CION Credit Market Update – November 30, 2021

A Funny Thing Happened on the Way to 2% Yields.

Meet the New Fed. Same as the Old Fed.

Back in January, some market observers were predicting that 10-year U.S. Treasury yields would hit 2% by year end. The benchmark yield started the year at 0.93%, and by March 31st, it was at 1.74%. After reaching a low of 1.19% this summer, it began climbing this fall and on November 23rd the yield hit 1.67%.

Headlines have been driving the direction of the path all year. The most recent catalyst was news of the Omicron variant, which flipped market sentiment to "risk off." By November 30th, the rate stood at 1.43%.

A strong October jobs report with significant upward revisions for both August and September, as well as other positive data pointed to strength in the economy. The October CPI's 6.2% year-over-year increase was the largest since 1991.

The combination of evidence of a recovering economy and growing inflation were enough data for Chairman Powell to retire "transitory" from the inflation language, and to signal that an increased pace of tapering is under consideration.

The speculation that a more aggressive Fed would potentially increase rates sooner led to a rise in the two-year yield of seven basis points. This resulted in the two- and 10-year differential falling by 18 basis points, for the flattest curve since January.

President Biden may not have technically owned inflation for the first ten months of his tenure, but with the reappointment of Chairman Powell to another term, he does now. Powell's top competitor for the job, Dr. Lael Brainard, was nominated to be Vice Chairman.

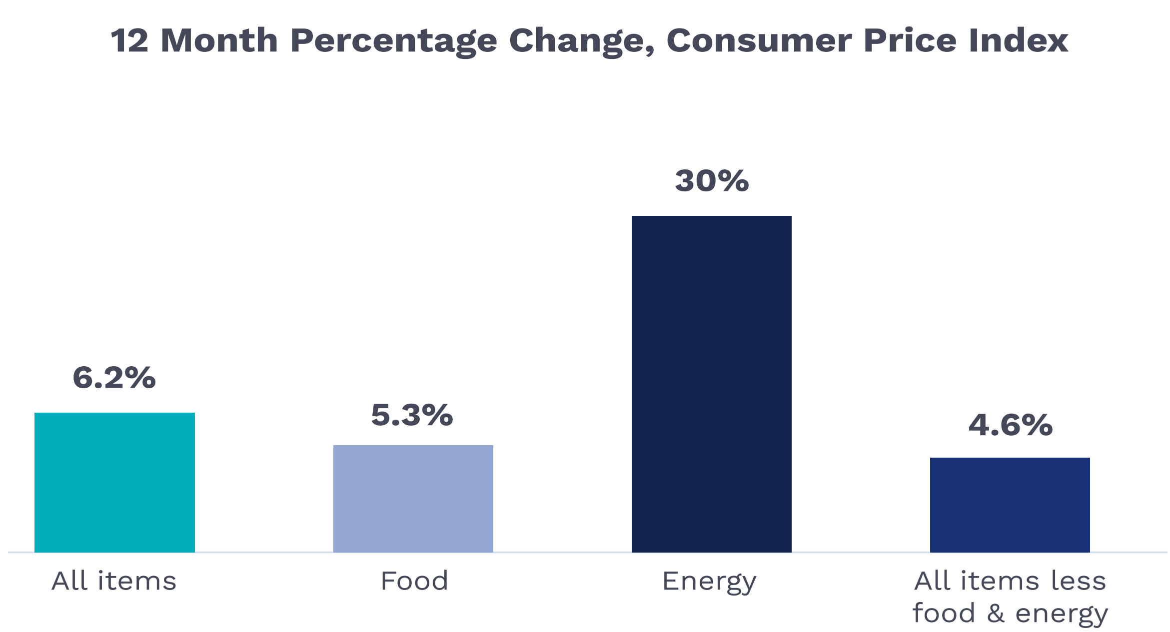
Performance of Selected Credit Indices

	MTD (10/29/2021 - 11/30/2021)	YTD (as of 11/30/2021)	TRAILING 1 YEAR (11/30/2020 – 11/30/2021)
Credit Suisse Leveraged Loan Total Return Index (CSLLLTOT)	-0.15%	4.74%	6.10%
Bloomberg US Corporate High Yield Total Return Index (LF98TRUU)	-0.97%	3.34%	5.28%
Bloomberg US Aggregate Total Return Index (LBUSTRUU)	0.29%	-1.28%	-1.15%
Bloomberg Municipal Bond Index (LMBITR)	0.85%	1.35%	1.97%
Palmer Square CLO Debt Index (CLODI)	-0.14%	4.42%	6.03%

Source: Bloomberg as of 12/1/2021

Chart Spotlight: Inflation by the Numbers

Even excluding volatile energy and food prices, inflation is up considerably year-over-year.



Source: Bureau of Labor Statistics. October 2021, selected categories, not seasonally adjusted.

Credit Asset Classes

Private Credit	Structured Credit	High Yield
Private debt continues to see growth in demand. Global private debt assets under management have more than doubled from just over US$500bn in 2015 to US$1.1trn at the end of March, according to data provider Preqin. This has outstripped growth rates in public corporate bond markets over that period. The asset class has largely been the province of specialized alternative asset managers, who have been working in the space for decades. These alternative asset managers have the advantage of significant on-the-ground experience and have been able to capitalize as the number of deals has increased in recent years. Preqin reports that the greatest asset raise by one firm in the decade leading up to 2021 was $37 billion – roughly the same as the next three largest firms combined.	Leveraged loans rallied in the first three weeks of November but the index lost 0.31% in the final five days of the month. This post-Thanksgiving volatility pushed the overall November return into the red, with the S&P/LSTA Leveraged Loan Index down 0.16%, only the third negative reading since March 2020. On average, loans have gained 0.40% per month this year. S&P Global announced that 2021 issuance in the U.S Collateralized Loan Obligation (CLO) market has exceeded previous issuance records and S&P's full-year forecast of $140bn. Through the end of November, they observed combined new issues of $177bn and refinance/reset issuance of $235 bn volume to reach over $410bn. The previous record was $285bn combined.	U.S. high-yield bond funds saw their biggest outflows in eight months in November, largely owing to the prospect of the Federal Reserve raising interest rates sooner than expected and, to some extent, the concerns over the Omicron coronavirus variant. According to Refinitiv Lipper data, U.S. high-yield bond funds faced an outflow of $4.2 billion in November - the biggest since March. High yield corporate issuance has already exceeded the 2020 record, as issuers took advantage of low yields to refinance debt and fund mergers and acquisitions.

Other Related Asset Classes

Treasuries	Investment Grade Corporates	Municipals
The U.S. Treasury curve flattened substantially on COVID-19 and growth concerns, as the 10-year yield fell and the 2-year yields rose on increasingly hawkish Fed rhetoric. While uncertainty Omicron variant, along with a much weaker-than-expected November jobs number would seem to indicate economic weakness, the prospect that inflation will ultimately resolve and that the Fed will push rates higher in 2022 has Wall Street again forecasting the 10-year U.S. Treasury to hit 2%.	Investment grade corporates eked out a positive return of 0.06% for the month of November, but the year-to-date return remained in the red at -0.96%. Investment grade corporate gross issuance is on track to become the second highest year, after the record-setting 2020 levels. The market absorbed the high level of issuance well, and spreads remained range bound all year and below historical averages.	Short-term tax-exempt yields were steady in November while intermediate and long rates fell, flattening the curve. The municipal market tone remained firm on supportive technicals. State and local tax revenues in the quarter were more than 20% above pre-pandemic levels. Supply picked up slightly in November, rising 3% MoM, but YTD is 4% behind last year's pace as taxable municipal issuance has fallen 28% YoY.

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