WEALTH SOLUTIONS GROUP

Fixed Income Weekly Monitor

FOMC Dot Plot and ending of “talking about talking about” tapering surprised markets and left real-yields substantially higher and the Treasury Curve flatter. Muni yields higher but corporate credit spreads unfazed.

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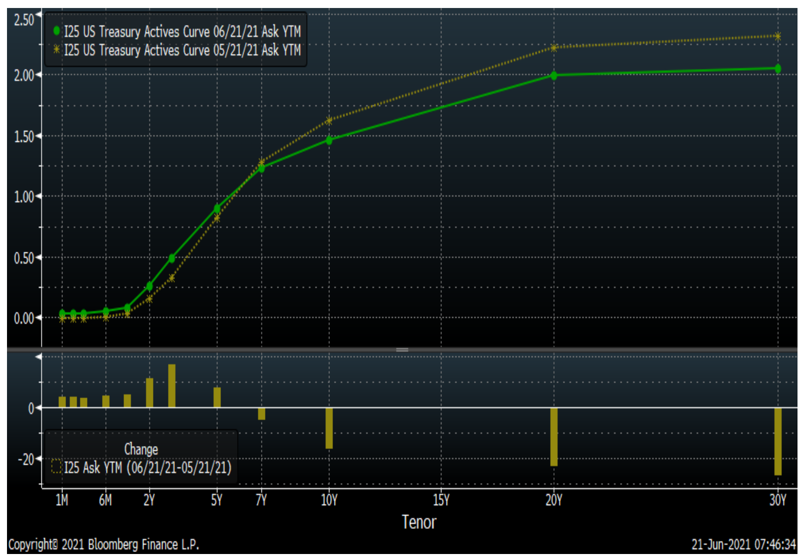
June 21, 2021

Treasuries

Treasury Curve – One Month Change



- The FOMC met and the fireworks punk has been lit. On Wednesday, the meeting concluded with the surprising revelation on Fed Funds expectations. Going into the meeting many thought that an incremental dot or two (on the Dot Plot) might indicate that one rate hike for 2023 was the central expectation but markets were surprised with two rate hikes for 2023 placed onto the plot’s central expectation. Also, Chair Powell said that the FOMC seems to be done talking about talking about tapering and are now about ready to talk about tapering. You may think that this is silly semantics, but the Fed wants markets to know well in advance of when they will kick off their monetary stimulus tapering process so as not to shock markets. The Treasury market’s reaction was a) very significant real-yield escalation (the inflation trade was if not busted, seriously bruised) with 5yr real yields lifting +25 bps (and 10yr real yields +~15 bps) mostly in one day and b) a significant Treasury curve flattening – with the 30yr dropping below 2.00% and the 10yr sliding below 1.4% all the while the 2yr Note has come back into play, lifting +10 bps.

- Treasury yield curve flattened; 3 mos. bills +1.3 bps at 0.03%, 1yr Treasury Notes +3.5 bps at 0.05%, 2-year Note yields +10.5 at 0.25%, 5-year Notes yields +13.1 bps at 0.88%, 10-year Notes yields -1.5 bps at 1.44% and 30-year bonds yields -12.9 bps at 2.01%.

Municipals

- Bloomberg Municipal Index yields were higher; AAA-rated GO yields 2-year bonds +4 bps to 0.13%, 5-year bonds +8 bps to 0.47%, 10-year bond yields +8 bps to 0.96% and 30-year bonds were +6 bps at 1.52%.
- The 10yr AAA GO Ratio is 67.2.

Corporates

- BAML Investment-grade credit spreads were -3 tighter over the past week at 87 bps OAS.BAML
- High-yield credit spreads were tighter -3 bps over the past week to 318 bps OAS.

Looking Ahead

- 6/23: New Home Sales
- 6/24: Durable Goods
- 6/25: Personal Income/Spending

6/21/2021					
Treasuries	**Nominals**	**YTM %**	**5d chg. (bps)**	**1mo. chg. (bps)**	**YTD chg. (bps)**
	1 yr	0.08	4	5	-2
	2yr	0.26	11	11	14
	5yr	0.88	10	6	52
	7yr	1.21	2	-7	56
	10yr	1.44	-6	-19	52
	30yr	2.03	-16	-29	38
	Inflation breakeven	**YTM %**	**5d chg. (bps)**	**1mo. chg. (bps)**	**YTD chg. (bps)**
	5yr	2.38	-9	-26	41
	10yr	2.24	-13	-21	25
	Real yield	**YTM %**	**5d chg. (bps)**	**1mo. chg. (bps)**	**YTD chg. (bps)**
	5yr	-1.52	19	31	12
	10yr	-0.81	7	2	28
Municipals	**AAA Rated GO**	**YTM %**	**5d chg. (bps)**	**1mo. chg. (bps)**	**YTD chg. (bps)**
	2yr AAA GO	0.16	7	4	2
	5yr AAA Go	0.50	11	5	29
	10yr AAA GO	0.97	9	-2	28
	A Rated GO	**YTM %**	**5d chg. (bps)**	**1mo. chg. (bps)**	**YTD chg. (bps)**
	2yr A GO	0.31	7	7	-17
	5yr A GO	0.73	10	5	15
	10yr A GO	1.27	11	-3	22
	A Rated Revenue	**YTM %**	**5d chg. (bps)**	**1mo. chg. (bps)**	**YTD chg. (bps)**
	2yr A Revenue	0.23	-3	1	-26
	5yr A Revenue	0.67	3	2	4
	10yr A Revenue	1.27	7	-1	10
	GO Ratios	**Ratio**	**5d Chg.**	**1 mo.Chg.**	**YTD Chg.**
	5yr AAA GO Ratio	57.14	4.5	1.7	-2.2
	10yr AAA GO Ratio	67.25	6.7	6.8	-7.6
MBS 30-yr		**Curr. Cpn.**	**5d chg. (bps)**	**1mo. chg. (bps)**	**YTD chg. (bps)**
	FNMA	1.88	8	2	53
	GNMA	1.92	6	-1	65
Corporate	**Yield %**	**OAS (bps)**	**Chg. OAS (bps)**	**Chg. OAS (bps)**	**Chg. OAS (bps)**
Intermediate IG Index	1.42	59	-3	-5	-9
AA rated	1.76	50	0	0	-8
A Rated	#N/A Invalid Security	65	-1	-3	-9
BBB Rated	2.31	105	-2	-5	-19
Intermed. High-yield Index	#N/A Invalid Security	286	-5	-20	-77
BB Rated	3.24	217	-1	-12	-47
B Rated	4.25	309	-5	-20	-70
CCC Rated	5.97	487	-7	-20	-171
Preferred Index	4.82				
Other		**Level**	**5d Chg.**	**1 mo.Chg.**	**YTD Chg.**
	Fed Funds Rate (Eff.)	0.10%	0.04%	0.04%	0.01%
	3M Libor	0.13%	0.02%	-0.02%	-0.10%
	Treas. Volatility Index	60.5	6.4	5.9	11.5
	S&P 500 Index	4166.5	-1.91%	0.25%	10.93%
	VIX Index	20.3	3.9	0.1	-2.5
	U.S Dollar Index	1142.7	1.75%	2.19%	2.00%

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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JG2021-0621

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