




Monthly Market Update Webinar Series | June 8, 2022

ALM First Market Update

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Speaker



Jason Haley
Chief Investment Officer



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Economic Themes

- **Glimpses of stabilization**

- Similar to late March, fixed income showed signs of stabilization in the last week of May
 - Combination of risk-off trade and “less hawkish” rhetoric from some Fed leaders
- Market has whipsawed again, with Treasury yields moving back to the top-end of the 2022 range though Monday's close
 - Until there are clear signs of inflation reversing course, financial markets are likely to exhibit above-average volatility

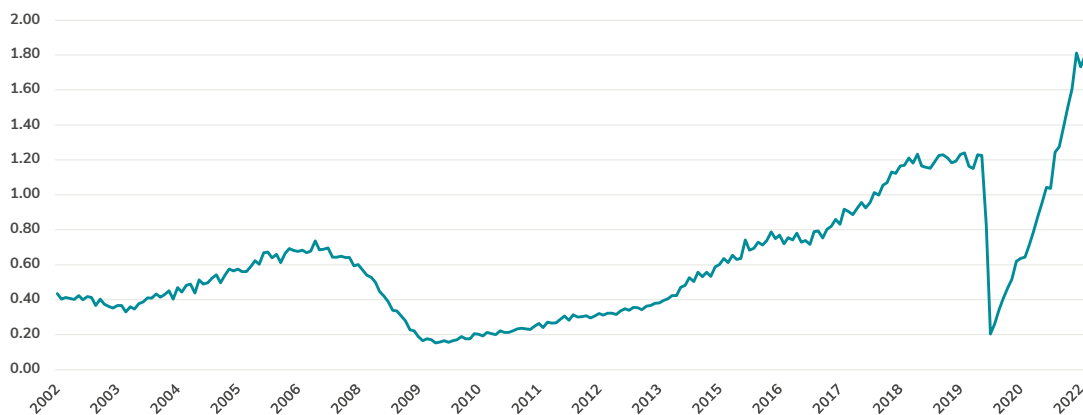
- **Labor market still running hot**

- Job openings were higher than expected in April, and March figure was revised up more than 300k to 11.85 million
 - Ratio of openings to unemployed still in the 1.9:1 to 2:1 range, up from 1.7:1 in March when Fed Chair Powell first characterized this metric as “unhealthy”
- May jobs report largely in line with expectations
 - 390k jobs added to nonfarm payrolls
 - Headline unemployment rate unchanged at 3.6%
 - Average hourly earnings still elevated at 0.3% m/m and 5.2% y/y

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Too Many Job Openings...

Job Openings/Unemployment Ratio



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Fed Update

- **Conflicting Fed rhetoric**

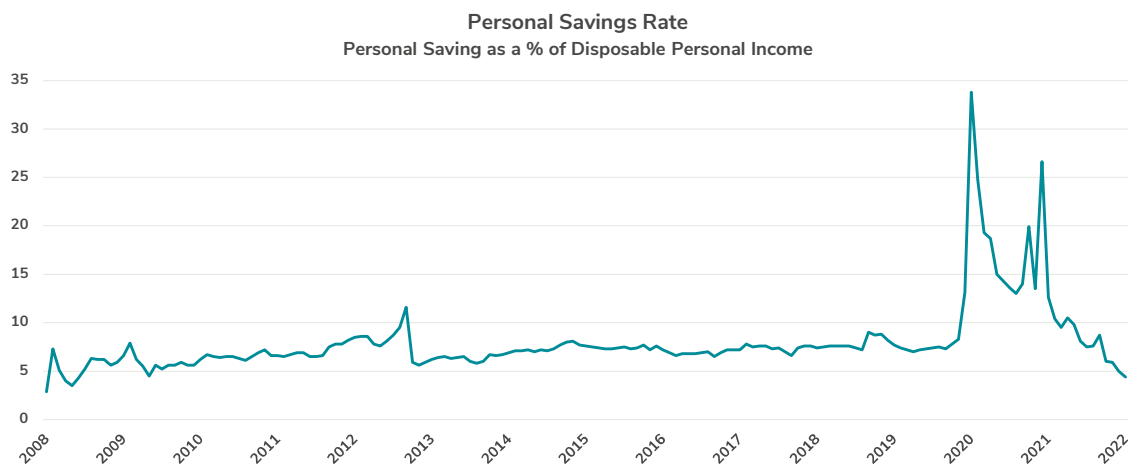
- On May 23, Raphael Bostic (Atlanta Fed) said his “baseline view” was that a pause at the September FOMC meeting might make sense following 3 consecutive 50 bps rate hikes
- **May 4 FOMC minutes (released 5/25):** “Many participants” judged that frontloading policy removal would leave the Fed well positioned later this year “to assess the effects of policy firming”
- On June 2, Fed Governor Lael Brainard pushed back hard, saying “it’s very hard to see the case for a pause”
- Powell says the current goal is “getting rates back up to more neutral levels as quickly as we practicably can” even if it comes with some economic “pain”

- **Balance sheet reduction underway**

- Commenced on June 1 at a pace of \$47.5 billion per month for 3 months and then \$95 billion per month thereafter
 - \$30 billion -> \$60 billion for Treasuries and \$17.5 billion -> \$35.5 billion for MBS
- Current market expectation is that MBS sells will not occur in 2022 given Fed comments on the subject

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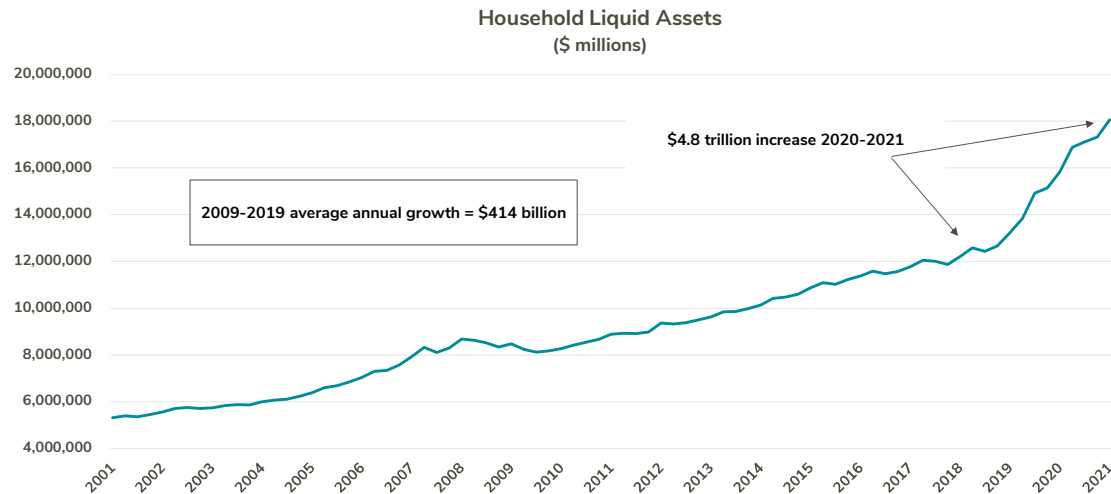
Personal Savings Rate Falling...



Source: BEA, Bloomberg

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...But Other Metrics Suggest Households Still Flush



Source: Federal Reserve, ALM First



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Market Themes

• Treasury yields lower in May; Back up in June

- Yields fell during the last week of May on less hawkish Fed rhetoric on better 2-way flows
- Yields have turned higher again in June on inflationary data and pushback on the idea of a “pause” in rate hikes at some point this year
- Rate volatility remains elevated well above historical norms and will likely remain so until signs of inflation falling

• Fixed income performance was mixed in May

- MBS outperformed in May, but other sectors were flat to negative relative to duration-matched Treasuries
 - Lower coupon MBS outperformed amid the rally in rates and less concerns about Fed MBS sales in 2022
- Fixed income spreads are now at or wide to historical averages, and opportunities remain attractive for long-run investors

Treasury Curve			
Tenor	5/31/2022 (%)	4/30/2022 (%)	Change (bps)
1-Month	0.70	0.30	0.41
3-Month	1.04	0.82	0.22
6-Month	1.56	1.40	0.16
1-Year	2.05	2.06	-0.01
2-Year	2.56	2.72	-0.16
3-Year	2.73	2.89	-0.16
5-Year	2.82	2.96	-0.14
10-Year	2.84	2.93	-0.09
20-Year	3.25	3.21	0.05
30-Year	3.05	3.00	0.05
Curves			
3mo-10yr	1.81	2.11	-0.31
2yr-5yr	0.26	0.24	0.02
2yr-10yr	0.29	0.22	0.07
2yr-30yr	0.49	0.28	0.21
5yr-10yr	0.03	-0.02	0.05

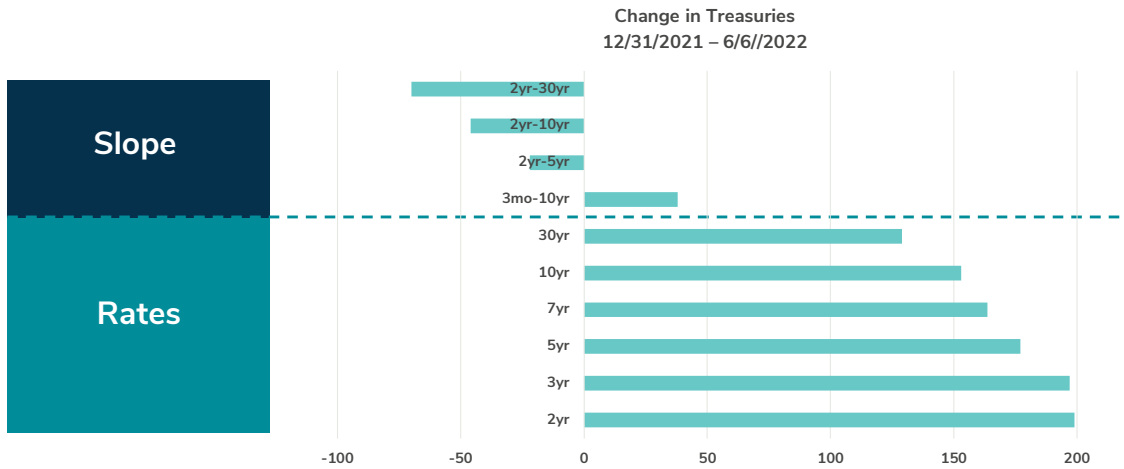
Source: Bloomberg



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Rates & Curve Slope YTD



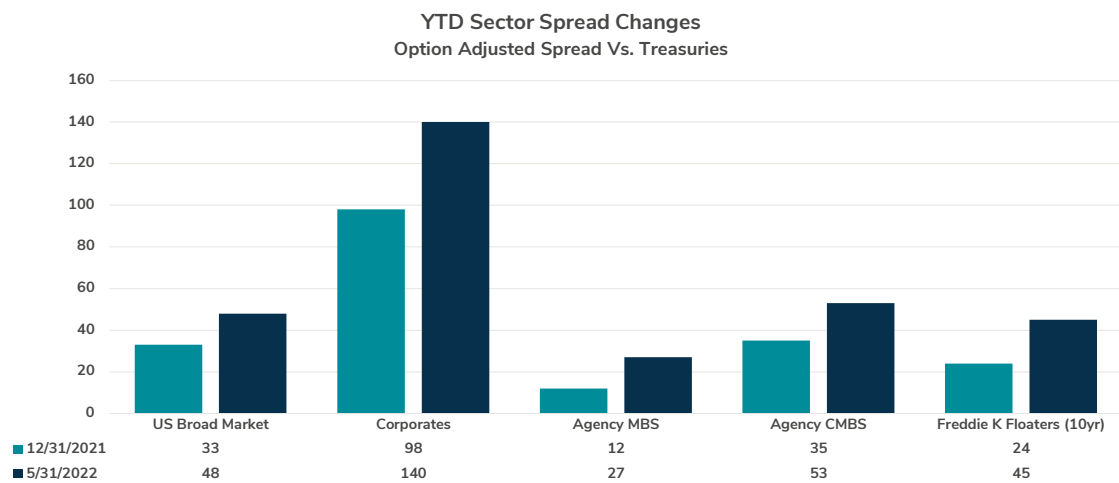
Source Bloomberg

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Fixed Income Spreads



Source: ICE BofA Indices; Bloomberg

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Sector Returns

	Sector Returns							
	May-22		Year To Date		2021	2020	2019	Average Annual
	TROR	Excess *	TROR	Excess *				
Cash ¹	0.05	-	0.10	-	0.05	0.54	2.21	0.93
Treasury ²	0.61	0.04	-3.39	-0.07	-1.10	4.25	4.20	2.42
Agy Bullet & Callable ³	0.54	-0.01	-3.36	-0.33	-0.86	3.35	3.78	2.07
15 Year MBS ⁴	0.94	0.39	-5.91	-1.67	-0.41	4.43	5.49	3.14
30 Year MBS ⁵	1.08	0.70	-7.94	-1.88	-1.24	4.09	6.98	3.22
US Taxable Muni	-1.11	-0.95	-15.47	-3.34	1.40	11.82	13.69	8.83
US ACMB ⁷	0.90	0.23	-7.56	-0.17	-1.85	9.02	7.42	4.75
IG Credit ⁸	0.63	0.02	-4.87	-1.34	-0.35	5.71	7.15	4.12
HY Credit ⁹	-0.23	-0.80	-4.37	-1.59	6.00	3.68	10.09	6.56
S&P 500	0.18	-	-12.76	-	28.68	18.39	31.48	26.05
KBW Bank Index	6.11	-	-10.91	-	38.34	-10.31	36.13	19.09

Sources:

- 1 ICE Treasury Bills 0-3 mo
- 2 ICE US Treasuries 1-5yr
- 3 ICE AAA US Agy 1-5yr
- 4 ICE BofA FNMA 15yr MBS
- 5 ICE BofA FNMA 30yr MBS

- 6 ICE US Taxable Municipal
- 7 Bloomberg/Barclays Agency CMBS
- 8 ICE US Corp 1-5yr
- 9 ICE US HY 1-5yr Constrained

* Excess vs. duration-matched Treasuries



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ALM First Model Portfolio Returns

ALM First Model Portfolios Total Return (%) Summary								
As of May 31, 2022	1-Month	3-Month	YTD	1-Year	3-Year Avg. Annual	5-Year Avg. Annual	Inception Avg. Annual	Inception Date
Core Spread Portfolio ¹	0.37	-3.40	-4.80	-5.15	0.38	1.14	1.45	1/1/2011
ICE BofA 1-5yr Treasury & Agency Bullet Index	0.61	-2.08	-3.37	-4.23	0.46	1.01	1.16	
Excess Return	-0.24	-1.32	-1.43	-0.91	-0.08	0.13	0.29	
Enhanced Liquidity Portfolio ²	0.00	-0.82	-1.21	-1.25	0.94	1.34	0.94	1/1/2011
50/50 blend of ICE BofA 6mo & 12mo T-Bill Indices	0.17	-0.12	-0.35	-0.47	0.86	1.24	0.73	
Excess Return	-0.17	-0.70	-0.86	-0.78	0.08	0.10	0.21	
IG Credit Portfolio ³	0.59	-2.35	-3.97	-3.86	1.63	2.03	2.33	10/1/2011
ICE BofA 1-5yr Treasury & Agency Bullet Index	0.61	-2.08	-3.37	-4.23	0.46	1.01	0.98	
Excess Return	-0.02	-0.27	-0.60	0.38	1.17	1.03	1.35	

¹ Returns are shown net of a 0.10% model fee. ² Returns are shown net of a 0.05% model fee. ³ Returns are shown net of a 0.15% model fee.

* Actual fees will vary. Please see Model Fee disclaimer.



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