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U.S. Credit Update – May 4, 2021

- Sector Performance Recap
- Industry Total Returns and Spread Performance
- Reported Data and Real Time Indicators
- Weekly Feature – Stagnant Mobility
- Issuance Recap

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TIPS Back on Top Last Week

TIPS had the highest returns last week in a weak 5th week of Q2.

Safer assets remain in a hole for the year. Investment grade corporates are -3.6% for the year and USTs at -3.5%. TIPS fared better with a total return loss of only -0.1%.
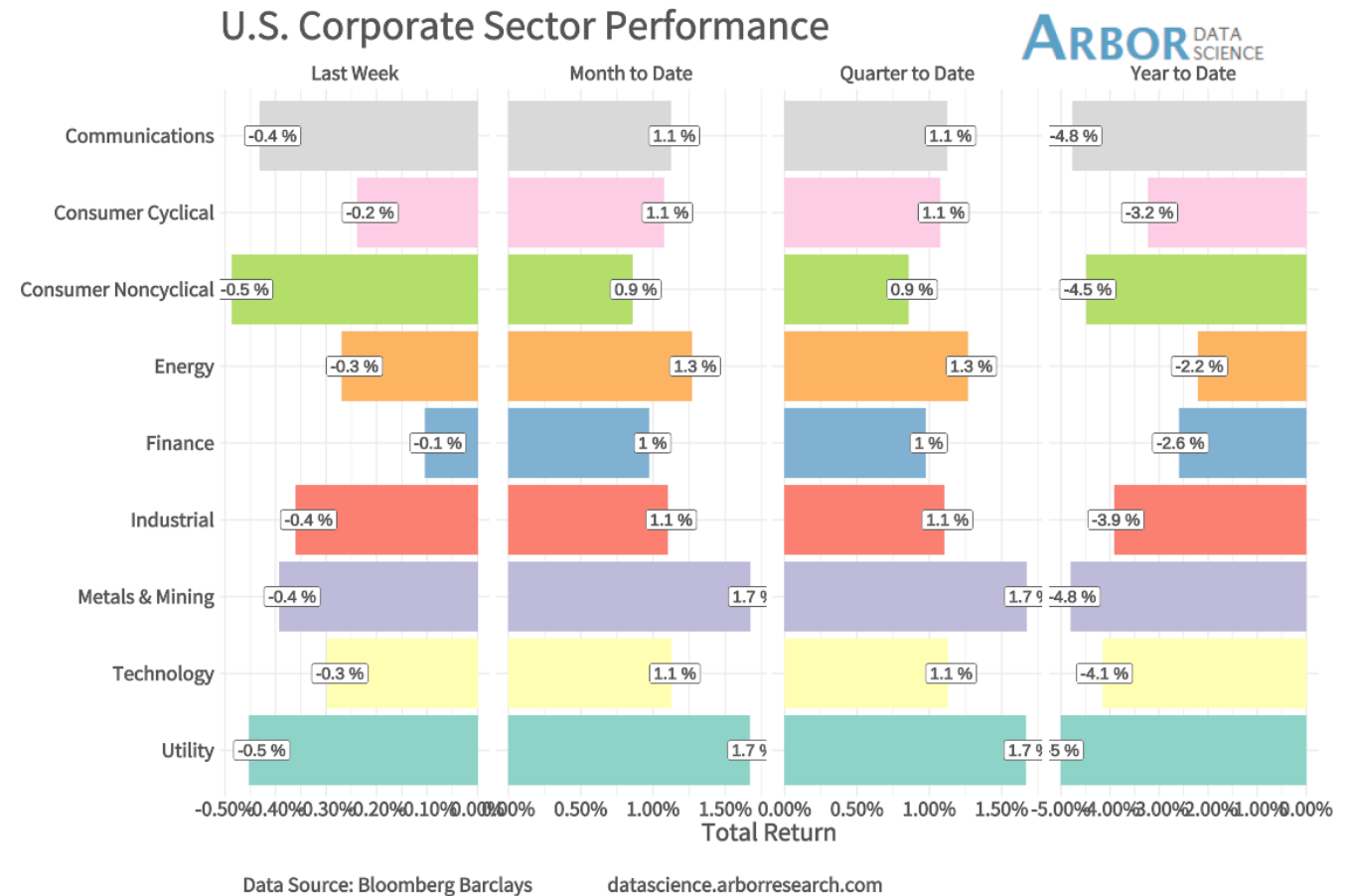
Riskier assets continue to hold the lead with high yield +1.9% and leveraged loans +2.5% for 2021.

U.S. Market Sector Performance

Data Source: Bloomberg Barclays, Credit Suisse   datascience.arborresearch.com
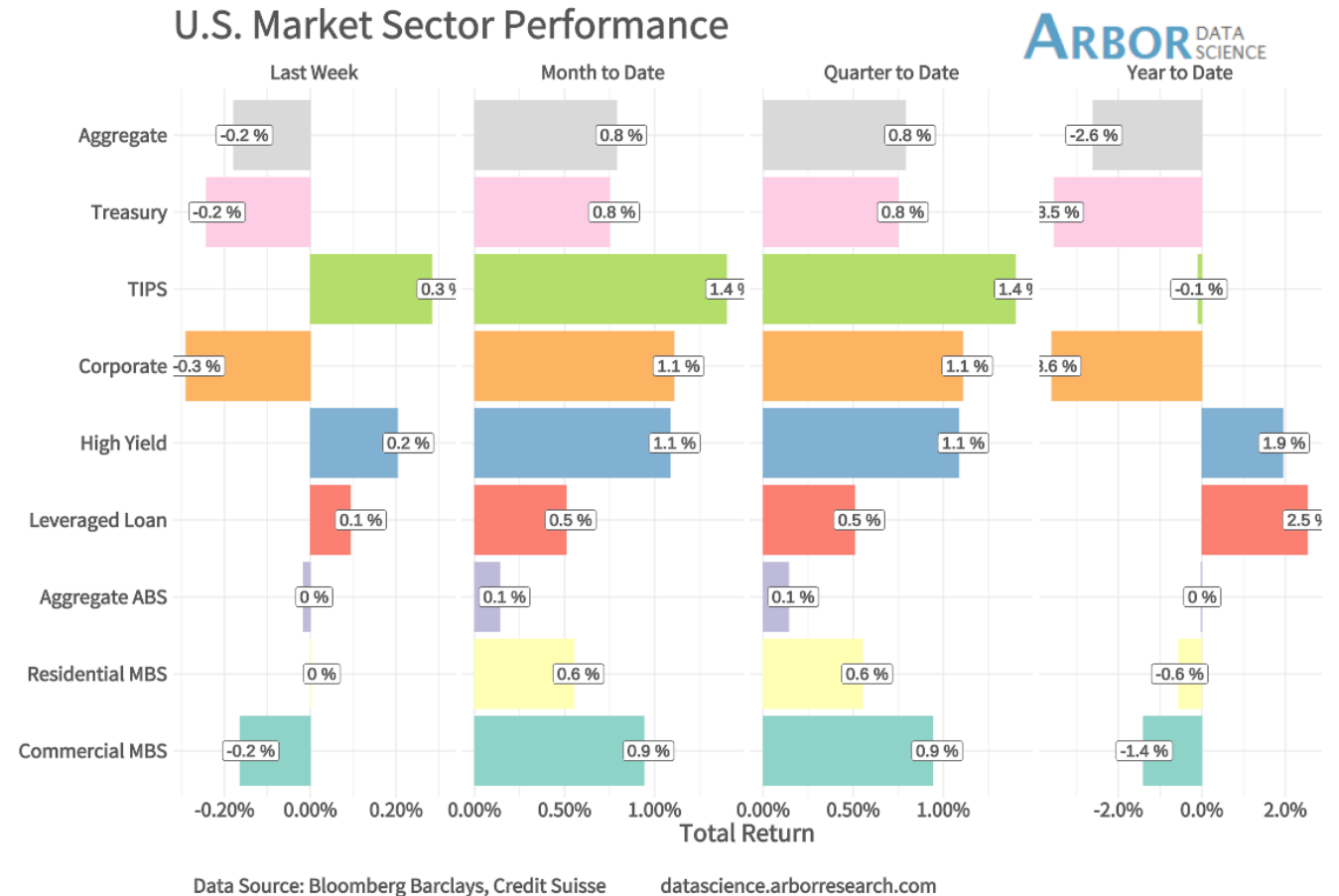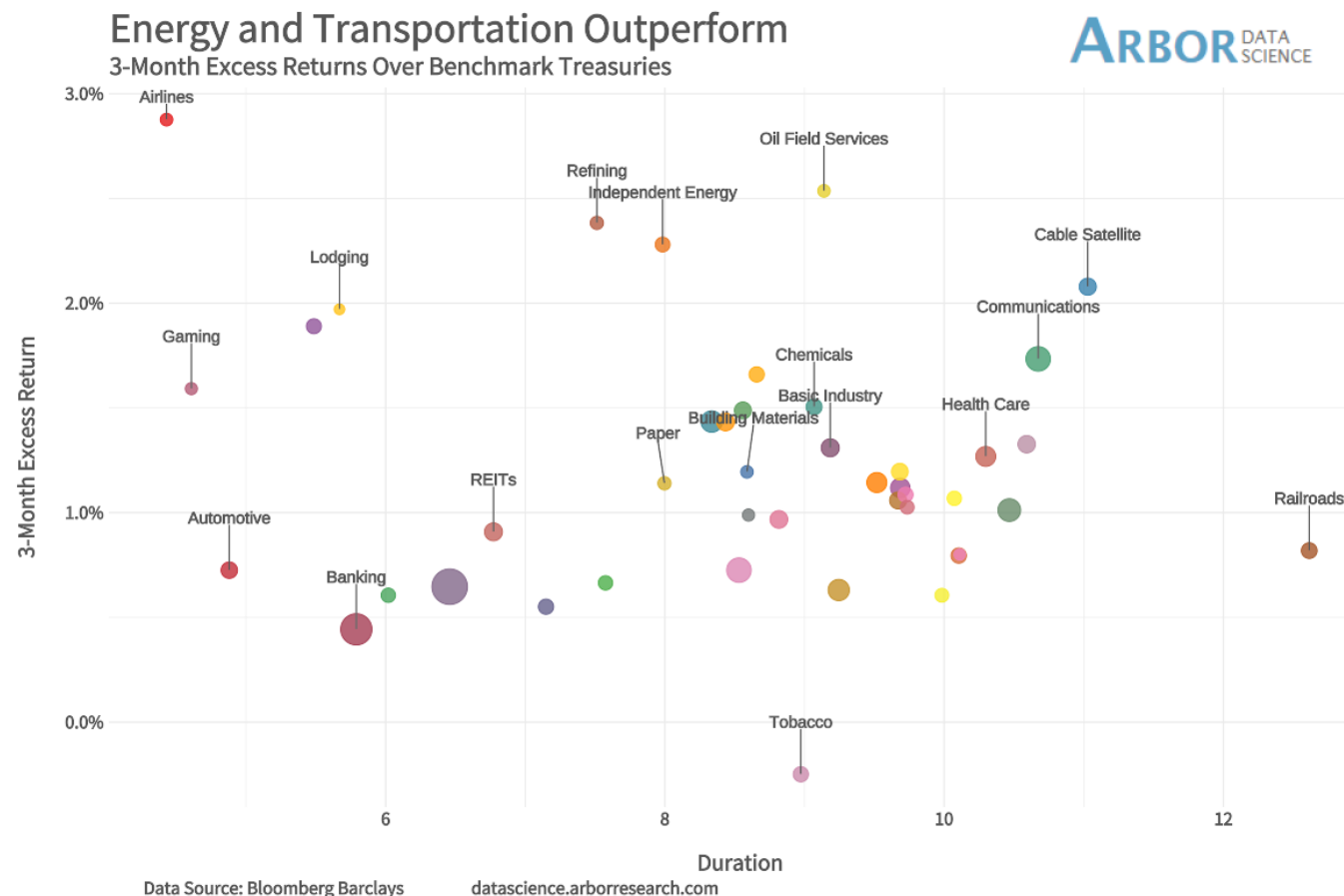
Finance and Consumer Cyclical Outperform

Last week saw negative performances across the board with Finance being the only sector with better performance than the week prior. Finance and Consumer Cyclical were the best performing sectors last week, losing 0.1% and 0.2% respectively on the week. Energy is still the best performing sector for 2021 with a total return loss of -2.2%.

U.S. Corporate Sector Performance

	Last Week	Month to Date	Quarter to Date	Year to Date
Communications	-0.4 %	1.1 %	1.1 %	-4.8 %
Consumer Cyclical	-0.2 %	1.1 %	1.1 %	-3.2 %
Consumer Noncyclical	-0.5 %	0.9 %	0.9 %	-4.5 %
Energy	-0.3 %	1.3 %	1.3 %	-2.2 %
Finance	-0.1 %	1 %	1 %	-2.6 %
Industrial	-0.4 %	1.1 %	1.1 %	-3.9 %
Metals & Mining	-0.4 %	1.7 %	1.7 %	-4.8 %
Technology	-0.3 %	1.1 %	1.1 %	-4.1 %
Utility	-0.5 %	1.7 %	1.7 %	5 %

Data Source: Bloomberg Barclays   datascience.arborresearch.com

05-04-2021

Spread movement was limited this week as issuance was light and there were not any earnings surprises. Dealers generally reported better buying by clients into month-end and they were not uncomfortable accommodating in anticipation of a decent new issue pipeline in May. We would expect spread movement in May to remain anchored as demand continues to be solid. The biggest variable for issuance is inflation and what impact it might have on rates. If rates jump, do issuers still need to come to market, or would they be content waiting?
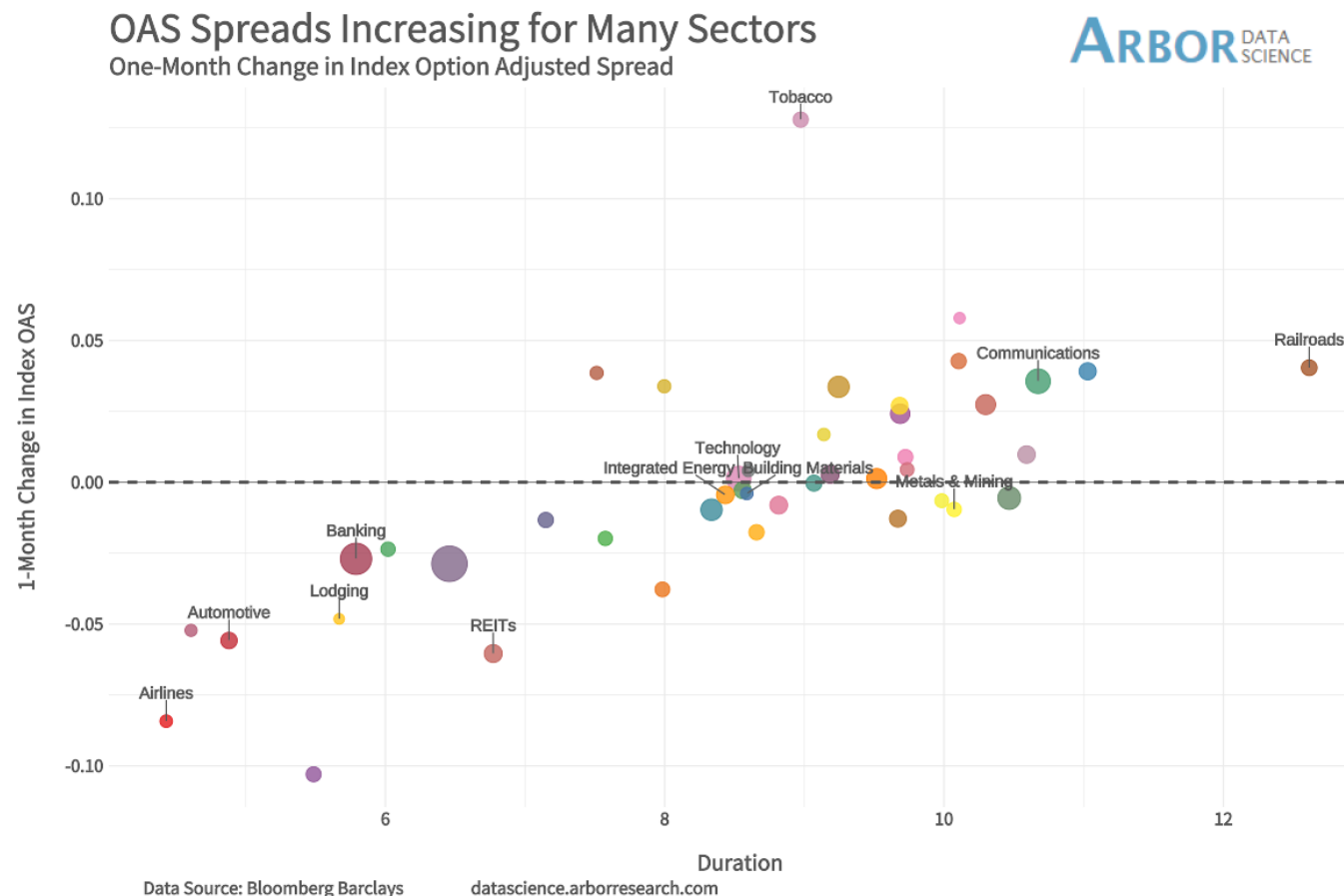
The chart shows three-month excess returns over benchmark Treasuries versus weighted average duration for Bloomberg Barclays investment grade indices.

Energy and Transportation Outperform
3-Month Excess Returns Over Benchmark Treasuries

Data Source: Bloomberg Barclays   datascience.arborresearch.com

Consumer non-cyclical and utilities were the two poorest performing sectors this week, though the moves were not significant. PCG 4.55 7/30 was one of the most active in utility space. Spreads there backed up +5 basis points to +193/190. Shorter duration PCG was little changed to a basis point tighter. Consumer finance tightened slightly, but domestic banks gave up some of last week's gains to widen a basis point or two. This is likely attributable to minor sector adjustments at month-end.
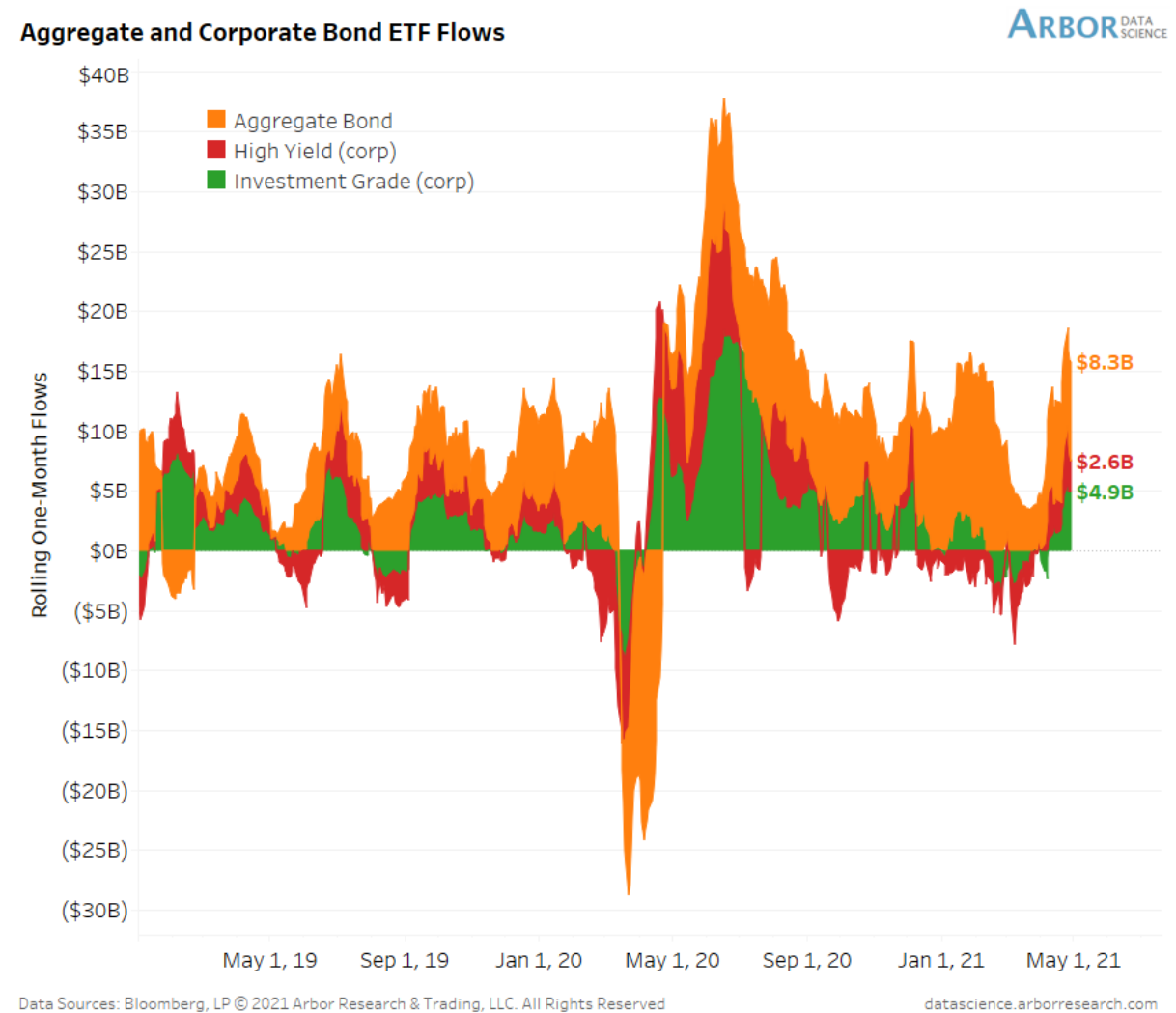
The chart shows one-month changes in index option-adjusted spread (OAS) versus weighted average duration for Bloomberg Barclays investment grade indices.

OAS Spreads Increasing for Many Sectors
One-Month Change in Index Option Adjusted Spread

Data Source: Bloomberg Barclays   datascience.arborresearch.com

Reported Economic Data – Aggregate and Corporate Bond ETF Flows

ETF flows into corporate bonds were mixed last week. High Yield corporate bond ETFs saw decreased flows while Investment Grade corporate ETFs saw significantly increased flows.

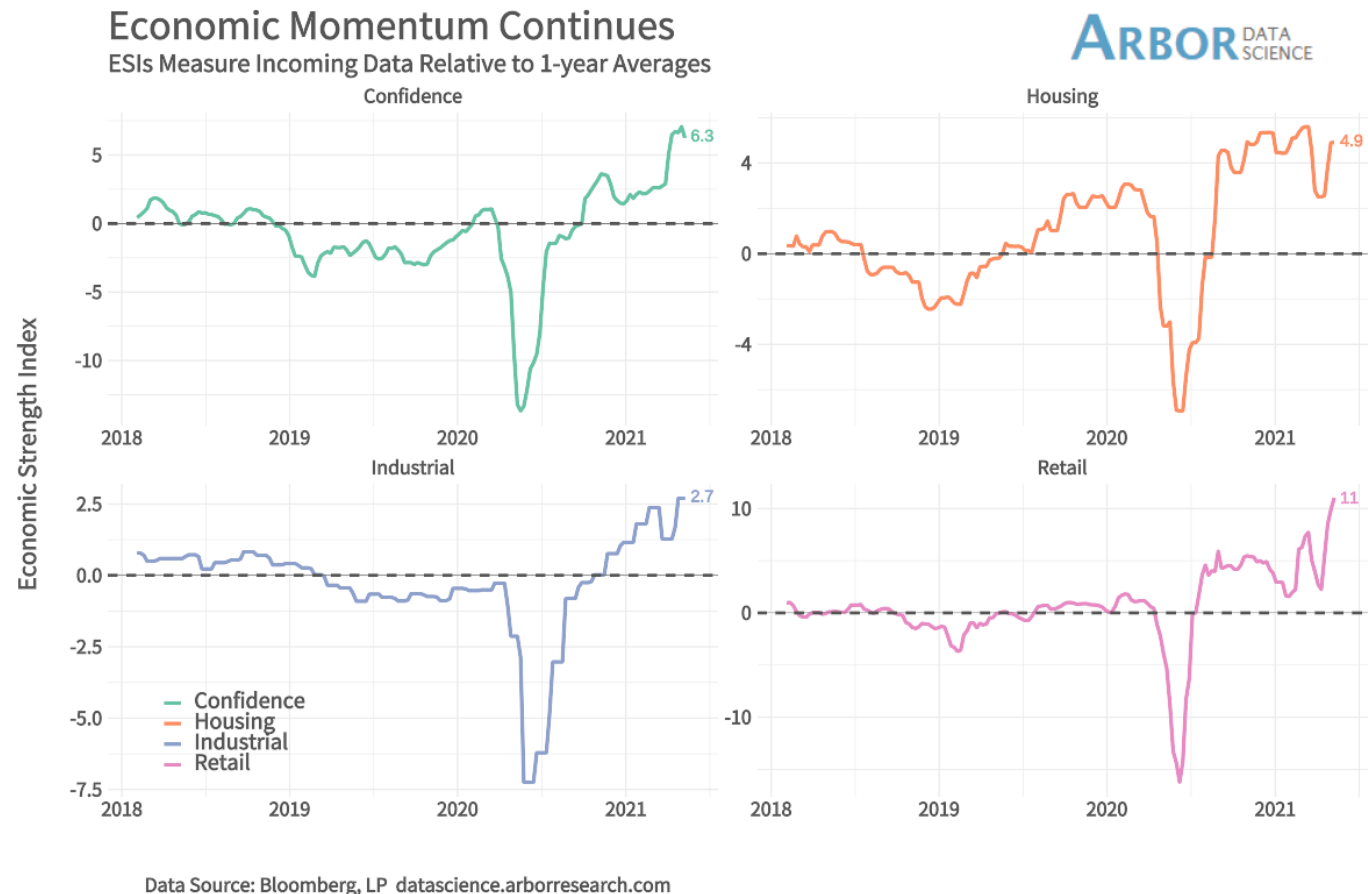*The chart shows stacked rolling one-month flows into bond ETFs.*

Aggregate and Corporate Bond ETF Flows

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Legend:
- Aggregate Bond
- High Yield (corp)
- Investment Grade (corp)

$8.3B
$2.6B
$4.9B

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Consumer confidence took its first downturn in recent weeks but remains far above the 1-year average.

Retail strength, on the other hand, has continued to grow as consumers get out and spend their accumulated savings.

The chart shows our Economic Strength Indices for global industrial activity by region. ESIs measure incoming data relative to one-year averages.
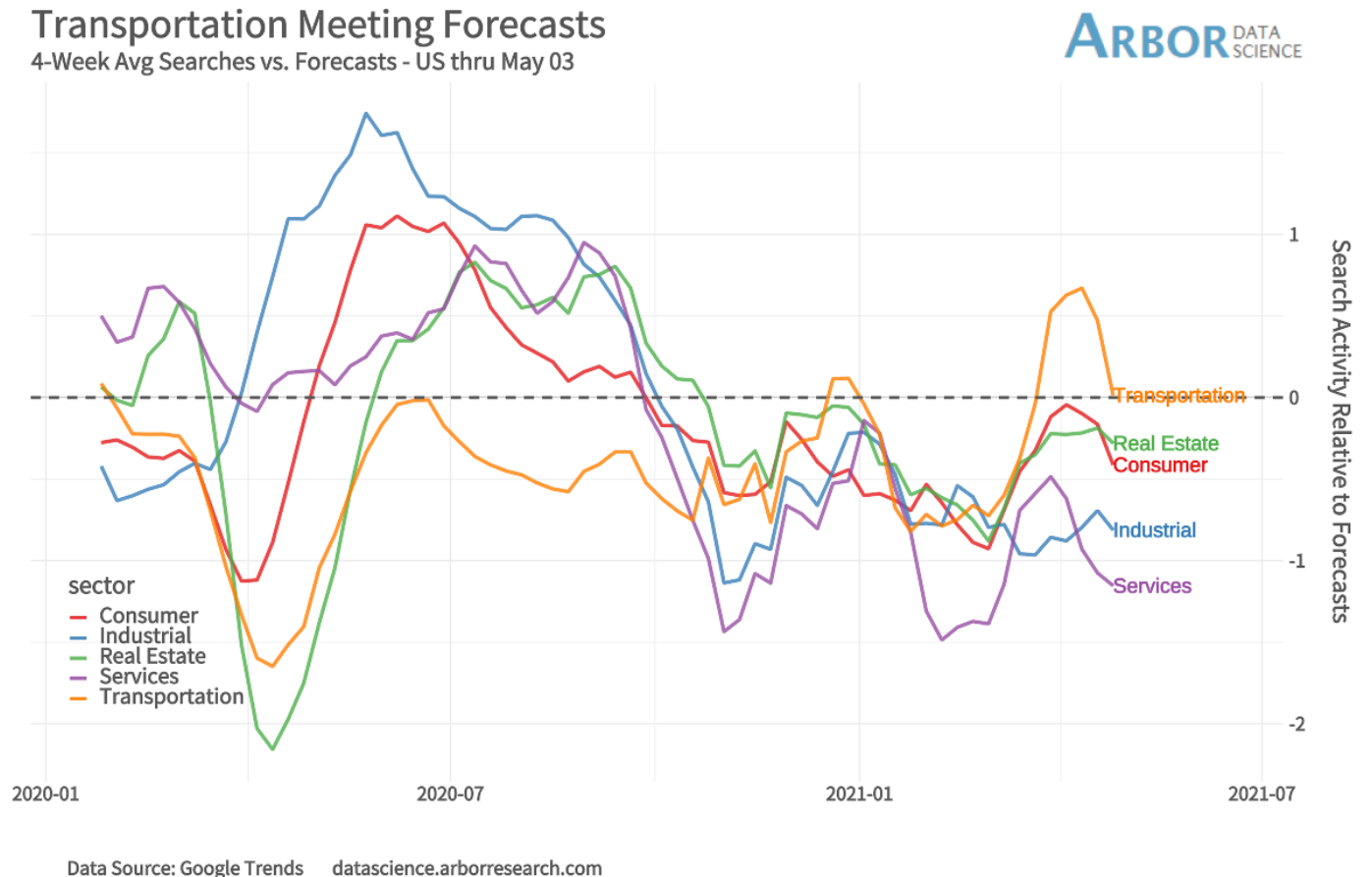

Economic Momentum Continues
ESIs Measure Incoming Data Relative to 1-year Averages

Data Source: Bloomberg, LP datascience.arborresearch.com

US Google search activity took a downturn last week. Transportation remained at forecasted levels after a sharp drop from the week before. Consumer and real estate searches trail slightly behind projected. Industrial and services continue to significantly lag forecasts with some early sign of industrial recovery.

Supply chain frictions and lockdowns abroad will continue to be constraints, but the US economy is still chugging along in the second quarter.

The chart aggregates Google searches across several dozen categories, showing the four-week average of search activity relative to forecasts in five key sectors.

Transportation Meeting Forecasts
4-Week Avg Searches vs. Forecasts - US thru May 03

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sector
— Consumer
— Industrial
— Real Estate
— Services
— Transportation

Search Activity Relative to Forecasts

2020-01   2020-07   2021-01   2021-07

Data Source: Google Trends   datascience.arborresearch.com

Globally, Google's retail & recreation mobility is mixed. North America still leads the pack in mobility with Africa a close second. Mobility in Europe and the Middle East is increasing as well but remains lower than the baseline.
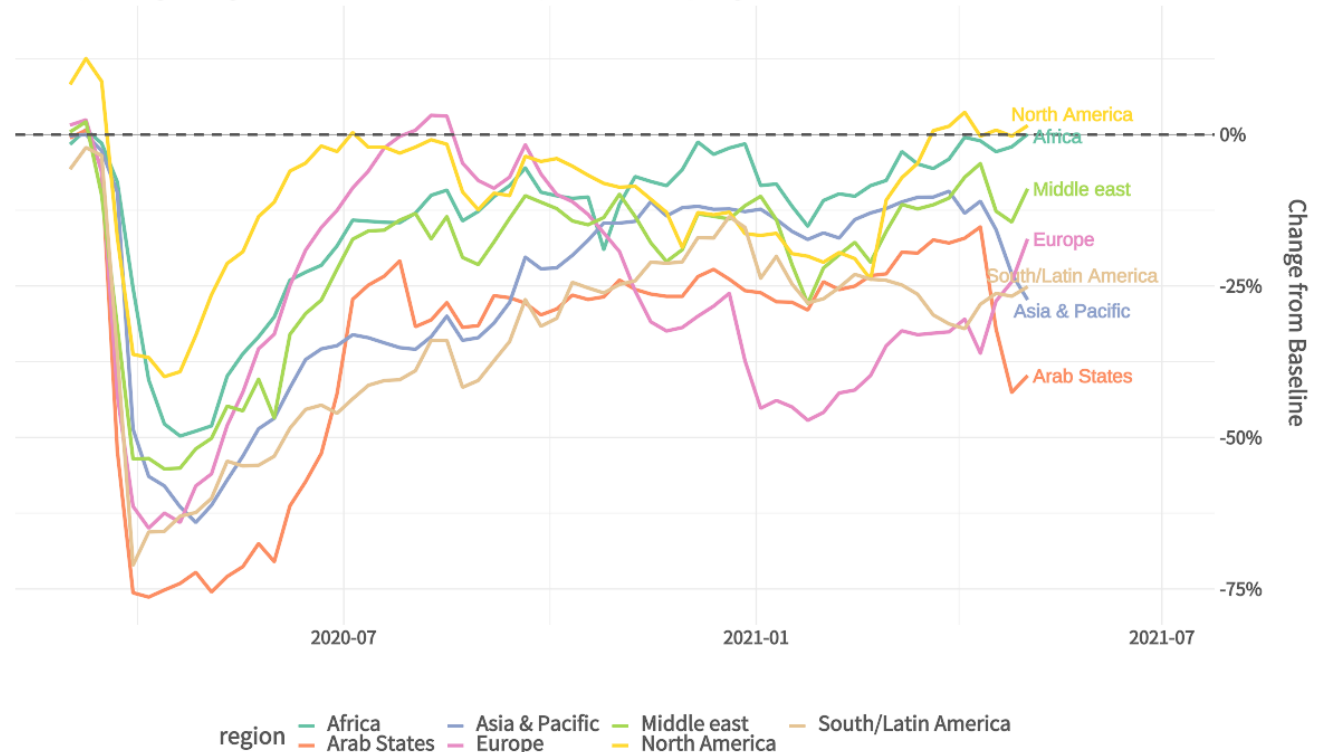
The Arab States mobility plummeted last week but has again started inching upward. Mobility continues to decline in Asia Pacific likely due to the massive COVID wave in India.

The chart shows 7-day averages of Google's retail & recreation mobility relative to the pre-lockdown baseline globally by census region.

North America Maintains Lead in Retail Mobility
Weekly Average Google Retail & Recreation Mobility - Countries by Region

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region — Africa — Asia & Pacific — Middle east — South/Latin America
— Arab States — Europe — North America

Google COVID-19 Community Mobility Reports. https://www.google.com/covid19/mobility/ Accessed: 2021-04-26

Workplace mobility in the US remains highest in the South and Midwest

Americans continue to return to work but there continue to be indications that offices will never see their old numbers. Working from home seems be the better option for many US workers, particularly for those whose kids haven't returned to school.

The chart shows 7-day averages of Google's workplace mobility relative to the pre-lockdown baseline in US by census region.

US Retail & Recreation Sustaining Recent Gains
Google Workplace Mobility - US States by Census Region
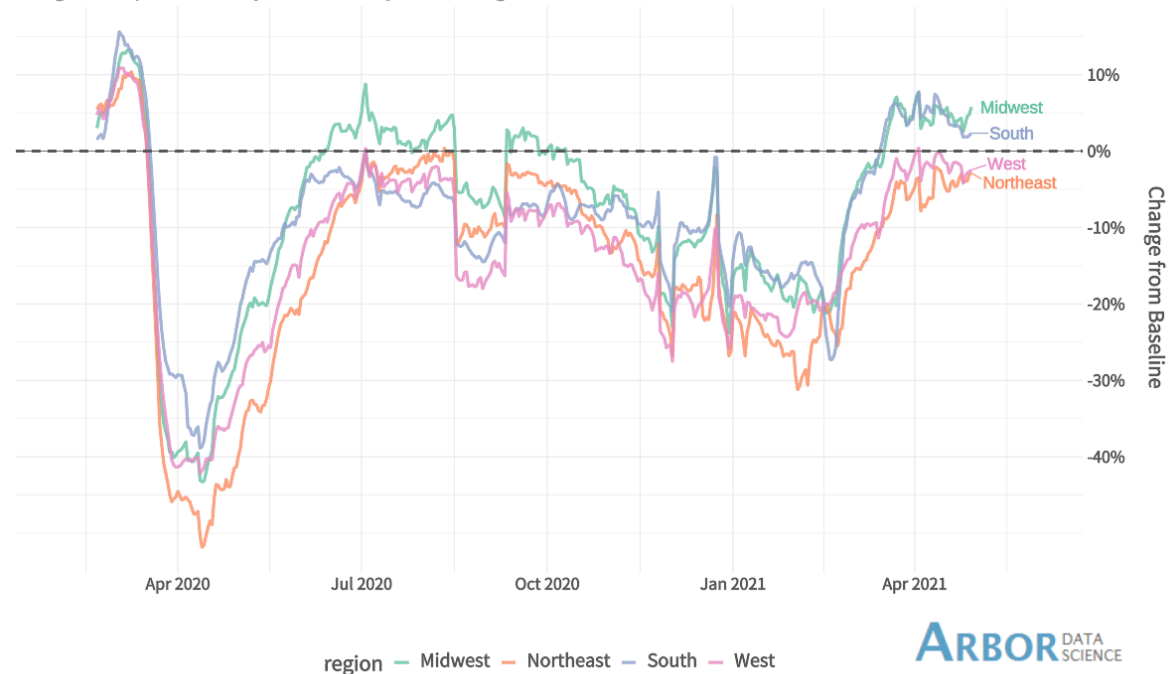
Google COVID-19 Community Mobility Reports. https://www.google.com/covid19/mobility/ Accessed: 2021-04-26

The greatest gains in mobility occurred across higher-income counties over the past month. Lower income mobility was the first to recover and remain the highest.

Lower-income county mobility, however, has plateaued and, in some cases, fallen over the past few weeks. Vaccine hesitancy is one possible culprit as it mostly occurs in lower-income, lower-education communities.

Lowest-Earning Counties Seeing Greatest Mobility
Median 7-Day Avg Descartes Labs Mobility Index
Reporting US Counties by Median Income thru April 20 2021

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Data Source: Descartes Labs, U.S. Census Bureau   datascience.arborresearch.com
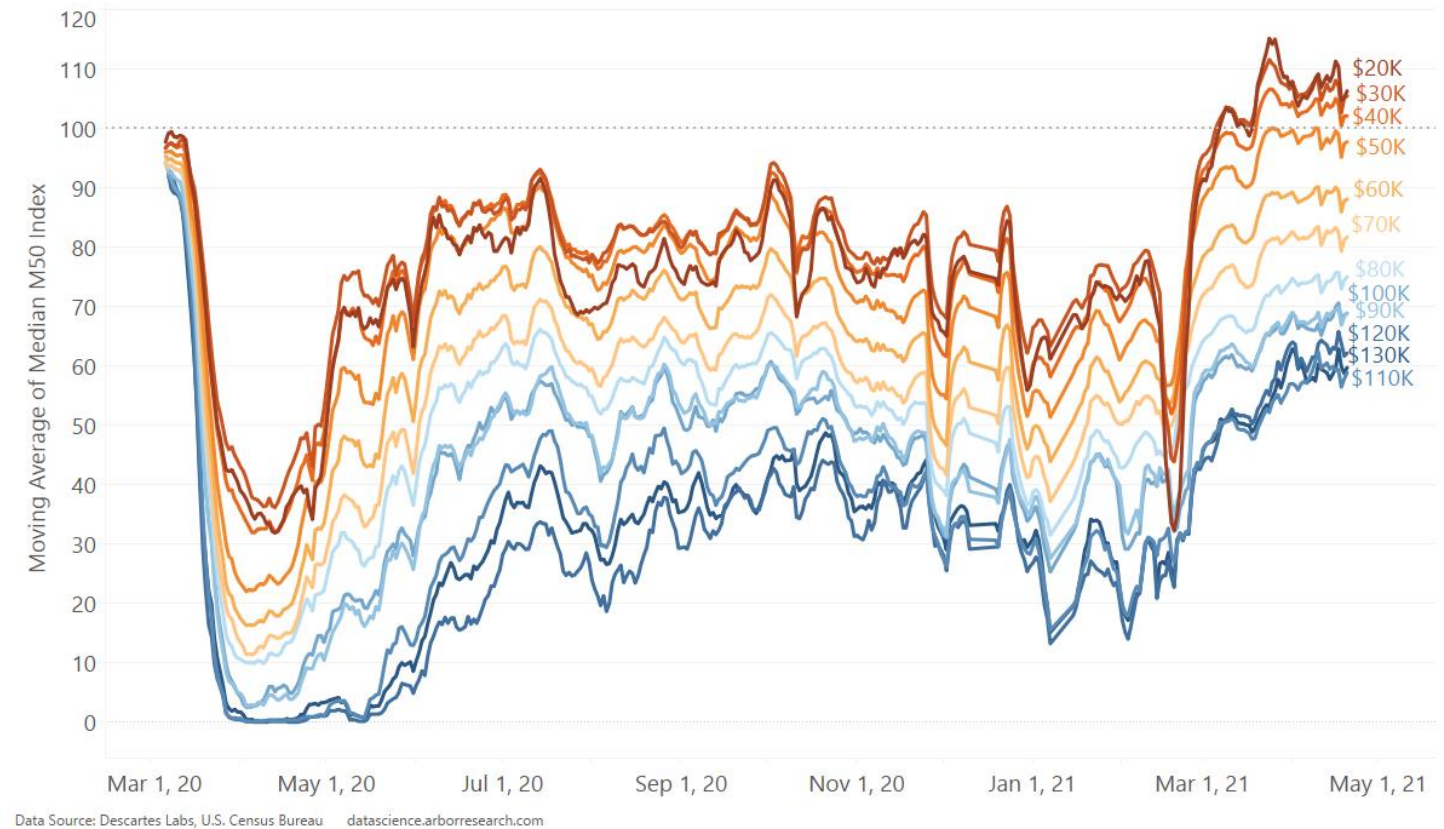
The Plateau is even more apparent when breaking down by region.

Increasing mobility is likely on the horizon as the summer months begin as consumers continue to return to work, travel, and shop.

For more: Is the WFH Movement Reaching a Turning Point?

Mobility Has Plateaued Since Late March
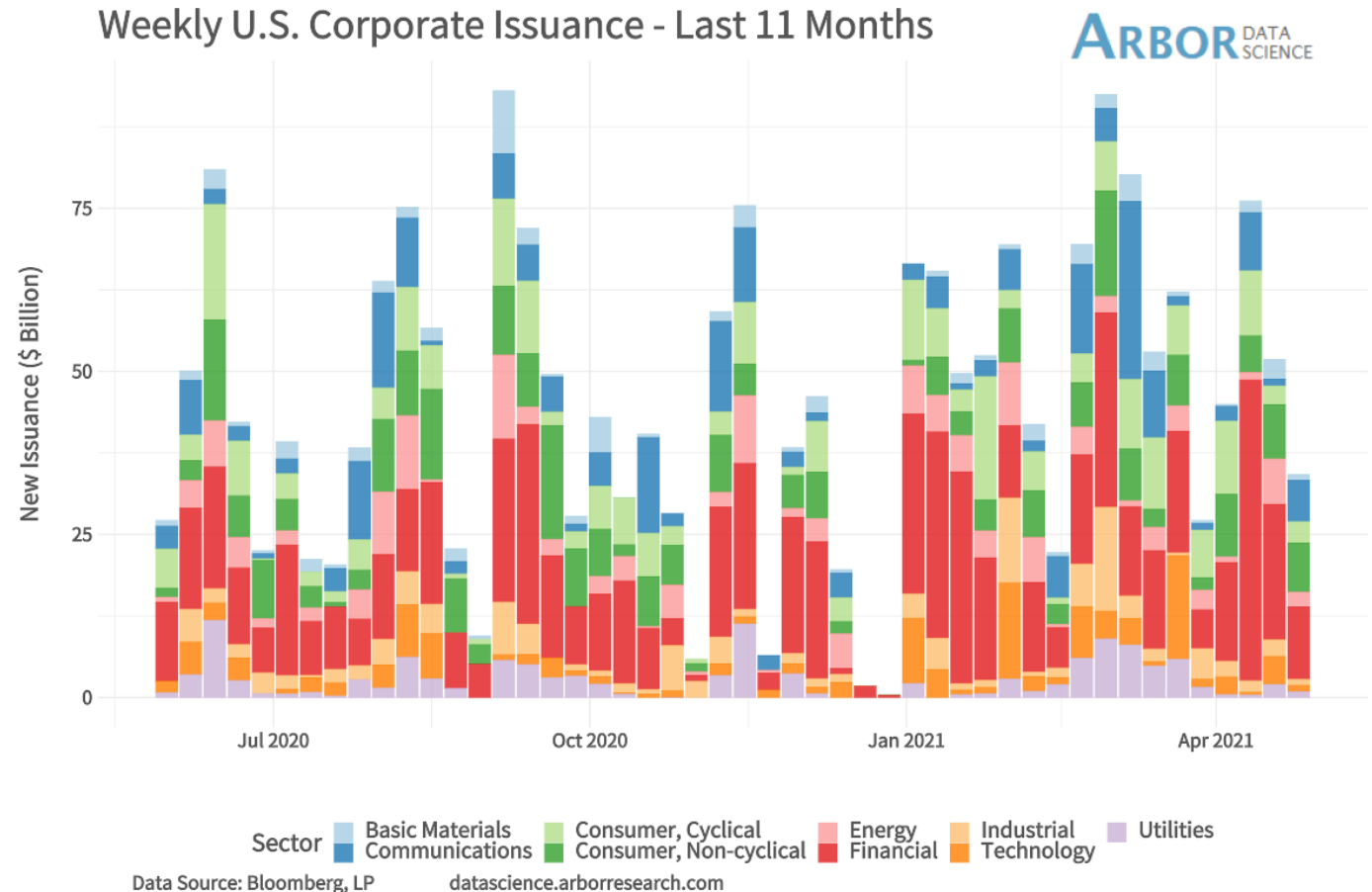7-Day Average Mobility Index from Descartes Labs through April 20

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Data Source: Descartes Labs   datascience.arborresearch.com
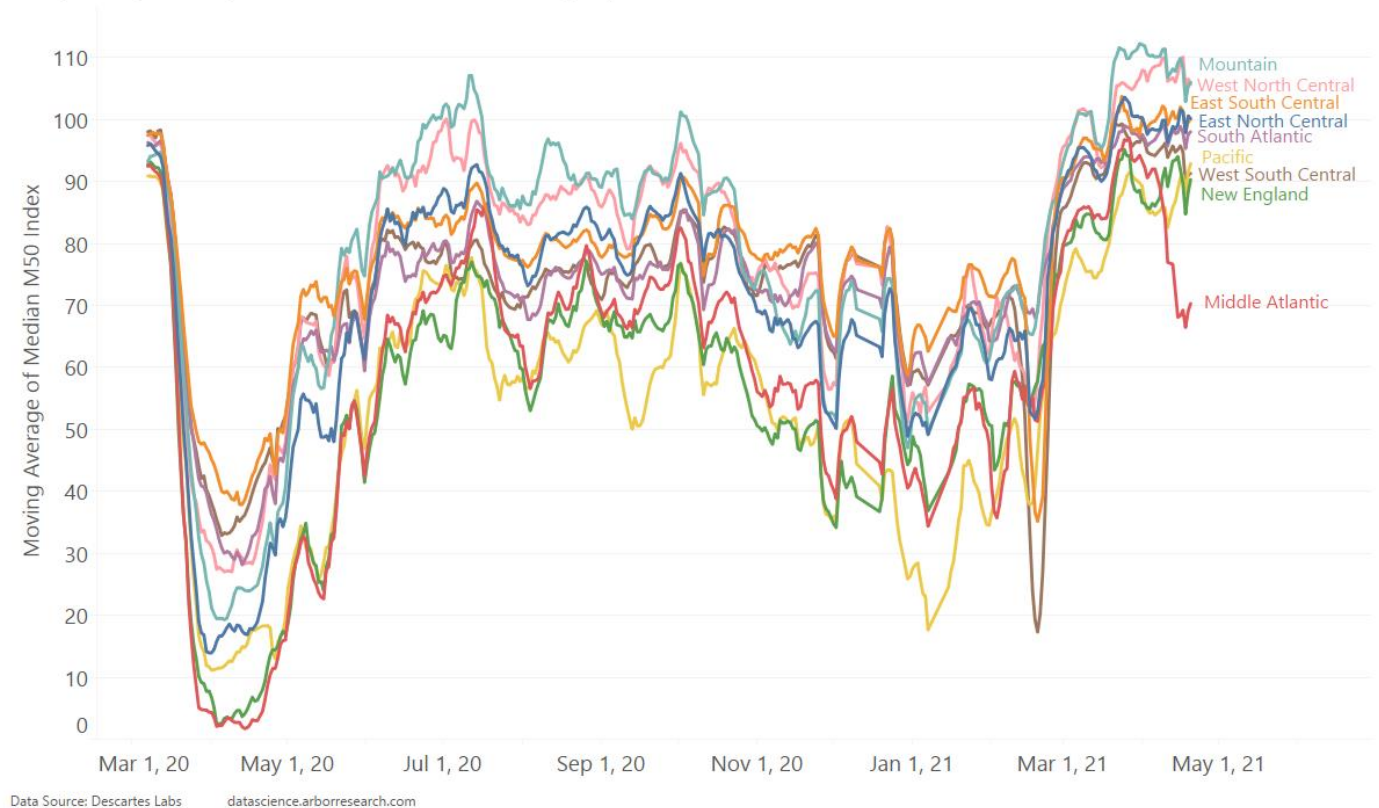
Issuance Recap

Primary market activity fell a bit this week. Total new supply came in above $30 billion.

Financial Issuance was still the highest last week followed by Consumer Non-Cyclical.

Last April saw $285 billion as the Fed debuted its support measures for credit markets. This brought stabilization to domestic credit and issuers were quick to take advantage of the liquidity that was abruptly turned off in March. April 2021 issuance fell 53% vs. April 2020 and YTD we are now -10% vs. the first four months of 2020. Expectations for May are robust but will pale in comparison May 2020.

Weekly U.S. Corporate Issuance - Last 11 Months

Data Source: Bloomberg, LP   datascience.arborresearch.com

New Credit Issuance – Last Week
Coupon vs. Duration

New Credit Issuance - Last Calendar Month
Coupon vs. Duration

Contact Us

Give us a call for more information about our services and products

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