



Monthly Market Update Webinar Series | May 11, 2022

ALM First Market Update

Speaker



Jason Haley
Chief Investment Officer

- **Market Whipsaw**

- Financial asset volatility surged higher in April after a brief pause in the second half of March
 - Volatility has been particularly elevated in the aftermath of the 5/4 FOMC meeting
- Following the worst quarter since early 1980, broad fixed income did not rebound in April
 - YTD return through April is -9.5% for ICE BofA Broad Market Index (2nd worst was -3.57% in 1994)
 - S&P 500 -8.72% in April (-12.9% YTD)
- Sources of uncertainty largely the same
 - Somewhat better picture of the Fed's near-term plans, but still high uncertainty regarding how the economy and inflation will respond to Fed rate hikes and balance sheet reduction
 - Russia/Ukraine and China Covid lockdowns also fueling uncertainty

- **Q1 GDP and wage inflation**

- Q1 GDP growth rate was -1.4% (+1% expected), but decline was largely attributable to trade and inventories, as well as the highest GDP price index growth rate since 1981 (8% q/q annualized)
 - Growth in imports greatly exceeded growth in exports, further evidence of robust consumer demand
- Employment Cost Index (ECI) sets record high in Q1

Historically Bad Year For Bonds

ICE BofA US Broad Market Index
YTD Cumulative Return Through April



Wage Inflation Surging

Employment Cost Index (q/q change)

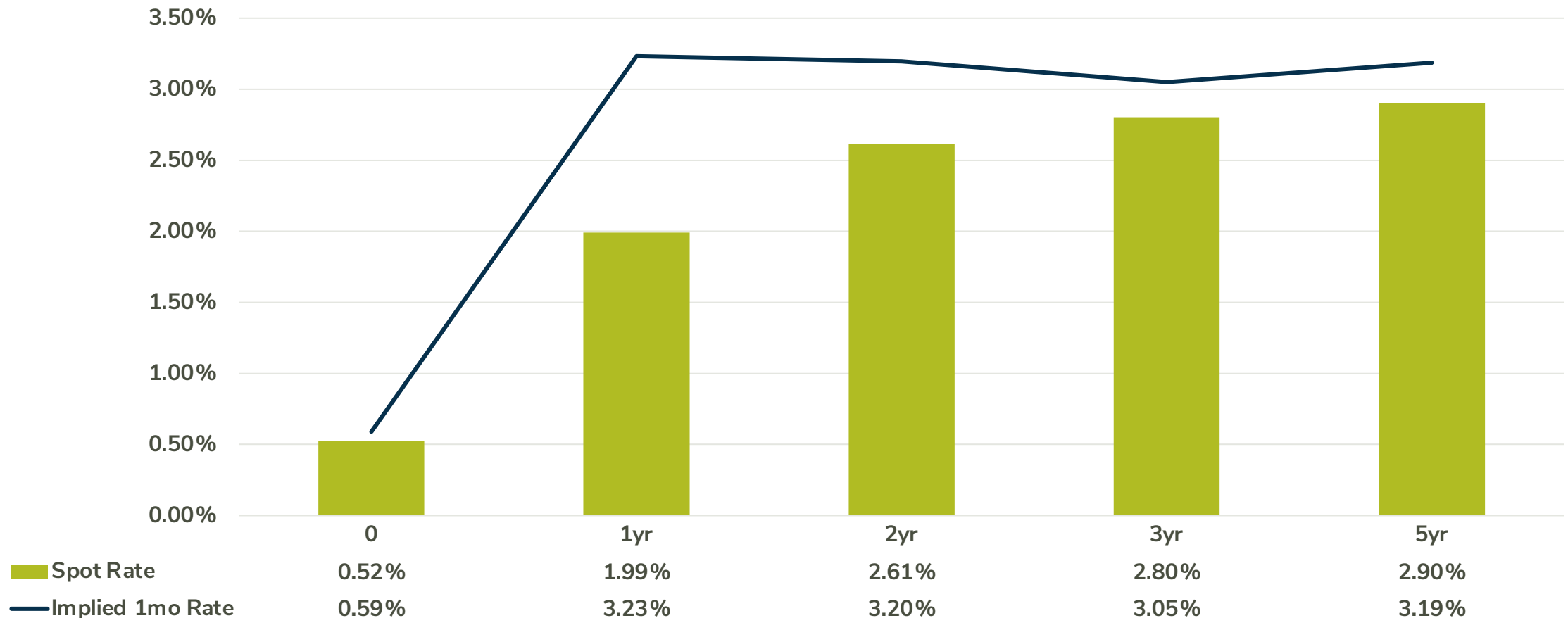


- **FOMC raised funds rate 50 bps & announced balance sheet plans**
 - Market was fully prepared for 50 bps hike, but there was some concern of a more hawkish move leading up to the 5/4 meeting
 - Powell effectively ruled out a 75 bps hike, which Bullard (St. Louis Fed) had suggested should be a consideration in April
 - Balance sheet reduction plans were largely in line with expectations
 - Market now pricing for 50 bps rate hikes at next 2-3 FOMC meetings and a fed funds rate of 2.7% by year end
 - Job openings to total unemployed ratio now close to 2:1
 - Powell highlighted this ratio as “unhealthy” in March when it was at 1.7:1
- **How will consumers weather inflation & the Fed?**
 - Household balance sheets entered this inflation cycle with relative high levels of liquid assets and wealth, allowing companies to more easily pass long higher input costs
 - In recent *Wall Street Journal* article, some corporate executives have suggested that signs of “inflation fatigue” are emerging based on reduced demand for high ticket items and increased demand for discount brands
 - Gas prices now back at all-time highs this week
 - Powell and his colleagues have made clear that getting inflation under control is more critical than soft landing

What's Priced In?

Front-End Treasury Yields: What's Currently Priced In?

As of 5/10/22



Market Themes

- **Treasury yields were higher/steeper in April**
 - Selloff in Treasuries persisted in April, with yields up 35-57 bps for 2yr terms and beyond
 - Curve flattening trend of 2022 reversed last month, with the 2yr/10yr spread 20 bps steeper in April
 - Technical factors still having a notable impact on level of rates and curve slope
- **From ugly to uglier**
 - April was the worst month of a historically bad year for fixed income
 - ICE BofA Broad Market Index posted a -3.67% gross return, the worst since 1980; also underperformed duration-matched Treasuries by 70 bps (worst since March 2020)
 - After contracting in the 2nd half of March, spread widening resumed in April amid a surge in market volatility and more hawkish Fed rhetoric
 - Agency MBS spreads are now 1 standard deviation above the 10yr mean, and assuming favorable financing returns looking ahead, sector offers potentially attractive expected returns on a relative basis

Treasury Curve			
Tenor	4/30/2022 (%)	3/31/2022 (%)	Change (bps)
1-Month	0.30	0.10	0.19
3-Month	0.82	0.48	0.35
6-Month	1.40	0.99	0.41
1-Year	2.06	1.57	0.49
2-Year	2.72	2.36	0.36
3-Year	2.89	2.53	0.35
5-Year	2.96	2.49	0.47
10-Year	2.93	2.37	0.56
20-Year	3.21	2.64	0.57
30-Year	3.00	2.48	0.52
Curves			
3mo-10yr	2.11	1.90	0.21
2yr-5yr	0.24	0.13	0.11
2yr-10yr	0.22	0.02	0.20
2yr-30yr	0.28	0.12	0.16
5yr-10yr	-0.02	-0.11	0.09

Source: Bloomberg

Spread Widening

ICE BofA FNMA MBS Index



Sector Returns

	Sector Returns							
	April-22		Year To Date		2021	2020	2019	Average Annual
	TROR	Excess *	TROR	Excess *				
Cash ¹	0.02	-	0.06	-	0.05	0.54	2.21	0.93
Treasury ²	-0.84	0.01	-3.97	-0.11	-1.10	4.25	4.20	2.42
Agy Bullet & Callable ³	-0.83	-0.05	-3.88	-0.31	-0.86	3.35	3.78	2.07
15 Year MBS ⁴	-2.58	-1.08	-6.78	-2.03	-0.41	4.43	5.49	3.14
30 Year MBS ⁵	-3.70	-1.26	-8.92	-2.51	-1.24	4.09	6.98	3.22
US Taxable Muni	-5.68	-0.67	-14.51	-2.53	1.40	11.82	13.69	8.83
US ACMBS ⁷	-2.69	-0.04	-8.38	-0.38	-1.85	9.02	7.42	4.75
IG Credit ⁸	-1.36	-0.42	-5.46	-1.35	-0.35	5.71	7.15	4.12
HY Credit ⁹	-1.99	-1.20	-4.15	-0.81	6.00	3.68	10.09	6.56
S&P 500	-8.72	-	-12.92	-	28.68	18.39	31.48	26.05
KBW Bank Index	-11.14	-	-16.04	-	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 BoA 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

ALM First Model Portfolio Returns

ALM First Model Portfolios Total Return (%) Summary

<i>As of April 30, 2022</i>	1-Month	3-Month	YTD	1-Year	3-Year Avg. Annual	5-Year Avg. Annual	Inception Avg. Annual	Inception Date
Core Spread Portfolio ¹	-1.70	-4.27	-5.16	-5.28	0.57	1.14	1.43	1/1/2011
ICE BofA 1-5yr Treasury & Agency Bullet Index	-0.83	-3.10	-3.96	-4.66	0.59	0.93	1.12	
Excess Return	-0.87	-1.18	-1.20	-0.62	-0.02	0.21	0.31	
Enhanced Liquidity Portfolio ²	-0.37	-0.96	-1.22	-1.13	1.04	1.37	0.95	1/1/2011
50/50 blend of ICE BofA 6mo & 12mo T-Bill Indices	-0.08	-0.37	-0.52	-0.63	0.90	1.21	0.72	
Excess Return	-0.29	-0.59	-0.69	-0.50	0.14	0.16	0.23	
IG Credit Portfolio ³	-1.25	-3.65	-4.53	-4.10	1.69	1.96	2.30	10/1/2011
ICE BofA 1-5yr Treasury & Agency Bullet Index	-0.83	-3.10	-3.96	-4.66	0.59	0.93	0.93	
Excess Return	-0.41	-0.56	-0.57	0.56	1.10	1.03	1.36	

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.

Contact Us with Questions

IMG@almfirst.com

Jason Haley
Chief Investment Officer
214-451-2395
jhaley@almfirst.com

Hafizan Hamzah
Senior Director, IMG
214-451-2427
hhamzah@almfirst.com

Michael Oravetz
Senior Director, IMG
214-451-3496
moravetz@almfirst.com

Robert Perry
Principal
214-451-2432
rperry@almfirst.com

Chris Eckhoff
Director, IMG
214-451-3481
ceckhoff@almfirst.com

Conrad Lofton
Associate, IMG
214-451-2431
clofton@almfirst.com

Rachel Acers
Director, IMG
214-451-2398
racers@almfirst.com

Gleb Barkovskiy
Director, IMG
214-451-3998
gbarkovskiy@almfirst.com

Griffen Powter
Analyst, IMG
214-451-3988
gpowter@almfirst.com

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ALM FIRST WEBINAR SERIES

3800 Maple Avenue, Suite 600
Dallas, TX 75219
Phone: 800.752.4628
Fax: 214.987.1052

www.almfirst.com

