

TAXABLE BOND MARKET

▶ Financial conditions are likely to tighten in the coming quarters, driven by a restrictive Fed, exogenous factors, or some combination of both. The question of how soft a landing will ultimately be achieved obviously has significant implications for the bond market, with increasingly divergent outcomes depending on the answer. In the meantime, the market impact of policy actions, economic data, and geopolitical events will be particularly pronounced.

MAY 2022 REVIEW

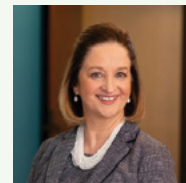
The fixed income market posted its first month of positive returns since November. Signs that inflation may have peaked for this cycle eased fears of excessively restrictive monetary policy. Instead, investor focus shifted to vulnerabilities in the growth narrative and the prospect of a potential recession. This pivot lifted bond market sentiment against an already-fraught backdrop of geopolitical turmoil, China policy risks, and the persistent scarcity of various industrial inputs.

FED

The FOMC's September meeting has become the focal point of rate hike speculation now that consensus has coalesced around two 50-basis point hikes in June and July. Minutes from the May meeting and subsequent governor commentary revealed a willingness among the Committee to consider a pause later this year, even as other officials reiterated their comparatively hawkish stance. Despite the specter of a pause, the futures market continues to price in eight more hikes through year end.

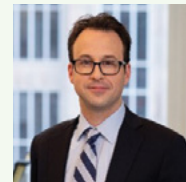
INTEREST RATES

After briefly breaching new cycle highs, rates across the yield curve retreated and most tenors closed the month lower. The front end outperformed on the view that the Fed is open to a potential pause in its rate-hike program, while longer rates remained anchored by a lackluster growth outlook. Inflation breakevens fell markedly during the month and real rates moved decisively into positive territory as financial conditions continued to tighten.



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TAXABLE BOND MARKET *continued*

CREDIT

Corporate credit was weak amid the broader risk-off tone for much of the month before retracing some spread widening in the closing days. The selloff was led by lower-quality and cyclical names across both investment grade and high yield. First quarter earnings season largely wrapped up with most sectors beating expectations, though Consumer Discretionary and Retail struggled to resist inflationary pressures. Rating agency activity slowed sequentially and was more balanced in terms of upgrades/downgrades. The primary market slowed more than expected on diminished risk appetite, pushing new issue concessions higher.

MBS

Mortgage-backed securities outperformed the broader market as spreads compressed from their recent peak. The sector benefited from a meaningful drop in rate volatility, which reduced MBS option costs and allowed investors to capture more spread. The FOMC minutes supported a positive outlook as the Committee stopped short of advocating for the outright sale of the Fed's MBS holdings. Higher mortgage rates and increased originator loan retention rates have improved the technical outlook in addition to already favorable expectations for lower supply this year.

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U.S. TREASURY MARKET

May 31, 2022		YIELD CHANGE (BPS)			PERFORMANCE		
Maturity	Yield	MTD	QTD	YTD	MTD	QTD	YTD
2-Year	2.56%	-16	+22	+182	0.59%	0.06%	-2.48%
5-Year	2.82%	-14	+36	+155	0.72%	-1.32%	-6.41%
10-Year	2.85%	-9	+51	+134	0.58%	-4.20%	-10.78%
30-Year	3.05%	+5	+60	+114	-2.29%	-12.31%	-22.31%

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

INDEX CHARACTERISTICS AND PERFORMANCE

May 31, 2022		CHARACTERISTICS			PERFORMANCE		
Index	Yield to Worst	OAD (Years)	OAS (bps)	MTD	QTD	YTD	
Bloomberg U.S. Aggregate Bond	3.38%	6.51	46	0.64%	-3.17%	-8.92%	
U.S. Treasury	2.80%	6.47	0	0.18%	-2.92%	-8.33%	
Bloomberg U.S. Government Related	3.33%	5.60	56	0.57%	-2.75%	-8.00%	
Bloomberg U.S. Corporate Investment Grade	4.21%	7.77	130	0.93%	-4.59%	-11.92%	
Bloomberg U.S. Mortgage-Backed Securities	3.46%	5.82	34	1.11%	-2.44%	-7.29%	
Bloomberg U.S. Asset-Backed Securities	3.37%	2.26	81	0.31%	-0.45%	-3.32%	
ICE BofA Fixed Rate Preferred Securities	5.51%	5.38	208	1.71%	-3.86%	-10.32%	
Bloomberg High Yield	7.09%	4.16	406	0.25%	-3.32%	-8.00%	
Bloomberg High Yield - BB	5.64%	4.58	263	1.54%	-2.19%	-8.00%	
Bloomberg High Yielded - B	7.55%	3.78	448	-0.63%	-3.93%	-7.32%	
Bloomberg High Yield - CCC	11.27%	3.51	830	-2.83%	-6.42%	-10.05%	
Bloomberg High Yield BB 1-5 Year	5.29%	2.54	242	-1.08%	-0.80%	-4.64%	

Source: FactSet

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