IR+M INCOME RESEARCH + MANAGEMENT

# IR+M CLIENT UPDATE
## July 2023

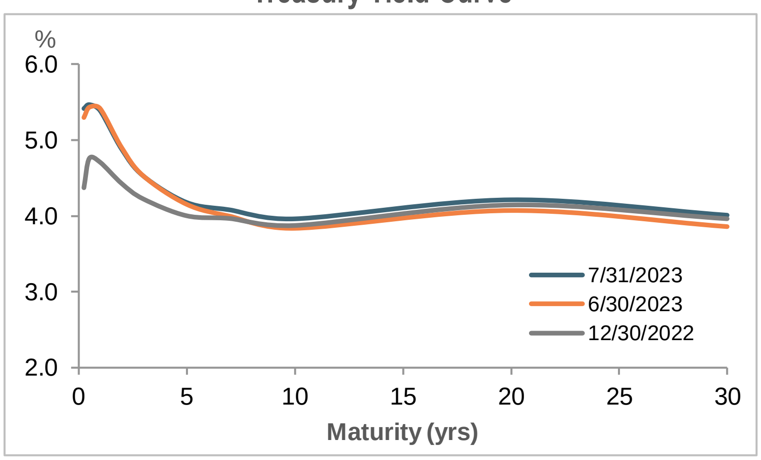
August 1, 2023

## MARKET NEWS

- The positive momentum in risk assets from June carried over into July as equities rose and credit spreads tightened amid better-than-expected inflation prints and economic data
  - CPI rose by 3.0% year-over-year in June, lower than expected and the slowest pace in two years, while core CPI rose by 4.8%; the PPI final demand reading grew by just 0.1% year-over-year
  - U.S. GDP grew by an annualized rate of 2.4% in the second quarter of the year and consumer spending rose by 1.6% in the same period, both metrics higher than expected
- The FOMC resumed its hiking campaign in July, increasing the federal funds rate target range by 25bps to 5.25% - 5.50%; Chair Powell did not rule out further rate increases while markets expect little change to the current rate through year-end
  - Treasury rates rose slightly on the month, apart from the 1-3-year portion of the curve; the 10-year Treasury yield rose by 12bps from 3.84% to 3.96%
- An influx of investment-grade new issuance on the last day of the month drove primary supply to over $88 billion for July, surpassing investor projections of $75 billion
  - Corporate spreads tightened by 11bps during the month to 112bps, reaching their tightest level on the year
- Issuance in the high-yield market continued to decline in July as $7.1 billion priced on the month, continuing the trend of historically low supply; although the rate of issuance in 2023 is up by 42% compared to last year, the amount of new high-yield supply year-to-date is at its lowest level since 2009 (except for 2022)
  - The muted primary market activity has seen the par amount held in the Bloomberg High Yield Index decline from its peak of $1.58 trillion in October 2021 to $1.37 trillion at the end of July
  - High-yield spreads fell by 23bps during the month, from 390bps to 367bps, the tightest mark since April 2022
- Securitized products broadly outperformed Treasuries, but underperformed corporates on the month; agency mortgage-backed securities (MBS) outperformed other securitized products driven by the positive economic and inflation data
- Municipal bonds returned 0.4% in July, outperforming Treasuries again as the 10-year muni/Treasury ratio dropped from 66% to 64%; year-to-date municipal issuance is down by 13.3% compared to last year

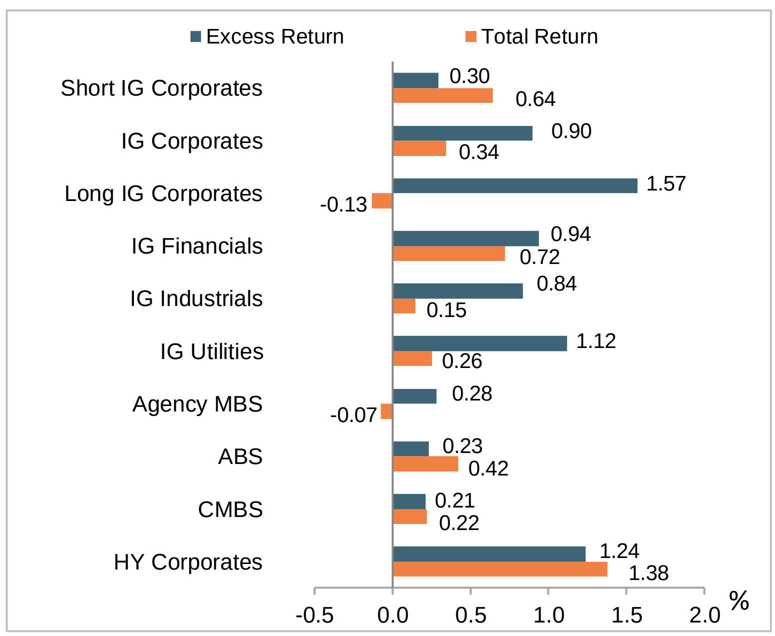
## MARKET STATISTICS

### Treasury Yield Curve




| Maturity | 2-year | 5-year | 10-year | 20-year | 30-year |
|---|---|---|---|---|---|
| *7/31/2023* | 4.88 | 4.18 | 3.96 | 4.21 | 4.01 |
| *MTD Change* | -0.02 | 0.02 | 0.12 | 0.14 | 0.15 |
| *YTD Change* | 0.45 | 0.17 | 0.09 | 0.07 | 0.04 |

### MTD Returns




As of: 07/31/23. Sources: Bloomberg

Excess returns are the curve-adjusted excess return of a given index relative to a term structure-matched position in Treasuries.

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