

Fixed Income Weekly Monitor

As equity markets experienced a Jekyll and Hyde personality other markets were relatively immune to the volatility. Treasuries were little changed. Credit spreads tightened.

PWM Fixed Income Research

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Treasuries

- In a tale of two halves, equities rose substantially in the first half of the week and then fell by even more in the second half. All of the same stories were in place during both halves; economic data was remarkably bad (GDP, ISM Mfg.), the Fed and ECB with minimal new information reassured that they have the ammunition for the future, some hopeful signs of virus vaccine/testing/slowing etc. A wrench in the form of threatened retaliation in the form of tariffs on China certainly troubled some. Nonetheless, fixed income markets were relatively numb to what the equity market was feeling. Even oil stabilized and finished higher. This volatility was not found in the Treasury market nor credit markets as spreads were generally tighter.
- During the past week, Treasury yields were generally slightly higher: 3 mos. bills -0.8 bps to 0.10%, 1 yr Treasury Notes -0.5 bps to 0.16%, 2-year Note yields -0.1 bps at 0.20%, 5-year Notes yields +0.3 bps at 0.36%, 10-year Notes yields +3.8 bps at 0.63% and 30-year bonds yields +9.6 bps at 1.26%.

Municipals

- Bloomberg Municipal Index yields mostly rose over the past week; AAA-rated GO yields 2-year bonds -3 bps to 0.87%, 5-year bonds +10 bps at 1.08%, 10-year bond yields +18 bps to 1.44% and 30-year bonds were +20 bps at 2.35%. Muni fund flows were negative.
- The 10yr AAA GO Ratio ended at 217 (graph).

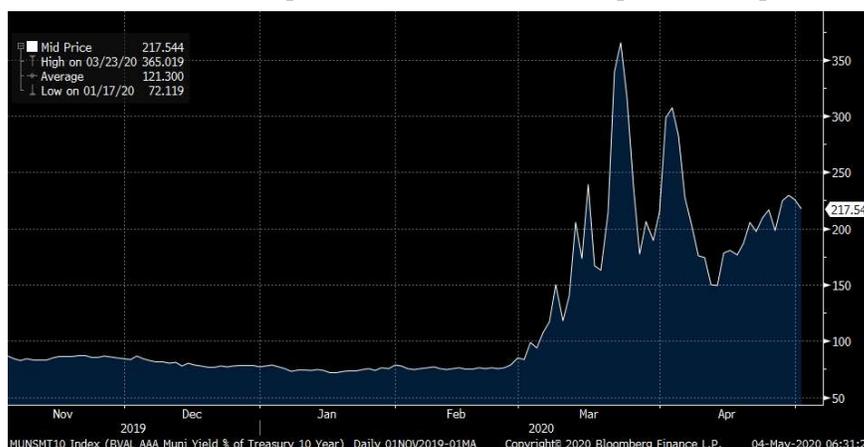
Corporates

- BAML Investment-grade Index spreads tightened meaningfully; -18 bps to 218 bps OAS.
- High-yield spreads tightened -33 bps to 770 bps OAS.

Looking Ahead

- 5/5: ISM Non-Mfg.,
- 5/6: ADP Employment Index
- 5/8: Labor report

Ratio of 10 yr AAA GO Yields to 10 yr Treasury



5/4/2020						
Treasuries		Nominals	YTM %	5d chg. (bps)	1mo. chg. (bps)	YTD chg. (bps)
		1 yr	0.14	-3	1	-143
		2yr	0.19	-4	-5	-139
		5yr	0.34	-7	-5	-135
		7yr	0.50	-7	-2	-134
		10yr	0.60	-6	0	-132
		30yr	1.24	-3	2	-116
		Inflation breakeven	YTM %	5d chg. (bps)	1mo. chg. (bps)	YTD chg. (bps)
		5yr	0.70	-6	-7	-100
		10yr	1.07	-9	-2	-72
		Real yield	YTM %	5d chg. (bps)	1mo. chg. (bps)	YTD chg. (bps)
		5yr	-0.37	0	2	-37
		10yr	-0.47	3	2	-61
Municipals		AAA Rated GO	YTM %	5d chg. (bps)	1mo. chg. (bps)	YTD chg. (bps)
		2yr AAA GO	0.85	-3	-35	-21
		5yr AAA Go	1.03	3	-28	-10
		10yr AAA GO	1.36	6	-38	-12
		A Rated GO	YTM %	5d chg. (bps)	1mo. chg. (bps)	YTD chg. (bps)
		2yr A GO	1.00	-52	-31	-15
		5yr A GO	1.33	-7	-13	4
		10yr A GO	1.92	25	-3	15
		A Rated Revenue	YTM %	5d chg. (bps)	1mo. chg. (bps)	YTD chg. (bps)
		2yr A Revenue	1.73	0	4	50
		5yr A Revenue	2.04	2	23	63
		10yr A Revenue	2.55	6	26	69
		GO Ratios	Ratio	5d Chg.	1 mo.Chg.	YTD Chg.
		5yr AAA GO Ratio	285.64	16.4	-87.7	218.4
		10yr AAA GO Ratio	217.54	1.3	-80.7	140.3
MBS 30-yr		Curr. Cpn.		5d chg. (bps)	1mo. chg. (bps)	YTD chg. (bps)
		FNMA	1.56	-20	-31	-115
		GNMA	1.34	-9	-25	-109
Corporate		Yield %	OAS (bps)	Chg. OAS (bps)	Chg. OAS (bps)	Chg. OAS (bps)
Intermediate IG Index		2.3	188	-5	-87	118
	AA rated	1.9	125	-4	-43	77
	A Rated	2.21	156	-3	-56	86
	BBB Rated	3.38	271	-4	-97	146
Intermed. High-yield Index		8.12	754	-30	-167	421
	BB Rated	5.92	529	-22	-150	347
	B Rated	8.06	743	-25	-131	419
	CCC Rated	14.69	1421	-108	-360	552
Preferred Index		6.00				
Other		Level		5d Chg.	1 mo.Chg.	YTD Chg.
	Fed Funds Rate (Eff.)	0.05%		0.01%	-0.04%	-1.50%
	3M Libor	0.54%		-0.35%	-0.90%	-1.37%
	Treas. Volatility Index	48.1		-14.6	-16.9	-10.2
	S&P 500 Index	2830.7		-0.21%	13.74%	-12.38%
	VIX Index	40.1		6.8	-6.7	26.3
	U.S Dollar Index	1253.0		-0.22%	-1.21%	5.75%

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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