

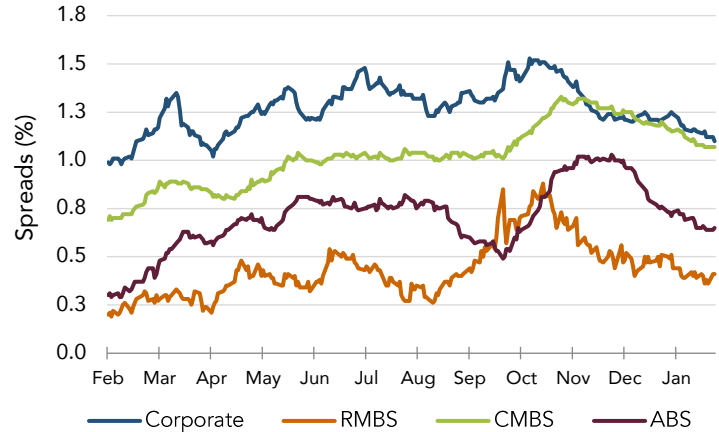


MARKET COMMENTARY

- Eager to put 2022 behind them, market participants began the year with a renewed sense of optimism which was spurred on by soft inflation data for December. Within Investment Grade fixed income, US Treasury yields 2 years and beyond rallied and spreads for risky securities tightened. The rally was further supported by weaker than expected manufacturing and services data as “bad news is good news” is alive and well.
- In its December meeting minutes, the Fed continued to caution investors regarding further interest rate increases in 2023. The market is currently anticipating a 25-basis point rate hike at the February meeting. Looking out further, the market is predicting that the Fed will cut rates by the end of the year, a stark divergence from Fed projections and messaging.
- Within corporate credit, early reports of 4Q22 earnings are mixed but include forward-looking concerns regarding inflation, recession, consumer health and resultant demand. These factors are likely to negatively affect free cash flow and represent headwinds on the path to economic growth. Despite this cautious tone from potential issuers, corporate credit spreads tightened meaningfully.
- CMBS spreads followed corporate credit spreads tighter, propelled by light new issue supply and expectations of a less aggressive Fed. AAA CMBS spreads have retraced to mid-2022 levels.
- ABS spreads tightened as investors continued to find the high-quality asset class attractive. Following a typical quiet December, ABS issuance increased in January. Most new deals were heavily oversubscribed, causing new issue concessions to compress during the month.
- Lower interest rate volatility and seasonal reduction in origination drove Agency RMBS spreads tighter.

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SPREADS TO TREASURIES



Source: Bloomberg

TREASURY YIELD CHANGES

	YTM	Change From Previous Month
3 Month	4.64%	+0.30%
1 Year	4.65%	-0.03%
2 Year	4.20%	-0.23%
3 Year	3.90%	-0.32%
5 Year	3.62%	-0.39%
10 Year	3.51%	-0.37%
30 Year	3.63%	-0.33%

Source: Bloomberg

BLOOMBERG SECTOR PERFORMANCE

	Total Return MTD	Excess Return* MTD	YTM
Corporates	4.01%	1.20%	4.96%
Financials	3.51%	1.36%	5.06%
Industrials	4.22%	1.13%	4.90%
Utilities	4.55%	1.07%	4.95%
RMBS	3.29%	0.93%	4.28%
CMBS	2.63%	0.71%	4.85%
ABS	1.42%	0.29%	4.81%
Agencies	1.54%	0.15%	4.35%

*Month-to-date performance of spread bearing bonds versus duration-matched Treasuries