

Fixed Income Weekly Monitor

Treasury yields traded higher, above or near yields last seen in March but simmered down waiting for stimulus relief bill.

PWM Fixed Income Research

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Treasuries

- For the bulk of the week, Treasury yields traded higher. The lift in yields gave way the last couple of days on increasing concern that a stimulus relief bill deal won't get done before the election. As you can see in the graph, back-end yields (10's and 30's) are at or approaching the highest yields since March. It has been a steepening environment as the Fed has the short end of the curve buttoned up with no rate hikes expected for years to come. Generally the narrative has been that investors are becoming broadly more optimistic about economic recovery and a fiscal stimulus bill coming to the rescue and increasing odds of a Democratic sweep leading to increased issuance on bulked up stimulus (relief and real i.e. infrastructure) in the future.
- Last week, Treasury yields broadly increased: 3 mos. bills -0.5 bps at 0.094%, 1 yr Treasury Notes -0.03 bps at 0.12%, 2-year Note yields +0.7 bps at 0.15%, 5-year Notes yields +3.8 bps at 0.35%, 10-year Notes yields +6.3 bps at 0.81% and 30-year bonds yields +7.2 bps at 1.60%.

30yr (white) and 10yr (amber) Treasury Yields - YTD



Municipals

- Bloomberg Municipal Index yields also generally increased; AAA-rated GO yields 2-year bonds +1 bps at 0.17%, 5-year bonds +2 bps at 0.33%, 10-year bond yields +3 bps to 0.95% and 30-year bonds were +3 bps at 1.80%.
- The 10yr AAA GO Ratio is 113.8.

Corporates

- BAML Investment-grade credit spreads tightened over the past week by -2 bps at 130 bps OAS. BAML High-yield credit spreads tightened over the past week by -7 bps to 487 bps OAS.

Looking Ahead

- 10/26: ISM Housing Starts
- 10/27: Durable Goods, Consumer Confidence
- 10/29: Jobless Claims, GDP
- 10/30: Personal Income/Spending

10/26/2020					
Treasuries	Nominals	YTM %	5d chg. (bps)	1mo. chg. (bps)	YTD chg. (bps)
	1 yr	0.12	0	1	-145
	2yr	0.15	0	2	-142
	5yr	0.36	2	9	-133
	7yr	0.58	4	13	-125
	10yr	0.81	5	16	-110
	30yr	1.61	5	21	-78
	Inflation breakeven	YTM %	5d chg. (bps)	1mo. chg. (bps)	YTD chg. (bps)
	5yr	1.64	11	21	-5
	10yr	1.73	1	15	-5
	Real yield	YTM %	5d chg. (bps)	1mo. chg. (bps)	YTD chg. (bps)
	5yr	-1.29	-5	-8	-128
	10yr	-0.92	3	1	-105
Municipals	AAA Rated GO	YTM %	5d chg. (bps)	1mo. chg. (bps)	YTD chg. (bps)
	2yr AAA GO	0.18	1	2	-88
	5yr AAA Go	0.33	1	4	-81
	10yr AAA GO	0.96	3	14	-53
	A Rated GO	YTM %	5d chg. (bps)	1mo. chg. (bps)	YTD chg. (bps)
	2yr A GO	0.80	5	34	-36
	5yr A GO	1.03	0	33	-26
	10yr A GO	1.78	3	55	1
	A Rated Revenue	YTM %	5d chg. (bps)	1mo. chg. (bps)	YTD chg. (bps)
	2yr A Revenue	0.58	9	-3	-66
	5yr A Revenue	0.83	4	0	-58
	10yr A Revenue	1.60	-1	15	-25
	GO Ratios	Ratio	5d Chg.	1 mo.Chg.	YTD Chg.
	5yr AAA GO Ratio	89.43	-9.6	-15.7	22.2
	10yr AAA GO Ratio	113.83	-9.9	-7.1	36.5
MBS 30-yr		Curr. Cpn.	5d chg. (bps)	1mo. chg. (bps)	YTD chg. (bps)
	FNMA	1.41	6	-2	-130
	GNMA	1.46	8	-8	-97
Corporate	Yield %	OAS (bps)	Chg. OAS (bps)	Chg. OAS (bps)	Chg. OAS (bps)
Intermediate IG Index	1.33	91	-2	-9	21
AA rated	1.54	73	-1	-5	25
A Rated	1.68	92	-2	-9	22
BBB Rated	2.39	160	-3	-12	35
Intermed. High-yield Index	5.34	474	-2	-53	141
BB Rated	3.98	336	-5	-55	154
B Rated	5.59	489	-5	-58	165
CCC Rated	9.46	878	2	-41	9
Preferred Index	5.10				
Other		Level	5d Chg.	1 mo.Chg.	YTD Chg.
	Fed Funds Rate (Eff.)	0.09%	0.00%	0.00%	-1.46%
	3M Libor	0.22%	0.00%	-0.01%	-1.69%
	Treas. Volatility Index	58.5	-2.7	21.5	0.2
	S&P 500 Index	3465.4	-0.53%	5.06%	7.26%
	VIX Index	29.6	0.4	3.3	15.9
	U.S Dollar Index	1161.5	-0.54%	-2.10%	-1.97%

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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