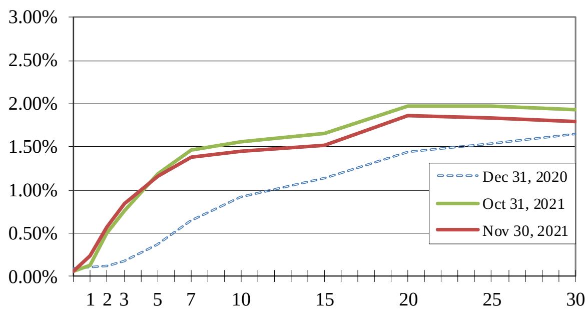
Baird Advisors
Fixed Income Market Commentary
November 2021

Treasury Curve Flattening Continues, Omicron Concerns Surface, Volatility Returns

The 10yr Treasury yield declined 11 bps in November to end the month at 1.45%, while 2yr yields rose 7 bps on a more aggressive Fed policy outlook, leading to a flatter yield curve. The differential between 2- and 10-year Treasury yields fell by 18 bps and ended November at its flattest level since January. The move in yields for the month masked the intra-month volatility that occurred due to a variety of factors. November began with the Fed announcing the start of tapering bond purchases $15B per month, $10B from Treasuries and $5B of mortgages effective immediately. Also, a strong October employment report added 531,000 jobs and the two prior months were revised up 235,000. Inflation concerns were elevated with the highest CPI reading (+6.2% YoY through October) since 1990. President Biden signed the $1.2T Infrastructure Investment and Jobs Act, which provides $550B in new spending over 5 years to address widespread needs. The larger $1.75T Build Back Better social spending legislation passed the House but remains in the Senate awaiting likely modifications. In a nod toward continuity, Fed Chairman Powell was reappointed to a second four-year term while his competitor for the top job, Lael Brainard was nominated to be Vice Chair. Powell cited a number of the positive economic datapoints above, and stubbornly high inflation to hint at the possibility of a faster tapering pace, if appropriate. Finally, the Omicron variant of COVID emerged from South Africa and spread to other countries in the Thanksgiving week, boosting market volatility and driving yields lower as select countries reinstated travel restrictions. Oil prices, a notable factor in recent inflationary pressures, declined in the final week of November as WTI crude fell from an intra-month high of $84.15/bbl to $66.18/bbl, off more than 21%.

Treasury Yields



Maturity	12/31/20	10/31/21	11/30/21	1Mo Chg	YTD Chg
3 Mo	0.09%	0.06%	0.06%	0.00%	-0.03%
1	0.11%	0.13%	0.23%	0.10%	0.12%
2	0.12%	0.50%	0.57%	0.07%	0.45%
3	0.17%	0.76%	0.84%	0.08%	0.67%
5	0.36%	1.19%	1.16%	-0.03%	0.80%
7	0.65%	1.46%	1.38%	-0.08%	0.73%
10	0.92%	1.56%	1.45%	-0.11%	0.53%
30	1.65%	1.94%	1.80%	-0.14%	0.15%

Credit and Mortgages wider in November; Credit wider YTD

Corporate spreads widened 12 bps in the month, most of which occurred in the final six trading days. YTD US Corporates are now 3 bps wider but have generated positive excess returns. Agency Mortgages and CMBS were 10 and 9 bps wider, respectively, in November as swap spreads rose with Treasury volatility. However, each sector remains tighter YTD. US High Yield and EM debt experienced the largest monthly widening at 50 and 61 bps, respectively. US High Yield is 23 bps tighter YTD while EM debt is 148 bps wider.

Agg Returns Positive in November; YTD Remains Negative

The Aggregate Index return was positive in November (0.30%). The Corporate component produced narrowly positive monthly total returns (0.06%). Like October, TIPS was the top performing sector for the month (0.89%) and YTD periods (5.62%). High Yield Corporate debt declined in November (-0.97%), which lowered YTD returns to (3.34%). EM debt had the lowest monthly and YTD returns (-2.69% and -4.59%).

Option-Adjusted Spreads (in bps)

	12/31/20	10/31/21	11/30/21	1Mo Chg	YTD Chg
U.S. Aggregate Index	42	33	39	6	-3
U.S. Agency (non-mortgage)	10	5	8	3	-2
Mortgage and ABS Sectors					
U.S. Agency Pass-throughs	39	24	34	10	-5
U.S. Agency CMBS	44	27	36	9	-8
U.S. Non-Agency CMBS	109	87	96	9	-13
Asset-Backed Securities	33	36	39	3	6
Corporate Sectors					
U.S. Investment Grade	96	87	99	12	3
Industrial	101	90	103	13	2
Utility	106	96	108	12	2
Financial Institutions	83	79	90	11	7
Non-Corporate Credit	66	54	58	4	-8
U.S. High Yield Corporates	360	287	337	50	-23
Emerging Market Debt	503	590	651	61	148

Source: Bloomberg Indices

Total Returns of Selected Bloomberg Indices and Subsectors

	November	YTD	Effective Duration (years)
U.S. Aggregate Index	0.30%	-1.29%	6.78
U.S. Gov't/Credit Index	0.46%	-1.43%	7.68
U.S. Intermediate Gov't/Credit Index	0.12%	-1.31%	4.15
U.S. 1-3 Yr. Gov't/Credit Index	-0.08%	-0.32%	1.93
U.S. Treasury	0.77%	-1.82%	7.21
U.S. Agency (Non-Mortgage)	0.15%	-1.01%	3.86
U.S. Agency Pass-Throughs	-0.09%	-0.95%	4.63
CMBS (Commercial Mortgage Backed Securities)	-0.09%	-1.01%	5.10
ABS (Asset-Backed Securities)	-0.07%	-0.18%	2.31
U.S. Corporate Investment Grade	0.06%	-0.96%	8.73
U.S. High Yield Corporates	-0.97%	3.34%	4.06
Emerging Market Debt	-2.69%	-4.59%	5.43
Municipal Bond Index	0.85%	1.35%	5.05
TIPS (Treasury Inflation Protected Securities)	0.89%	5.62%	5.01

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.

RB2021-0805

Robert W. Baird & Co. Incorporated