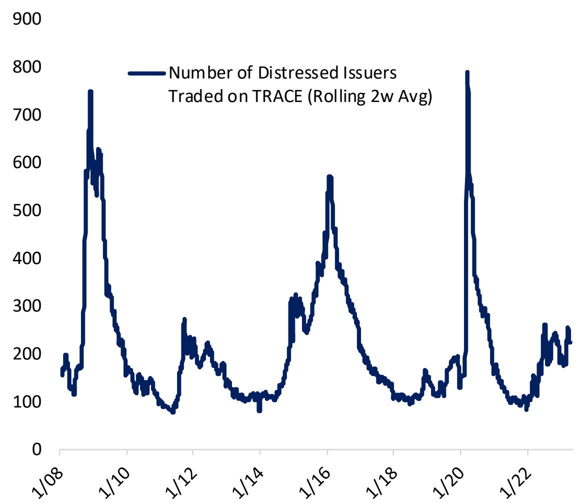
BESPOKE Investment Group
April 26, 2023
Fixed Income Weekly

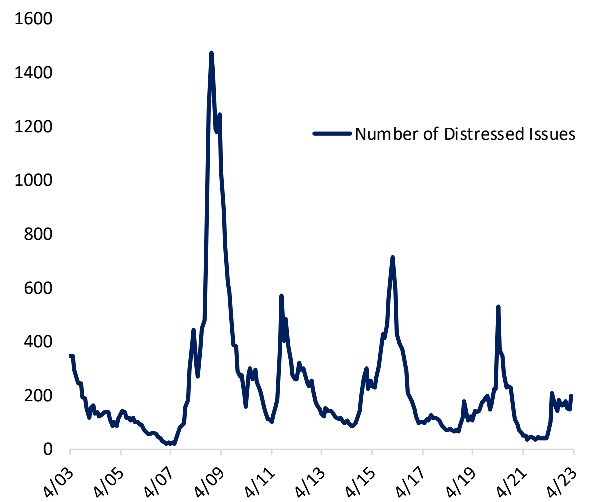
Loan Issuance Collapses

The US is not in the midst of a major credit contraction. As shown below, the volume of distressed bond issuers (those with bonds trading over 10 percentage points of option-adjusted spread) is elevated relative to an equilibrium environment for credit but is not at extreme levels. Roughly 200 issuers are distressed, numbers backed up by TRACE bond trading of distressed issues. While the index data below right is monthly, TRACE data is effectively real time.

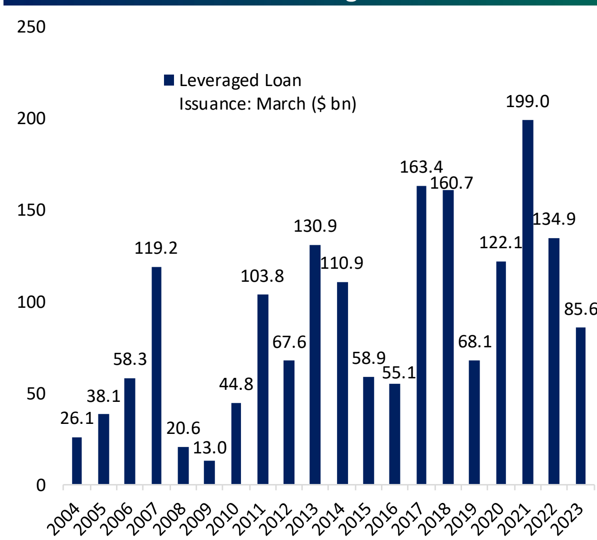
While there is no credit crunch in the US, there are headwinds. One good example can be found in the leveraged loan market. While issuance was already weak at $85.6bn in March, April issuance is a paltry $21.2bn, the lowest April since 2009 and lower than any year except 2008 and 2009. Leveraged loan issuance is a close intersection of bank and public market credit; both are active in various stages of the market. The slowdown in issuance illustrates how the concerns over bank viability are driving weaker (for now) credit provision to the real economy.

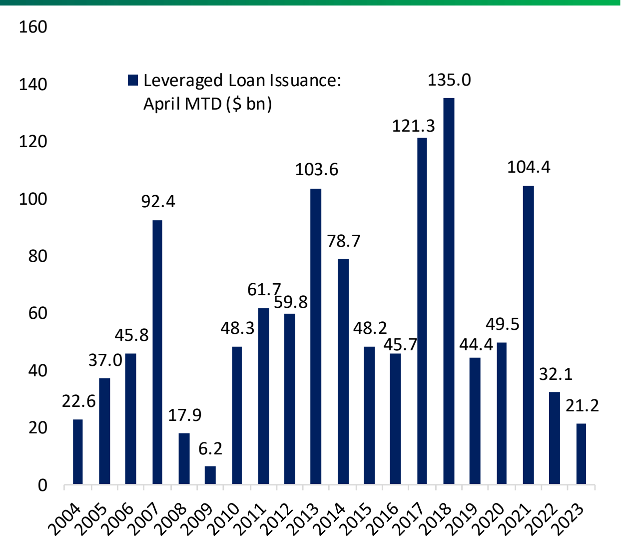
Distressed Bonds Are More Common, But Not Soaring





Leveraged Loan Issuance On Pace For Weakest Level Since 2009





Treasury Yields, Prices, and 30 Year Fixed Mortgage Rate

2 Year Treasury Future (Price, Roll Adjusted)

2 Year Treasury Note (Yield, %)

5 Year Treasury Future (Price, Roll Adjusted)

5 Year Treasury Note (Yield, %)

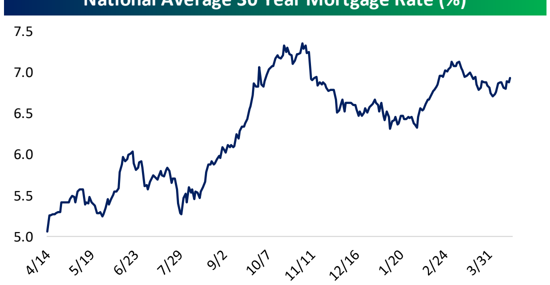
10 Year Treasury Future (Price, Roll Adjusted)

10 Year Treasury Note (Yield, %)

30 Year Treasury Future (Price, Roll Adjusted)

30 Year Treasury Bond (Yield, %)

National Average 30 Year Mortgage Rate (%)



Money Markets, ETFs and Trade of the Week

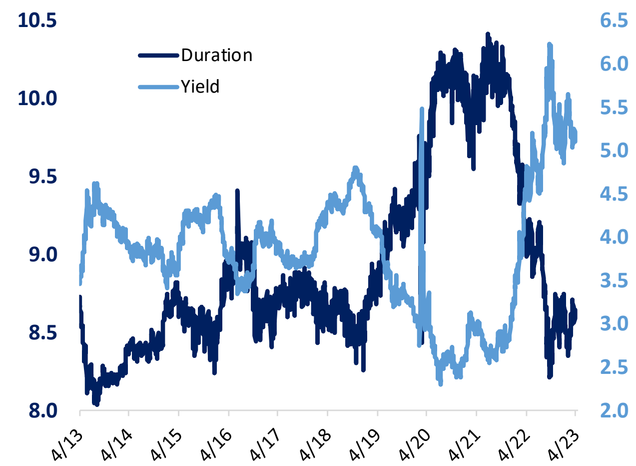
Money Market Rates

Money Market Funds			Key Short Term Rates		
Fid. Cash	4.49	-0.020	Fed Funds	4.830	0.000
Van. Cash	4.77	0.012	O/N Libor	4.809	-0.001
Blackrock Cash	0.00	0.000	1M Libor	4.951	0.051
Fid. Munis	2.08	-0.540	3M Libor	5.265	0.067
Schwab Govt	4.50	0.009	4 Wk T Bill	3.718	-0.257
Schwab Prime	4.68	-0.007	3M T Bill	5.129	0.185
JPM Prime	4.60	0.003	6M T Bill	5.063	0.147
State St Gov't	4.74	0.021	1Y T Bill	4.792	0.156
GS MMkt	4.73	0.016	Repo	4.830	0.000

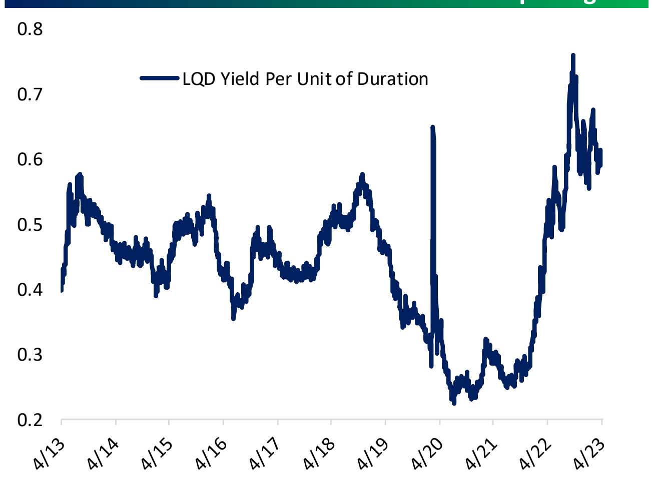
Key Fixed Income ETFs

Ticker	Name	Price	Yield (%)	5 Day TR (%)	YTD TR (%)
AGG	Core US Bond Mkt	98.85	3.06	-1.09	2.67
BIL	1-3 MoT Bill	91.68	4.87	0.10	1.28
BIV	Vang. Intrmed.	76.18	2.95	-1.07	3.21
BKLN	Senior Loans	21.01	7.83	0.33	4.27
BLV	Vang. Long Term	75.34	4.12	-1.85	5.01
BND	Tot Bond Mkt	73.26	2.99	-1.07	2.70
BOND	PIMCO Tot Ret	92.19	3.91	-0.99	1.88
BSV	Barc. Short Term	76.19	2.18	-0.53	1.72
EDV	Long Dur. Trsy	87.21	3.09	-3.71	6.08
EMB	JPM EM Bonds	84.99	5.11	-1.16	1.70
FLOT	Floating Rate	50.49	5.33	0.23	1.61
HYG	iBoxx HY	74.82	5.48	-0.13	3.19
IEF	7-10 Yr Bonds	98.22	2.39	-1.52	3.18
IEI	3-7 Yr Trsy	116.98	2.09	-0.98	2.32
IGSB	1-3 Yr Corp.	50.40	3.10	-0.33	1.90
JNK	Barc. High Yield	91.82	5.94	-0.10	3.63
LQD	iBoxx Invest. Grade	108.58	3.76	-0.90	3.99
MBB	MBS	93.75	3.22	-1.44	1.88
MINT	Short Term Corp.	99.18	4.72	0.04	1.60
MUB	Munis	106.73	2.56	-1.71	1.80
PFF	Preferreds	31.31	7.10	0.22	4.34
PGF	Financial Preferreds	14.82	5.78	0.68	4.39
PGX	Preferred Port.	11.68	6.21	0.56	6.03
SHM	Short Term Munis	47.24	0.89	-1.01	0.80
SHV	Short Term Trsy	110.29	4.25	0.06	1.29
SHY	1-3 Yr Trsy	81.84	2.64	-0.37	1.43
SNLN	iBoxx Sen Loan	14.59	7.72	-0.18	3.23
SPSB	Barc. Short Term	29.55	3.65	-0.22	1.44
STPZ	PIMCO 1-5 Yr TIPS	50.79	2.36	-0.45	2.04
TBF	Short 20+ Yr Trsy	21.65	3.79	3.07	-3.64
TBX	Short 7-10 Yr Trsy	28.18	1.35	1.70	-1.30
TIP	TIPS	109.35	1.40	-1.13	2.85
TLH	10-20 Yr Trsy	112.24	3.98	-2.45	4.67
TLT	20+ Yr Trsy	103.89	3.10	-2.81	5.14
VCLT	Long Term Corp	78.68	4.72	-1.23	5.10
VCSH	Vang. Short Term	76.01	3.01	-0.34	1.79

LQD Duration Has Returned To Mid-2010s Norms



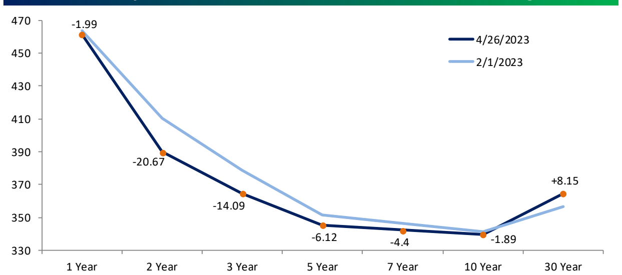
Yield Relative To Rates Risk Is More Compelling



Rising yields mechanically mean less interest rate risk (duration). That process is visible in the duration and yield of the bonds held by LQD, the iShares iBoxx Investment Grade bond ETF. As shown, this proxy for the investment grade corporate bond space offers 5%+ yields. That has helped push duration down to around 8.5 years, which is a historically normal level for the second half of the 2010s when rates were starting to rise off their post-GFC lows. What looks different for this period is the absolute level of yield available per unit of duration risk. As shown, investors can achieve much higher yields relative to the risk of higher interest rates than periods of low or zero rates.

Benchmark Yield Curves

Treasury Yield Curve: Current vs 3 Months Prior, w/ BPs Change

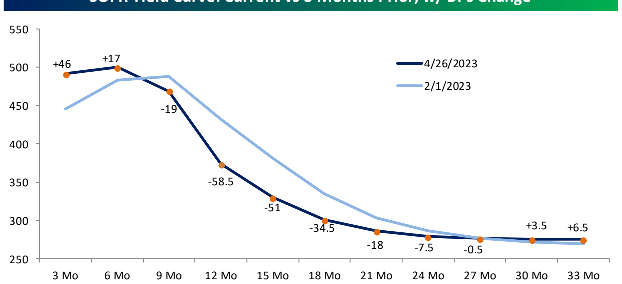


After poking their head as high as the 50-day moving average last week, 10y rates have plunged lower towards the congested zone above 3.25%. That latest leg lower for rates has the 2s10s curve back to –50 bps in a material steepening. Two year yield shave plunged back below their 200-DMA over the past few days.

Eurozone rates are pulling back off the 50 bps hike priced for the May meeting, but are still showing 75 bps of total tightening by October before the forwards curve starts to show pricing for cuts. Peripheral sovereign yields continue to look boring while the German term structure has finally stopped its inexorable flattening.

Bunds Yield Curve: Current vs 3 Months Prior, w/ BPs Change

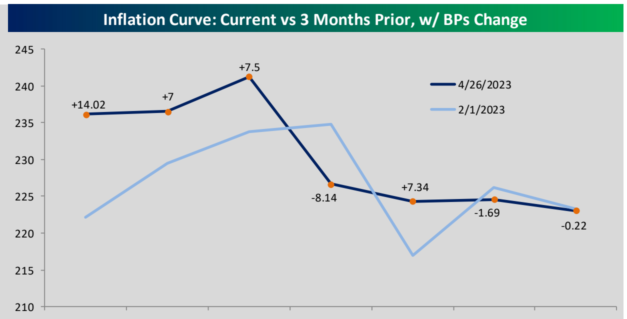
SOFR Yield Curve: Current vs 3 Months Prior, w/ BPs Change



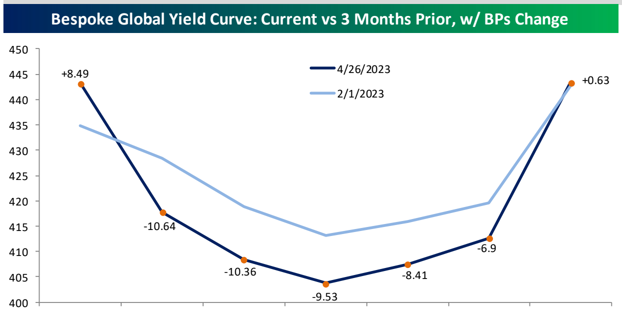
Short-term rates have focused on relatively negative economic data and Chinese market price action instead of generally firm earnings which reflect still-robust consumer demand and solid profit margins. Fed Funds futures full price cuts over the November, December, and January FOMC meeting dates.

Crude traded back below its 50-DMA today for the first time since OPEC+'s surprise output cut a month ago. Pressure on crude oil hasn't dealt a massive hit to breakeven pricing but it's certainly helped continue to put a lid on forward prices that reflect very contained and reasonable inflation risk premiums.

Inflation Curve: Current vs 3 Months Prior, w/ BPs Change

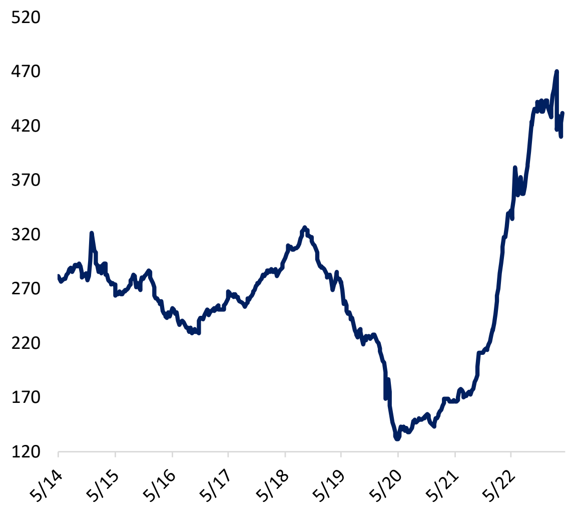


Bespoke Global Yield Curve: Current vs 3 Months Prior, w/ BPs Change



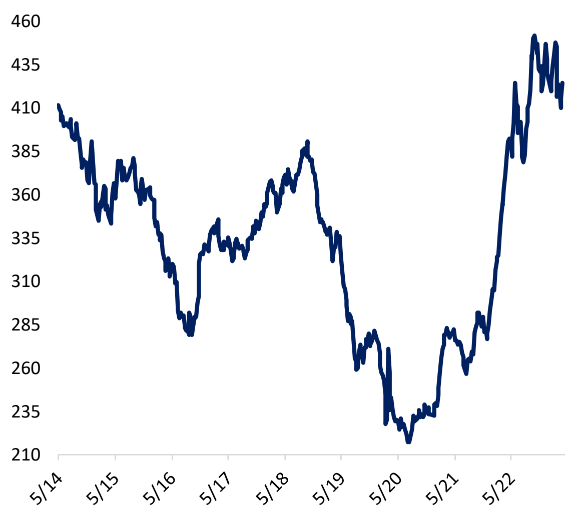
American rates led the global curve lower with a 4-9 bps decline in yields over the past week. Russia was also a notable contributor to declining global yields as well. Only a scattered handful of rates in Mexico, Brazil, Italy, Korea, Japan, and Indonesia were higher over the past week accounting for 10 of 105 yields we track around the entire global economy.

Bespoke Global Yield Curve: 2 Year



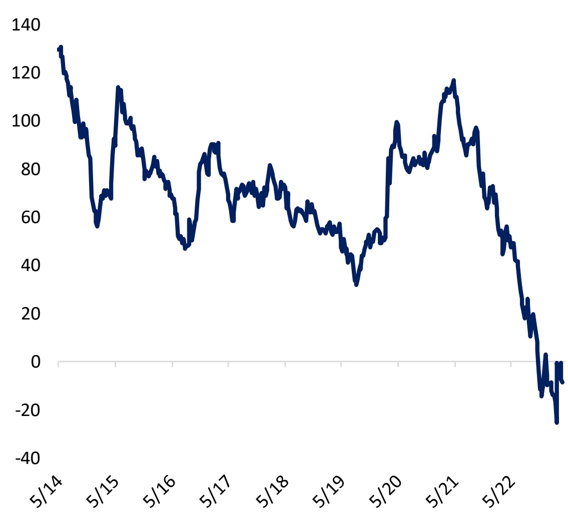
Bespoke Global Yield Curve: 5 Year

Bespoke Global Yield Curve: 10 Year



Bespoke Global Yield Curve: 30 Year

Bespoke Global Yield Curve: 2s10s



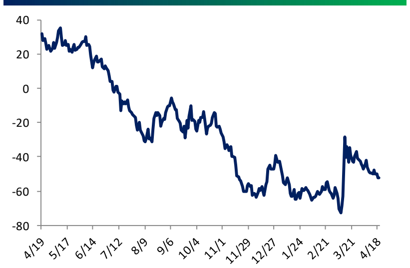
Bespoke Global Yield Curve: 5s30s

Curves, Spreads and Total Returns

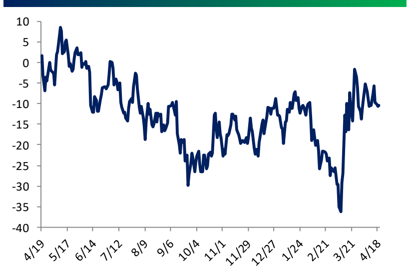
Treasury Curves (BPs)

3 Month vs 2 Year

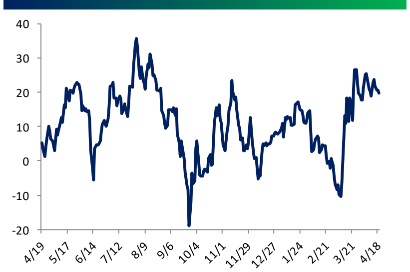
2 Year vs 5 Year



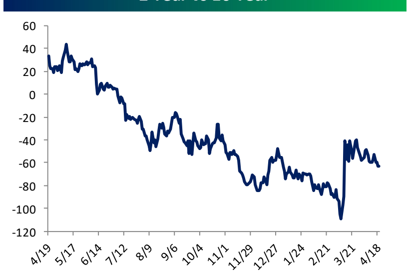
5 Year vs 10 Year



10 Year vs 30 Year

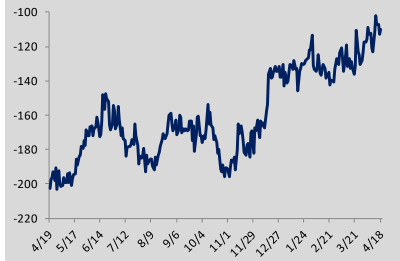


2 Year vs 10 Year

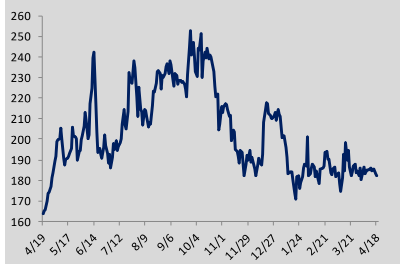


Spreads vs Treasury (BPs)

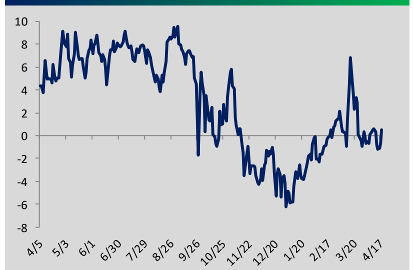
10 Year German Bund



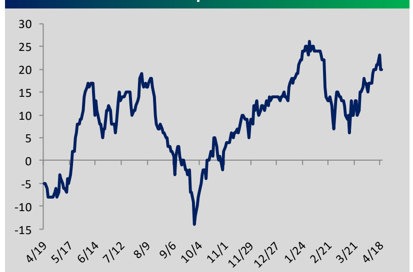
10 Year Italian BTP (vs German Bund, not Treasury)



10 Year Swap



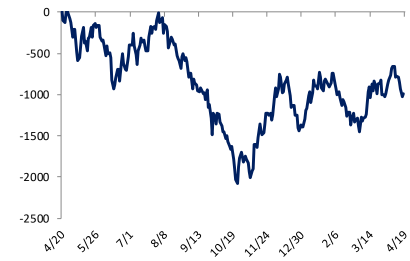
Municipal Bonds



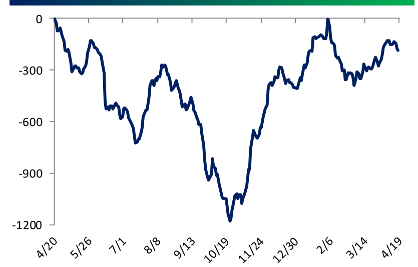
High Yield Corporates

Total Return Over Past Year (BPs)

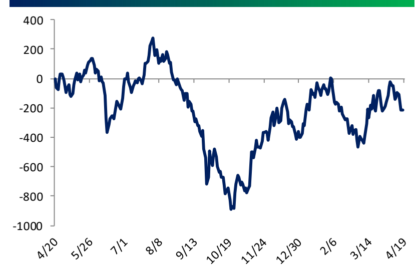
Long Dated Treasuries



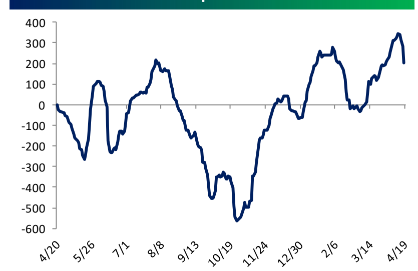
Emerging Markets



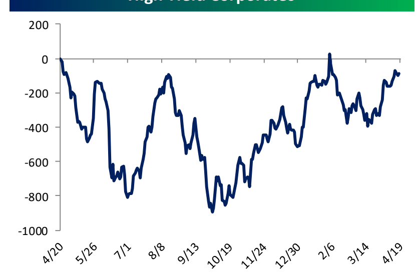
Mortgage Backed Securities



Municipal Bonds



High Yield Corporates



The Fixed Income Report Explained

Page 2: These charts track the performance of the yield of Treasury bonds and their price in the futures market over the past year. Also presented is the National Average 30 Year Fixed Rate Mortgage according to bankrate.com's index of mortgage lending.

Page 3: At upper left is a table summarizing the level and change of short term interest rates. Money market fund rates represent the highest yields available to large money market fund investors for a spectrum of funds. Next to the money market fund rates are benchmark short-term interest rates. Each change represents the change in yield over the last five days. At lower left we show a grid of major fixed income ETFs and include yield, five day change, and year to date total return for each ETF.

Page 5: Benchmark yield curves are "risk free" interest rates that other fixed income securities trade relative to. All yield curves are expressed in basis points. Three month changes in the curves are shown in basis points at each point on the curve. The Bespoke Global Yield Curve is a Purchasing Power Parity Gross Domestic Product-weighted average of nominal yields for the world's fifteen largest economies. It is graphed versus the yield curves for the United States and Germany, the two most-followed global benchmarks.

Page 5: Time series charts for the yields of the Bespoke Global Yield curve, presented in basis points.

Page 6: The Treasury curve charts in column one show the difference in yield between the second security listed and the first. For instance, if 2 Year Treasuries currently yield 0.45% and 5 Year Treasuries yield 1.45%, the "curve" between 2 Years and 5 Years is 1.00%. Typically, a flattening yield curve (a chart of the curve moving downwards, or the difference between the two yields narrowing) is an indication of economic headwinds, but the absolute level of the curve between Treasuries can be as important as the change in that curve.

The spreads column shows yield differences between Treasuries and other important sectors of the fixed income market. Each spread is expressed as the yield on the bond in question. For instance, if Italian 10 Year government bonds or "BTPs" yield 3.50% and 10 Year Treasuries yield 3.00%, the spread between them is 0.50%. This spread can be negative. All else being equal, a positive spread to Treasuries indicates increased credit risk. But when spreads are measured between two different currencies (for instance, between German Bunds and Treasuries), a negative spread to Treasuries can be caused by different inflation expectations, real growth rates or other differences between the currencies in question.

Finally, the total return indices in the right hand column show the total return for Bank of America Merrill Lynch bond market indices in each sector listed. Total return shows both coupon income and price appreciation for each basket of bonds. These total returns are graphed as total return over the prior year, starting from zero as of one year ago today.