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Fixed Income Weekly Monitor

Treasury yields sustain significant volatility with respect to election outcome probabilities and vaccine news. Corporate credit spreads tighten significantly. Munis likely still playing catch-up given volatility.

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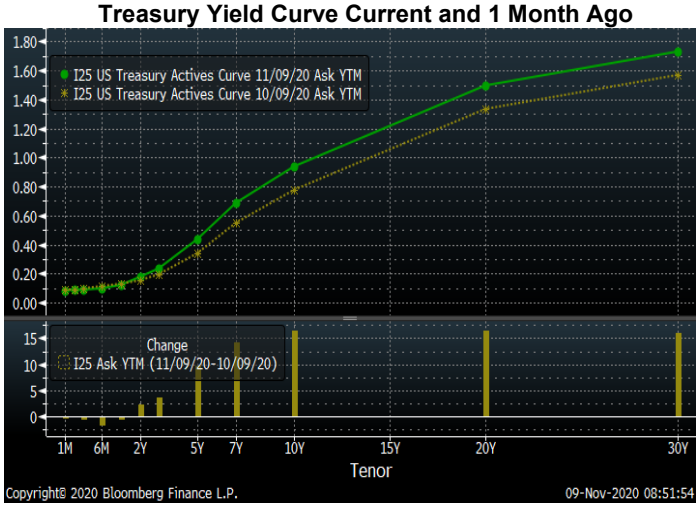
Treasuries

- Looking at the change in yields over the week, you might be tempted again to believe there was just a "small" change. Of course, intraweek (through Monday morning), there was a lot of back and forth. Into the election, things were quietly moving higher and then overnight of the election when it appeared that the probability of a blue-wave diminished, yields fell hard - about 14 bps in 10's. As the following day progressed and everyone awaited the count, yields fell some more. In all from peak to trough (Tuesday to Thursday), 10's fell nearly 20 bps. As the day progressed and into Friday, with increasing certainty of the outcome of the election, the Treasury market gave up about half of its haven status to finish little changed on the week. However, on Monday morning, given the vaccine news from Pfizer, risky-asset markets soared and so have yields. In fact, the long end of the curve, is now at the highest yield since March.

Treasury Yield Curve Current and 1 Month Ago



- Last week, through Monday (11/9) morning open Treasury yields broadly increased: 3 mos. bills -0.0 bps at 0.086%, 1 yr Treasury Notes -0.0 bps to 0.12%, 2-year Note yields +1.9 bps at 0.17%, 5-year Notes yields +4.5 bps at 0.43%, 10-year Notes yields +5.8 bps at 0.93% and 30-year bonds yields +6.0 bps at 1.72%.

Municipals

- Bloomberg Municipal Index yields were lower (through Friday 11/6); AAA-rated GO yields 2-year bonds -2 bps at 0.17%, 5-year bonds -5 bps at 0.28%, 10-year bond yields -11 bps to 0.82% and 30-year bonds were -15 bps at 1.63%.
- The 10yr AAA GO Ratio is 100.2.

Corporates

- BAML Investment-grade credit spreads tightened over the past week by 8 bps at 125 bps OAS.
- BAML High-yield credit spreads tightened over the past week by -58 bps to 467 bps OAS.

Looking Ahead

- 11/12: CPI, Jobless claims
- 11/13: PPI

11/9/2020					
Treasuries	**Nominals**	**YTM %**	**5d chg. (bps)**	**1mo. chg. (bps)**	**YTD chg. (bps)**
	1 yr	0.12	1	-1	-144
	2yr	0.17	2	2	-140
	5yr	0.43	5	9	-126
	7yr	0.68	6	13	-115
	10yr	0.92	8	15	-99
	30yr	1.71	10	14	-68
	Inflation breakeven	**YTM %**	**5d chg. (bps)**	**1mo. chg. (bps)**	**YTD chg. (bps)**
	5yr	1.63	2	6	-7
	10yr	1.73	1	-1	-6
	Real yield	**YTM %**	**5d chg. (bps)**	**1mo. chg. (bps)**	**YTD chg. (bps)**
	5yr	-1.21	3	7	-119
	10yr	-0.81	7	16	-94
Municipals	**AAA Rated GO**	**YTM %**	**5d chg. (bps)**	**1mo. chg. (bps)**	**YTD chg. (bps)**
	2yr AAA GO	0.18	-2	2	-88
	5yr AAA Go	0.28	-5	-3	-85
	10yr AAA GO	0.82	-12	-8	-66
	A Rated GO	**YTM %**	**5d chg. (bps)**	**1mo. chg. (bps)**	**YTD chg. (bps)**
	2yr A GO	0.66	-17	15	-49
	5yr A GO	0.81	-22	8	-48
	10yr A GO	1.40	-34	2	-38
	A Rated Revenue	**YTM %**	**5d chg. (bps)**	**1mo. chg. (bps)**	**YTD chg. (bps)**
	2yr A Revenue	0.59	3	10	-65
	5yr A Revenue	0.83	-1	4	-58
	10yr A Revenue	1.53	-14	-13	-32
	GO Ratios	**Ratio**	**5d Chg.**	**1 mo.Chg.**	**YTD Chg.**
	5yr AAA GO Ratio	78.45	-8.8	-23.5	11.2
	10yr AAA GO Ratio	100.24	-7.3	-22.6	23.0
MBS 30-yr		**Curr. Cpn.**	**5d chg. (bps)**	**1mo. chg. (bps)**	**YTD chg. (bps)**
	FNMA	1.33	-8	-8	-138
	GNMA	1.31	-8	-14	-112
Corporate	**Yield %**	**OAS (bps)**	**Chg. OAS (bps)**	**Chg. OAS (bps)**	**Chg. OAS (bps)**
Intermediate IG Index	1.28	87	-7	-10	17
AA rated	1.5	70	-6	-5	22
A Rated	1.61	88	-6	-9	18
BBB Rated	2.29	152	-10	-16	27
Intermed. High-yield Index	5.01	446	-71	-41	113
BB Rated	3.69	313	-60	-39	131
B Rated	5.28	465	-67	-30	141
CCC Rated	8.92	828	-108	-58	-41
Preferred Index	4.96				
Other		**Level**	**5d Chg.**	**1 mo.Chg.**	**YTD Chg.**
	Fed Funds Rate (Eff.)	0.09%	0.00%	0.00%	-1.46%
	3M Libor	0.21%	-0.01%	-0.02%	-1.70%
	Treas. Volatility Index	39.9	-23.7	-17.6	-18.4
	S&P 500 Index	3509.4	7.32%	0.93%	8.63%
	VIX Index	23.7	-13.4	-1.3	9.9
	U.S Dollar Index	1147.3	-2.21%	-1.33%	-3.17%

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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