds continue to slow with mortgage rates up significantly year to date. Lower coupon pools continue to be the most exposed to spread volatility given the composition of the Fed's MBS holdings.

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U.S. TREASURY MARKET

February 28, 2022		CHARACTERISTICS		PERFORMANCE	
Maturity	Yield	MTD	YTD	MTD	YTD
2-Year	1.44%	+26	+70	-0.40%	-1.14%
5-Year	1.72%	+11	+45	-0.51%	-2.04%
10-Year	1.83%	+5	+32	-0.36%	-2.79%
30-Year	2.17%	+6	+26	-1.39%	-6.06%

Source: Bloomberg, FactSet

Performance represents total returns of the Bloomberg U.S.Treasury Bellwethers Index for the maturities shown

INDEX CHARACTERISTICS AND PERFORMANCE

February 28, 2022		CHARACTERISTICS			PERFORMANCE	
Index	Yield to Worst	OAD (Years)	OAS (bps)	MTD	YTD	
Bloomberg U.S. Aggregate Bond	2.33%	6.59	43	-1.12%	-3.25%	
U.S. Treasury	1.76%	6.98	1	-0.66%	-2.54%	
Bloomberg U.S. Government Related	2.26%	5.90	53	-1.07%	-3.04%	
Bloomberg U.S. Corporate Investment Grade	3.08%	8.25	122	-2.00%	-5.30%	
Bloomberg U.S. Mortgage-Backed Securities	2.48%	4.84	28	-0.97%	-2.44%	
Bloomberg U.S. Asset-Backed Securities	1.88%	2.28	44	-0.63%	-1.19%	
ICE BofA Fixed Rate Preferred Securities	4.30%	5.36	199	-3.17%	-6.05%	
Bloomberg High Yield	5.62%	4.03	359	-1.03%	-3.73%	
Bloomberg High Yield - BB	4.64%	4.68	267	-1.21%	-4.47%	
Bloomberg High Yielded - B	5.94%	3.44	383	-0.80%	-2.93%	
Bloomberg High Yield - CCC	8.21%	3.02	622	-0.83%	-2.87%	
Bloomberg High Yield BB 1-5 Year	4.27%	2.43	255	-0.95%	-2.77%	

Source: FactSet

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