

Fixed Income Weekly Monitor

With risky assets taking a lag up Treasury yields rose; 30's breached 2.0%, curve steepening. Corporate credits tightened. Munis became ever more relatively expensive.

PWM Fixed Income Research

Dave Violette, CFA, Vice President
Senior Fixed Income Analyst

February 8, 2021

Treasuries

- Last week, risky asset investors, after a week of meme stock diversions and volatility, were treated to another grind higher in prices. Treasury investors were treated to another grind higher in yields. In fact, 30yr Treasury Bonds breached the 2.0% level for the first time since February 2020 and the steepness curve (10's-2's spread – graph) hit the widest level since early 2017. Catalysts for the moves were not necessarily found in the economic data, which were mixed including a weak labor report, but rather from the prospects of fiscal stimulus. Now with inflation already pricing in a healthy increase (10yr inflation breakeven yield is currently 2.2% up from 1.6% in August) more attention will be applied to this week's CPI which is expected to come in at a much less 1.5% YoY.
- Last week, Treasury yields were little changed: 3 mos. bills -2.6 bps at 0.03%, 1 yr Treasury Notes -2.1 bps to 0.06%, 2-year Note yields -0.8 bps at 0.10%, 5-year Notes yields +3.4 bps at 0.47%, 10-year Notes yields +9.5 bps at 1.17% and 30-year bonds yields +13.9 bps at 1.98%.

Treasuries: 10's-2's Spread – “Steepness”



Municipals

- Bloomberg Municipal Index yields were decidedly lower; AAA-rated GO yields 2-year bonds +1 bps at 0.12%, 5-year bonds +2 bps at 0.22%, 10-year bond yields +1 bps to 0.70% and 30-year bonds were +2 bps at 1.47%.
- The 10yr AAA GO Ratio is 60.4 – lowest ever.

Corporates

- BAML Investment-grade credit spreads tightened over the past week by -3 bps to 99 bps OAS.
- BAML High-yield credit spreads significantly tightened -21 bps over the past week to 358 bps OAS.

Looking Ahead

- 2/10: CPI

2/8/2021						
Treasuries		Nominals	YTM %	5d chg. (bps)	1mo. chg. (bps)	YTD chg. (bps)
	1 yr		0.06	-2	-4	-4
	2yr		0.11	0	-3	-2
	5yr		0.48	5	-1	12
	7yr		0.84	8	3	19
	10yr		1.19	11	7	27
	30yr		1.99	13	12	34
	Inflation breakeven		YTM %	5d chg. (bps)	1mo. chg. (bps)	YTD chg. (bps)
	5yr		2.32	11	21	35
	10yr		2.21	12	14	22
	Real yield		YTM %	5d chg. (bps)	1mo. chg. (bps)	YTD chg. (bps)
	5yr		-1.88	-5	-23	-25
	10yr		-1.02	-1	-5	7
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		0.22	0	1	0
	10yr AAA GO		0.71	1	3	2
	A Rated GO		YTM %	5d chg. (bps)	1mo. chg. (bps)	YTD chg. (bps)
	2yr A GO		0.44	-4	-6	-4
	5yr A GO		0.56	-5	-6	-2
	10yr A GO		1.08	-3	-3	3
	A Rated Revenue		YTM %	5d chg. (bps)	1mo. chg. (bps)	YTD chg. (bps)
	2yr A Revenue		0.38	-12	-11	-11
	5yr A Revenue		0.54	-9	-9	-9
	10yr A Revenue		1.07	-7	-10	-10
	GO Ratios		Ratio	5d Chg.	1 mo.Chg.	YTD Chg.
	5yr AAA GO Ratio		46.88	-4.9	-9.4	-12.5
	10yr AAA GO Ratio		60.36	-5.2	-10.7	-14.5
MBS 30-yr		Curr. Cpn.	5d chg. (bps)	1mo. chg. (bps)	YTD chg. (bps)	
	FNMA	1.46	3	9	12	
	GNMA	1.52	4	22	25	
Corporate		Yield %	OAS (bps)	Chg. OAS (bps)	Chg. OAS (bps)	Chg. OAS (bps)
Intermediate IG Index		1.18	67	-3	-3	-1
	AA rated	1.61	59	-2	-2	1
	A Rated	1.66	73	-3	-4	-1
	BBB Rated	2.18	118	-5	-8	-6
Intermed. High-yield Index		4	337	-29	-29	-26
	BB Rated	3.11	242	-23	-24	-22
	B Rated	4.38	366	-25	-20	-13
	CCC Rated	6.31	564	-57	-79	-94
Preferred Index		4.72				
Other		Level	5d Chg.	1 mo.Chg.	YTD Chg.	
	Fed Funds Rate (Eff.)	0.08%	0.01%	-0.01%	-0.01%	
	3M Libor	0.19%	-0.01%	-0.05%	-0.05%	
	Treas. Volatility Index	47.2	0.9	2.4	-1.8	
	S&P 500 Index	3886.8	4.65%	1.62%	3.48%	
	VIX Index	21.8	-8.5	0.2	-1.0	
	U.S Dollar Index	1133.7	-0.01%	1.06%	1.19%	

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.

This is not a complete analysis of every material fact regarding any sector, municipality or security. The opinions expressed here reflect our judgment at this date and are subject to change. The information has been obtained from sources we consider to be reliable, but we cannot guarantee the accuracy. Municipal securities investments are not appropriate for all investors, especially those taxed at lower rates. The alternative minimum tax (AMT) may be applicable, even for securities identified as tax-exempt. It is strongly recommended that an investor discuss with their financial professional all materially important information such as risks, ratings and tax implications prior to making an investment. Past performance is not a guarantee of future results.

This report does not provide recipients with information or advice that is sufficient on which to base an investment decision. This report does not take into account the specific investment objectives, financial situation, or need of any particular client and may not be suitable for all types of investors. Recipients should consider the contents of this report as a single factor in making an investment decision. Additional fundamental and other analyses would be required to make an investment decision about any individual security identified in this report.

ADDITIONAL INFORMATION ON SECURITIES MENTIONED HEREIN IS AVAILABLE UPON REQUEST BY CONTACTING YOUR BAIRD INVESTMENT PROFESSIONAL.

Copyright 2021 Robert W. Baird & Co. Incorporated.

JG2021-0208