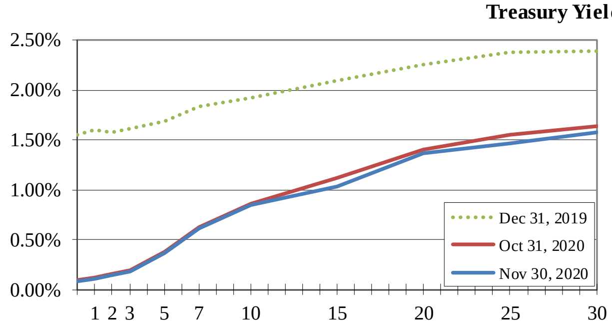
Baird Advisors
Fixed Income Market Commentary
November 2020

Curve Flattens Slightly on Very Positive Vaccine News, Election Clarity

The 10yr Treasury yield fell 2 bps to end the month at 0.84% as the curve modestly flattened with long rates falling more than short rates. Equity markets surged and credit spreads tightened on favorable Covid-19 vaccine news, election clarity, and better-than-expected corporate earnings. Although there has been a surge in both new weekly virus cases and deaths across many states, the targeted nature of recent covid-related restrictions hasn't had the same large drag on the economy as the broad closures did in the spring. Housing prices continued to rise, and durable goods sales (ex-aircraft) were strong last month even as consumer confidence numbers slipped modestly. President Trump mounted legal challenges to the election results in key battleground states, although a Biden presidency with the GOP retaining control of the Senate pending the result of two Senate runoff elections in Georgia on January 5th is widely expected. Even though the market now expects a smaller fiscal stimulus package under a divided government than with a "Blue Wave" of full Democratic control, some additional support is expected early in 2021. Current Treasury Secretary Mnuchin announced that several emergency lending programs, including the Fed's corporate credit, municipal lending, and main street lending facilities, would not be extended past their December 31st expiration date. The announcement did not de-rail the positive market tone as the announcement of former Fed Chair Janet Yellen as Biden's pick for Treasury Secretary also provided comfort to investors, given her long experience in Washington and close relationship with current Fed chair Jay Powell.

Treasury Yields



Maturity	12/31/19	10/31/20	11/30/20	1Mo Chg	YTD
3 Mo	1.55%	0.09%	0.08%	-0.01%	-1.47%
1	1.60%	0.12%	0.11%	-0.01%	-1.49%
2	1.57%	0.15%	0.15%	0.00%	-1.42%
3	1.61%	0.19%	0.19%	0.00%	-1.42%
5	1.69%	0.38%	0.36%	-0.02%	-1.33%
7	1.83%	0.63%	0.61%	-0.02%	-1.22%
10	1.92%	0.86%	0.84%	-0.02%	-1.08%
30	2.39%	1.64%	1.57%	-0.07%	-0.82%

Spreads Tighten Across Most Market Segments in November

U.S. Investment Grade Corporate spreads tightened 21 bps in the month, now only 11 bps wider YTD, to end the month at 104 bps. Gross credit supply came in higher than expected in November at $121.8B, but is still down substantially from the high of $362.4B in April; the sector also benefited from the positive vaccine news in the month. Agency Mortgage Pass-throughs tightened 3 bps to end the month at 49 bps, as the Fed continued its bond buying program of $40B/net per month. As part of a broader risk-on market move, High Yield tightened a remarkable 96 bps to 412 bps as promising vaccine news offered hope for the "re-opening" of the entire U.S. economy. Similarly, Non-Agency CMBS tightened 13 bps to 127 bps on a better outlook for the ailing retail and hospitality sectors.

Positive November Returns on Tighter Spreads

All major sectors delivered positive returns this month, led by two low-quality sectors - Emerging Market Debt (+5.16%) and High Yield Corporates (+3.96%). Investment Grade Corporates (+2.79%) and Municipals (+1.51%) also delivered strong returns on expectations that highly effective vaccines will allow a full "re-opening" of economies by mid-2021. In contrast, Agency Pass-Throughs (+0.07%) were the worst-performing sector due to highly elevated refinancing activity as the Freddie Mac 30-yr Mortgage Market Survey Rate hit another all-time low of 2.72% this month.

Option-Adjusted Spreads (in bps)

	12/31/19	10/31/20	11/30/20	1Mo Chg	YTD Chg
U.S. Aggregate Index	39	54	48	-6	9
U.S. Agency (non-mortgage)	10	13	13	0	3
Mortgage and ABS Sectors					
U.S. Agency Pass-throughs	39	52	49	-3	10
U.S. Agency CMBS	53	56	51	-5	-2
U.S. Non-Agency CMBS	85	140	127	-13	42
Asset-Backed Securities	44	39	36	-3	-8
Corporate Sectors					
U.S. Investment Grade	93	125	104	-21	11
Industrial	99	131	109	-22	10
Utility	97	131	111	-20	14
Financial Institutions	80	112	93	-19	13
Other Govt. Related	72	79	73	-6	1
U.S. High Yield Corporates	336	509	412	-96	76
Emerging Market Debt	573	638	553	-85	-20

Source: Bloomberg Barclays Indices

Total Returns of Selected Bloomberg Barclays Indices and Subsectors

	November	YTD	Effective Duration (years)
U.S. Aggregate Index	0.98%	7.36%	6.23
U.S. Gov't/Credit Index	1.34%	8.83%	7.77
U.S. Intermediate Gov't/Credit Index	0.50%	6.22%	4.13
U.S. 1-3 Yr. Gov't/Credit Index	0.10%	3.24%	1.93
U.S. Treasury	0.35%	8.25%	7.26
U.S. Agency (Non-Mortgage)	0.23%	5.37%	3.69
U.S. Agency Pass-Throughs	0.07%	3.65%	2.25
CMBS (Commercial Mortgage Backed Securities)	0.78%	7.32%	5.30
ABS (Asset-Backed Securities)	0.15%	4.31%	2.11
U.S. Corporate Investment Grade	2.79%	9.41%	8.86
U.S. High Yield Corporates	3.96%	5.13%	3.65
Emerging Market Debt	5.16%	1.36%	5.27
Municipal Bond Index	1.51%	4.58%	5.24
TIPS (Treasury Inflation Protected Securities)	1.12%	9.73%	3.52

Disclosures

This is not a complete analysis of every material fact regarding any company, industry or security. The information has been obtained from sources we consider to be reliable, but we cannot guarantee the accuracy.

Fixed income is generally considered to be a more conservative investment than stocks, but bonds and other fixed income investments still carry a variety of risks such as interest rate risk, credit risk, inflation risk, and liquidity risk. In a rising interest rate environment, the value of fixed-income securities generally decline and conversely, in a falling interest rate environment, the value of fixed-income securities generally increase. High yield securities may be subject to heightened market, interest rate or credit risk and should not be purchased solely because of the stated yield.

Indices are unmanaged, and are not available for direct investment. *Past performance is not a guarantee of future results.*

The Bloomberg Barclays Aggregate Bond Index is an index comprised of approximately 6000 publicly traded bonds including U.S. Government, mortgage-backed, corporate, and Yankee bonds with an average maturity of approximately 10 years.

The Bloomberg Barclays Government/Credit Index is a combination of the Government Index which measures government-bond general and Treasury funds, and the Credit Bond Index, which is a market value-weighted index which tracks the returns of all publicly issued, fixed-rate, nonconvertible, dollar-denominated, SEC registered, investment grade Corporate Debt.

The Bloomberg Barclays Intermediate Government/Credit Index is a combination of the Government Index which measures government-bond general and Treasury funds, and the Credit Bond Index, which is a market value-weighted index which tracks the returns of all publicly issued, fixed-rate, nonconvertible, dollar-denominated, SEC registered, investment grade Corporate Debt with maturities between one and ten years.

The Bloomberg Barclays Government/Credit Intermediate Index (1 – 3 yr.) is a combination of the Government Index which measures government-bond general and Treasury funds, and the Credit Bond Index, which is a market value-weighted index which tracks the returns of all publicly issued, fixed-rate, nonconvertible, dollar-denominated, SEC registered, investment grade Corporate Debt with maturities between zero and three years.

The Bloomberg Barclays U.S. Treasury Index includes public obligations of the U.S. Treasury. Treasury bills are excluded by the maturity constraint of at least one year but are part of a separate Short Treasury Index. In addition, certain special issues, such as state and local government series bonds (SLGs), as well as U.S. Treasury TIPS, are excluded. STRIPS are excluded from the index because their inclusion would result in double-counting. Securities in the Index roll up to the U.S. Aggregate, U.S. Universal, and Global Aggregate Indices. The U.S. Treasury Index was launched on January 1, 1973.

U.S. Agency: This index is the U.S. Agency component of the U.S. Government/Credit index. Publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government (such as USAID securities). The largest issues are Fannie Mae, Freddie Mac, and the Federal Home Loan Bank System (FHLB). The index includes both callable and non-callable agency securities.

U.S Corporate – Investment Grade: This index is the Corporate component of the U.S. Credit index. It includes publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered.

CMBS (Commercial Mortgage-Backed Securities): This index is the CMBS component of the U.S. Aggregate index. The Bloomberg Barclays CMBS ERISA-Eligible Index is the ERISA-eligible component of the Bloomberg Barclays CMBS Index. This index, which includes investment grade securities that are ERISA eligible under the underwriter's exemption, is the only CMBS sector that is included in the U.S. Aggregate Index.

MBS (Mortgage-Backed Securities): This index is the U.S. MBS component of the U.S. Aggregate index. The MBS Index covers the mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). The MBS Index is formed by grouping the universe of over 600,000 individual fixed rate MBS pools into approximately 3,500 generic aggregates.

ABS (Asset-Backed Securities): This index is the ABS component of the U.S. Aggregate index. The ABS index has three subsectors: credit and charge cards, autos, and utility. The index includes pass-through, bullet, and controlled amortization structures. The ABS Index includes only the senior class of each ABS issue and the ERISA-eligible B and C tranche. The Manufactured Housing sector was removed as of January 1, 2008, and the Home Equity Loan sector was removed as of October 1, 2009.

Corporate High Yield: The Bloomberg Barclays U.S. High Yield Index covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included.

Emerging Market: Bloomberg uses a fixed list of countries defined as emerging markets countries for index inclusion purposes that is based on World Bank Income group definitions (Low/Middle), IMF country classifications (Non-Advanced Economies), and other advanced economies that may be less accessible or investable for global debt investors.

The Bloomberg Barclays Municipal Bond Index is a broad-based, total-return index. The bonds are all investment-grade, tax-exempt, and fixed-rate securities with long-term maturities (greater than 2 years). They are selected from issues larger than $50 million.

The Bloomberg Barclays TIPS Index consists of Treasury Inflation Protected Securities (TIPS). TIPS are securities whose principal is tied to the Consumer Price Index. TIPS pay interest semi-annually, based on the fixed rate applied to the adjusted principal.

Ratings are measured on a scale that ranges from AAA or Aaa (highest) to D or C (lowest). Investment grade investments are those rated from highest down to BBB- or Baa3.

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