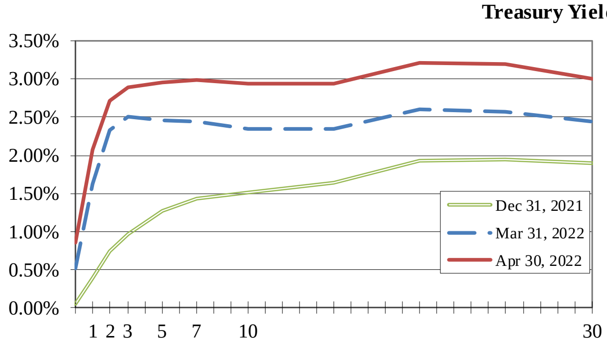
Baird Advisors
Fixed Income Market Commentary
April 2022

Bond Yields Climb as a More Hawkish Fed Signals Steepest Hiking Cycle Since Mid-1990s

Bond yields rose in April as Fed officials articulated a greater urgency to remove emergency levels of accommodation by implementing a steeper path of rate hikes along with shrinking the Fed's balance sheet at a "considerably more rapid pace" than in the past. Ten-year Treasury yields increased 60 bps to 2.94% and are now up an amazing 143 bps YTD. Two-year yields rose 38 bps in April, returning the 2s–10s maturity segment to a positive slope of +22 bps at month end from an inverted position of -8 bps on April 1st. Elevated inflation maintained upward pressure on rates, with the CPI rising to 8.5% YoY in March, validating the Fed's more hawkish stance. A 50-bps hike in the federal funds rate is expected in May with an additional 200 bps of hikes expected by year end. The Fed also outlined a quantitative tightening (QT) plan for their nearly $9T balance sheet with a reduction of up to $95B per month to begin soon, $60B from Treasuries and $35B in mortgage-backed securities. Mortgage rates continued to rise, finishing April with an average 30Y fixed-rate of 5.10%, its highest level since 2009. The heightened market volatility has caused industry-wide outflows to persist, with $47B of net redemptions YTD from IG funds, $13B in the past four weeks. Signs of economic slowing are also emerging. US GDP contracted at a -1.4% annual rate in Q1 from the prior quarter, driven largely by a 3.2% net export drag, the first economic decline since the pandemic uncertainty of Q2 2020.

Treasury Yields



Maturity	12/31/21	3/31/22	4/30/22	1Mo Chg	YTD Chg
3 Mo	0.06%	0.51%	0.85%	0.34%	0.79%
1	0.39%	1.62%	2.08%	0.46%	1.69%
2	0.74%	2.34%	2.72%	0.38%	1.98%
3	0.96%	2.52%	2.89%	0.37%	1.93%
5	1.27%	2.46%	2.96%	0.50%	1.69%
7	1.44%	2.44%	2.99%	0.55%	1.55%
10	1.51%	2.34%	2.94%	0.60%	1.43%
30	1.91%	2.45%	3.00%	0.55%	1.09%

Spreads Resume Trend Wider in April

Spreads widened in April across fixed income sectors due to increased risk aversion, redemptions from fixed income, and impacts from faster removal of monetary policy. Hawkish Fed policy influence was also seen in Agency RMBS spreads moving 16 bps wider in April. ABS spreads widened 12 bps. IG Corporate spreads ended April at 135 bps, 19 bps wider for the month and roughly 10 bps below the YTD high reached in mid-March. High Yield Corporate spreads widened the most, climbing 54 bps during the month.

Worst Four Month Stretch of Agg Index Returns of All Time

The Aggregate Index decline of -9.50% YTD marks the lowest recorded start to any year since data began in 1976. The yield of the US Aggregate Index climbed 56 bps in April and closed the month at 3.48%, which is up 246 bps from its 2020 low and nearly tied with its highest reading over the past decade. All subsectors shown have produced negative monthly and YTD returns. ABS declines were modest in April at -0.76% in large part due to the sector's lower duration. IG Corporate returns for the month and YTD periods are the lowest due in part to the sector's higher duration.

Option-Adjusted Spreads (in bps)

	12/31/21	3/31/22	4/30/22	1Mo Chg	YTD Chg
U.S. Aggregate Index	36	41	49	8	13
U.S. Agency (non-mortgage)	8	13	14	1	6
Mortgage and ABS Sectors					
U.S. Agency RMBS (Pass-throughs)	31	24	40	16	9
U.S. Agency CMBS	34	44	46	2	12
U.S. Non-Agency CMBS	95	119	121	2	26
Asset-Backed Securities	38	57	69	12	31
Corporate Sectors					
U.S. Investment Grade	92	116	135	19	43
Industrial	95	116	134	18	39
Utility	107	127	141	14	34
Financial Institutions	83	112	133	21	50
Non-Corporate Credit	55	62	67	5	12
U.S. High Yield Corporates	283	325	379	54	96
Emerging Market Debt	581	618	646	28	65

Source: Bloomberg Indices

Total Returns of Selected Bloomberg Indices and Subsectors

	MTD Total Return	MTD Excess Return	YTD Total Return	YTD Excess Return	Effective Duration (years)
U.S. Aggregate Index	-3.79%	-0.67%	-9.50%	-1.22%	6.48
U.S. Gov't/Credit Index	-3.96%	-0.54%	-10.04%	-1.05%	6.84
U.S. Intermediate Gov't/Credit Index	-2.00%	-0.31%	-6.42%	-0.53%	4.00
U.S. 1-3 Yr. Gov't/Credit Index	-0.54%	-0.06%	-3.01%	-0.16%	1.91
U.S. Treasury	-3.10%	0.00%	-8.50%	0.00%	6.48
U.S. Agency (Non-Mortgage)	-1.63%	-0.10%	-5.77%	-0.55%	3.65
U.S. Agency RMBS (Pass-Throughs)	-3.51%	-1.05%	-8.31%	-1.69%	5.72
CMBS (Commercial Mortgage Backed Securities)	-2.31%	-0.06%	-7.77%	-0.61%	4.88
ABS (Asset-Backed Securities)	-0.76%	-0.07%	-3.62%	-0.37%	2.28
U.S. Corporate Investment Grade	-5.47%	-1.40%	-12.73%	-2.68%	7.70
U.S. High Yield Corporates	-3.56%	-1.87%	-8.22%	-2.68%	4.16
Emerging Market Debt	-3.96%	-1.44%	-10.01%	-2.69%	5.34
Municipal Bond Index	-2.77%	N/A	-8.82%	N/A	6.08
TIPS (Treasury Inflation Protected Securities)	-2.04%	0.00%	-5.00%	0.00%	7.41

*Excess return represents the return of a spread sector versus a like-duration U.S. Treasury.

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 U.S. 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 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 Intermediate U.S. Government/Credit Bond 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 1-3 Year U.S. Government/Credit Bond 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 zero and three years.

The Bloomberg 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 CMBS ERISA-Eligible Index is the ERISA-eligible component of the Bloomberg 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 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 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 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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