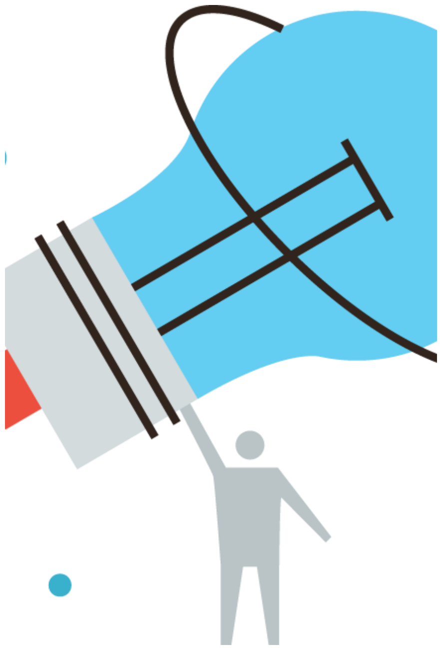
ARBOR DATA SCIENCE

U.S. Credit Update – July 7, 2021



- Sector Performance Recap
- Industry Total Returns and Spread Performance
- Reported Data and Real Time Indicators
- Scenario Analysis
- Weekly Feature – Consumer Spending on the Mend from a Sub-Par May
- Issuance Recap

A Division of Arbor Research & Trading, LLC

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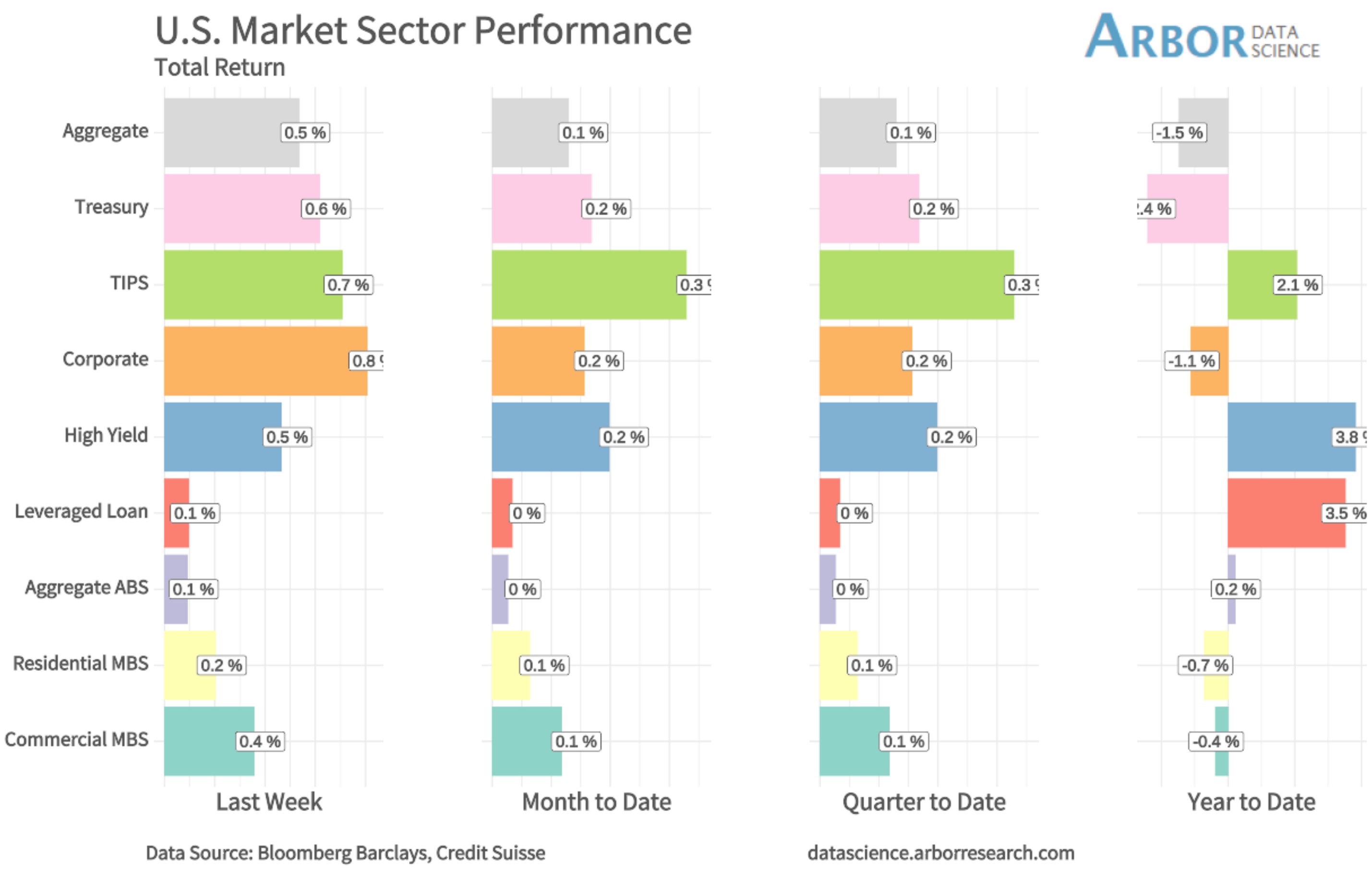
Sector Total Returns

Corporates led Last Week

Investment Grade Corporates had the highest returns last week with TIPS a close second.

Safer assets remain in a hole for the year. Investment grade corporates are -1.1% and USTs are down -2.4% for the year. TIPS have fared better with a total return of 2.1%.

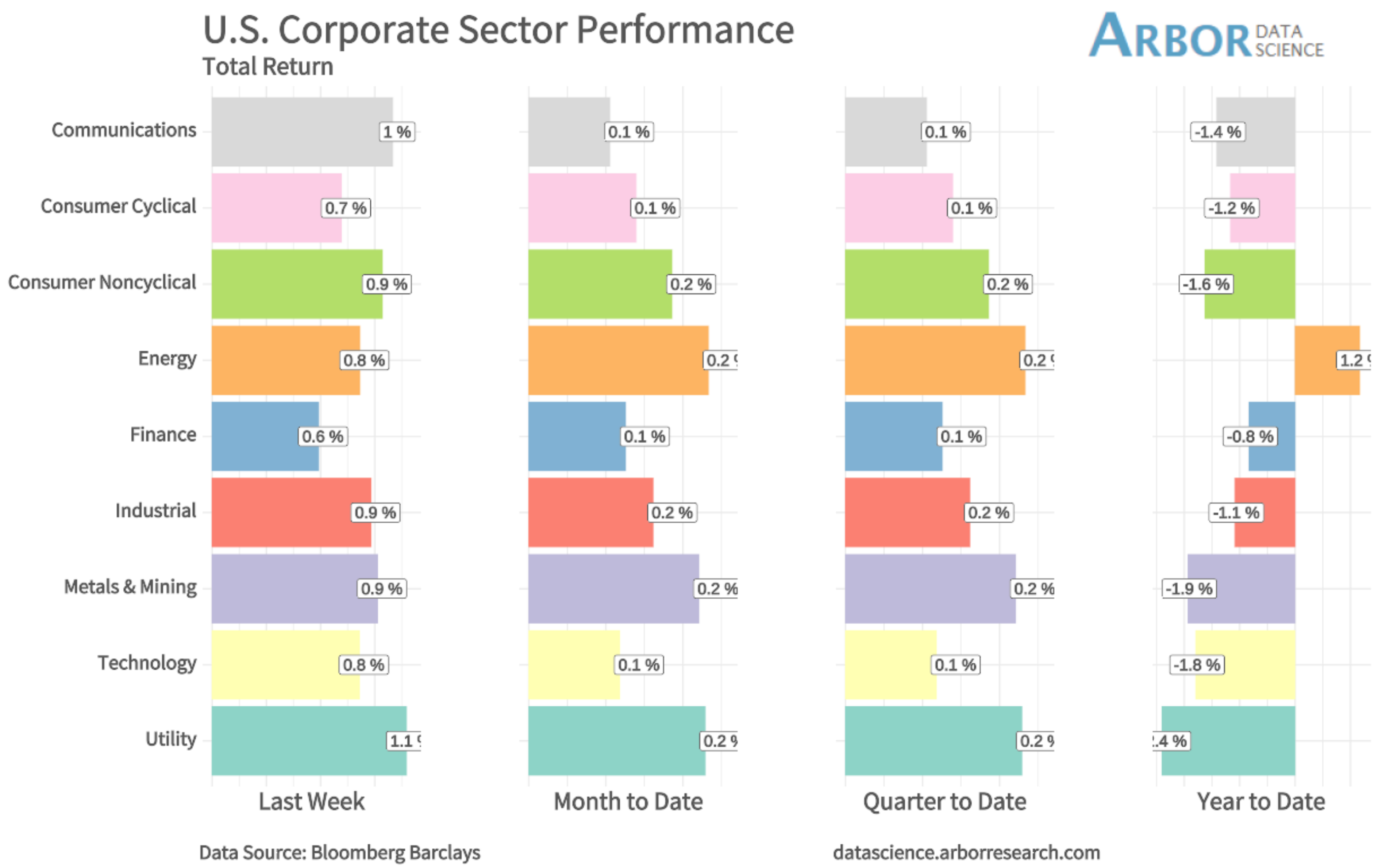
Riskier assets continue to hold the lead with high yield +3.8% and leveraged loans +3.5% for 2021.



Sector Total Returns

Utility Sector Outperforms

Corporates faired better last week. Utility came out on top with a total return of 1.1%. Energy is still the best performing sector year to date.



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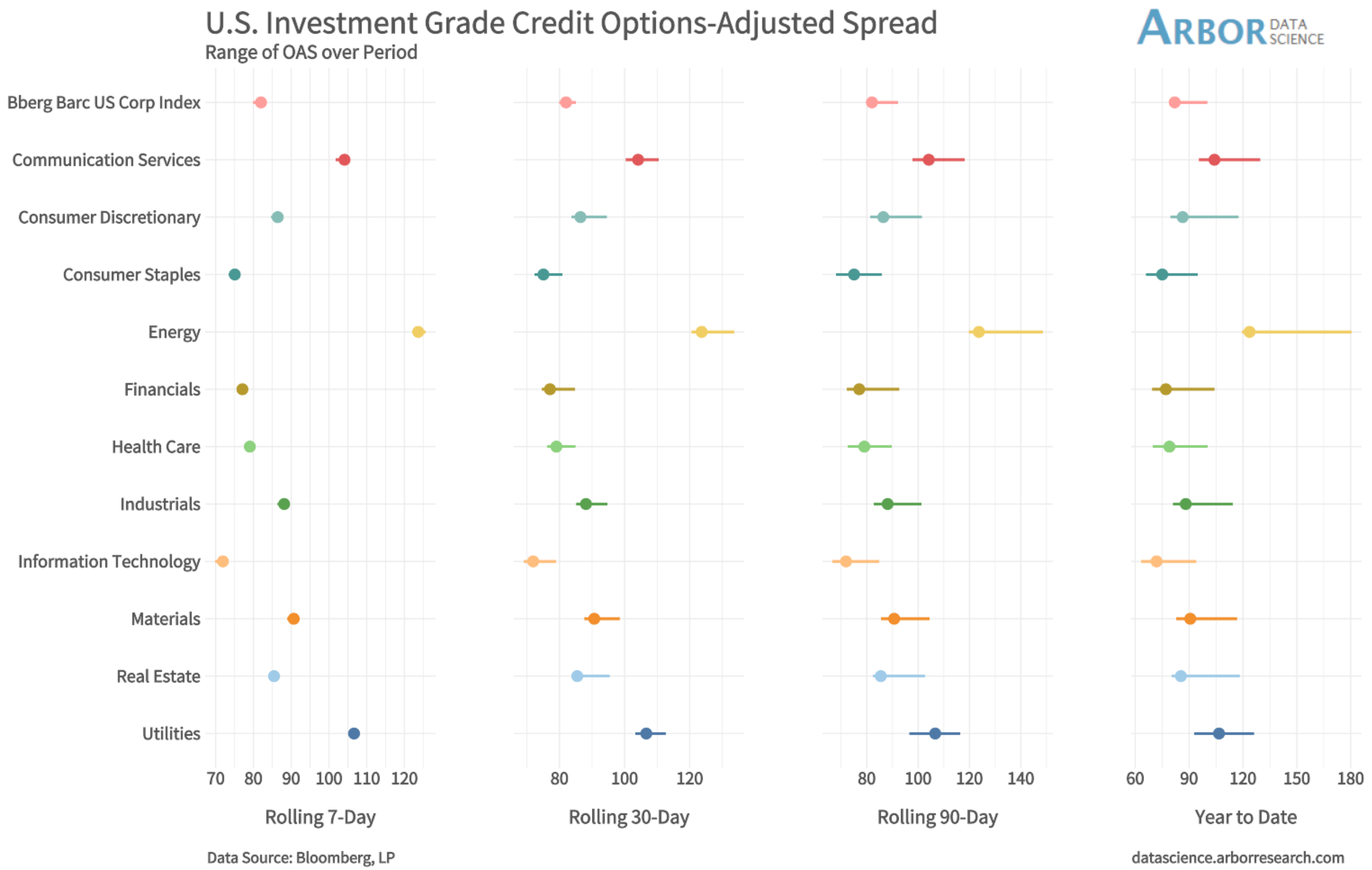
Sector OAS


U.S. Investment Grade Credit Options-Adjusted Spread
Range of OAS over Period
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Bberg Barc US Corp Index
Communication Services
Consumer Discretionary
Consumer Staples
Energy
Financials
Health Care
Industrials
Information Technology
Materials
Real Estate
Utilities
70 80 90 100 110 120
Rolling 7-Day
80 100 120
Rolling 30-Day
80 100 120 140
Rolling 90-Day
60 90 120 150 180
Year to Date
Data Source: Bloomberg, LP
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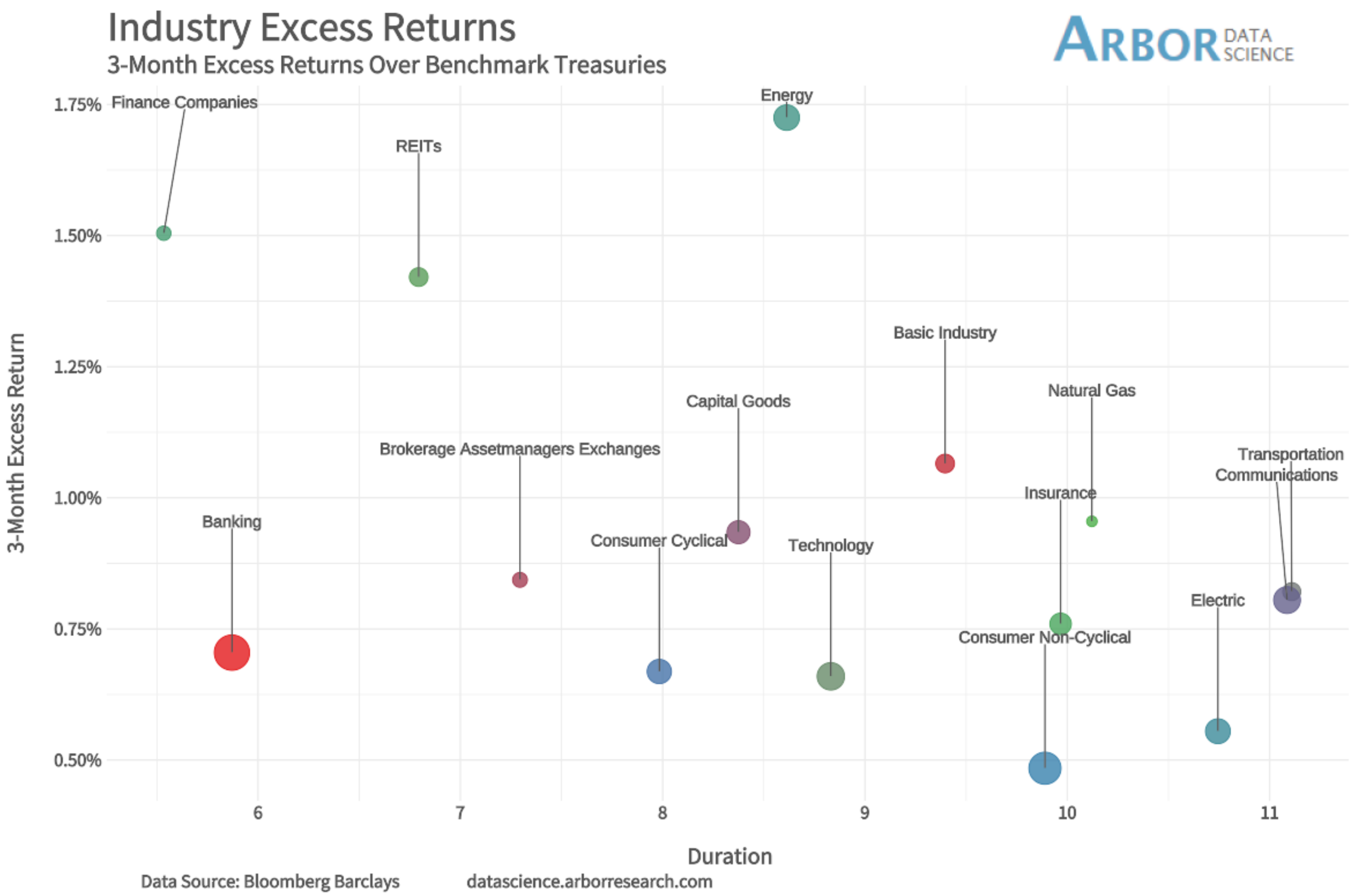
Industry Excess Returns – Spreads Stabilize

Energy, Finance Companies, and Communications remain the top performers in excess to treasuries. Spread movement has been limited over the past couple of weeks and volumes well below average going into the US holiday. The CDX IG index reached a new tight for this contract on Friday. With issuance likely to be muted throughout the summer, expect the higher beta sectors like energy and telecom to be better performers as we lead into Jackson Hole.

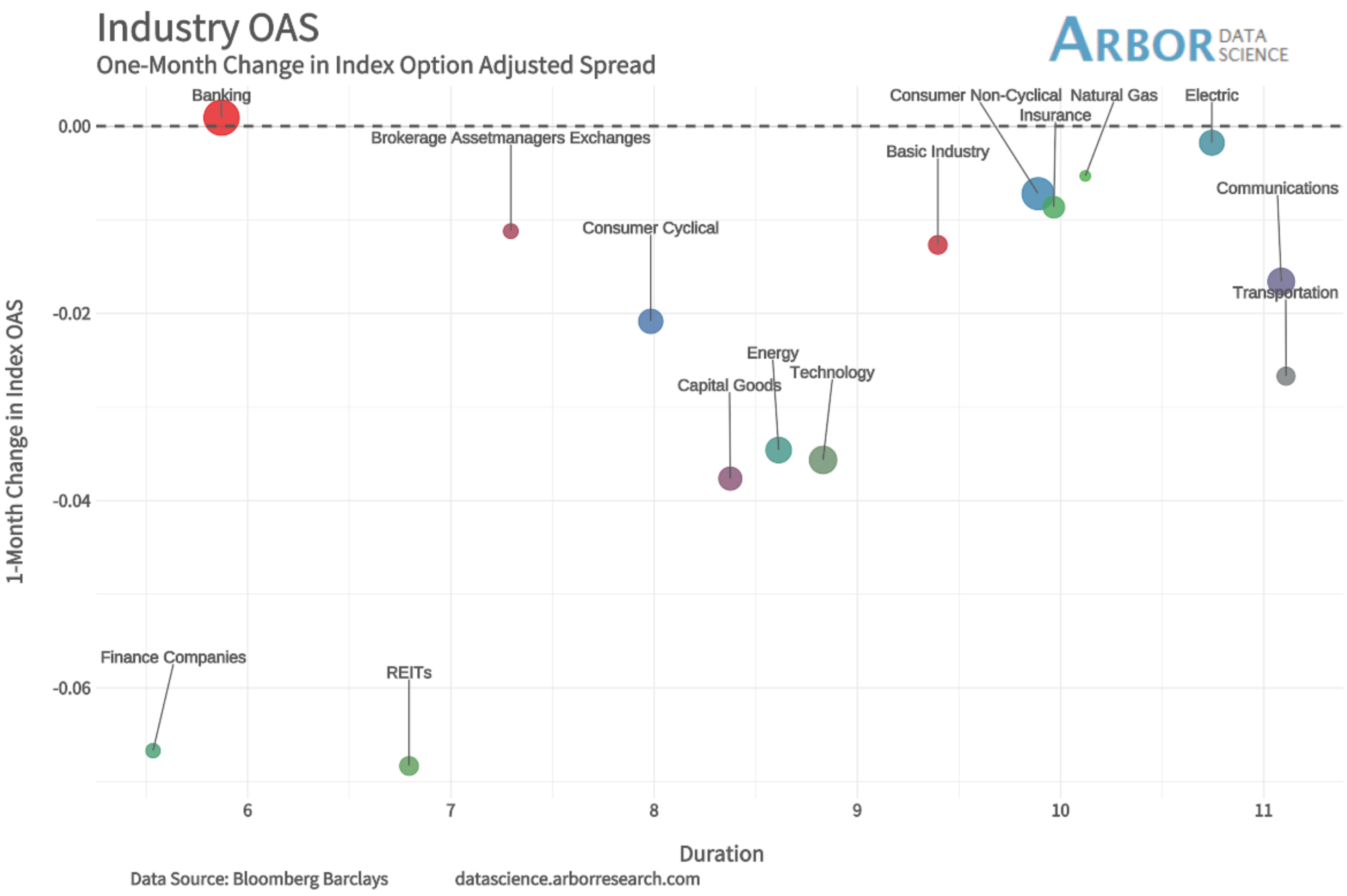
This chart shows three-month excess returns over benchmark Treasuries versus weighted average duration for Bloomberg Barclays investment grade indices.



Industry Spread Performance – Safety Underperforming

Spreads were little changed amid reduced volumes at month/quarter end. There has been a decent amount of M&A activity in the pipeline and that could remain in play during the second half of the year. However, many transactions appear to be non-debt financed at this point, so their impact on credit spreads could be limited.

This chart shows one-month changes in index option-adjusted spread (OAS) versus weighted average duration for Bloomberg Barclays investment grade indices.



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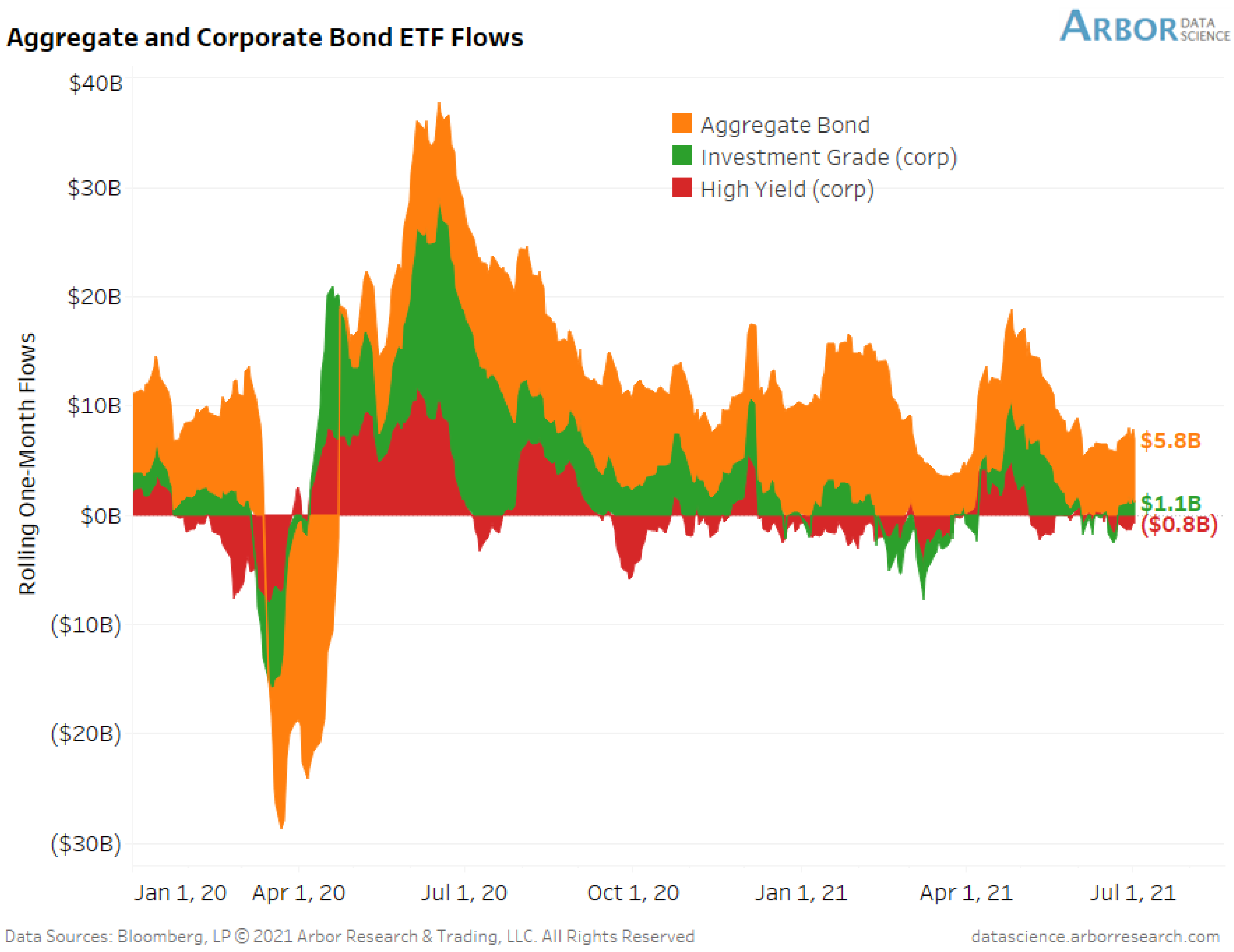
Reported Economic Data – Aggregate and Corporate Bond ETF Flows

Investor flows into corporate bond ETFs have remained muted. Investment Grade saw inflows of $1.1 Billion while High Yield suffered outflows of $0.8 Billion. Aggregate bond funds have seen the lion's share of in-flows.

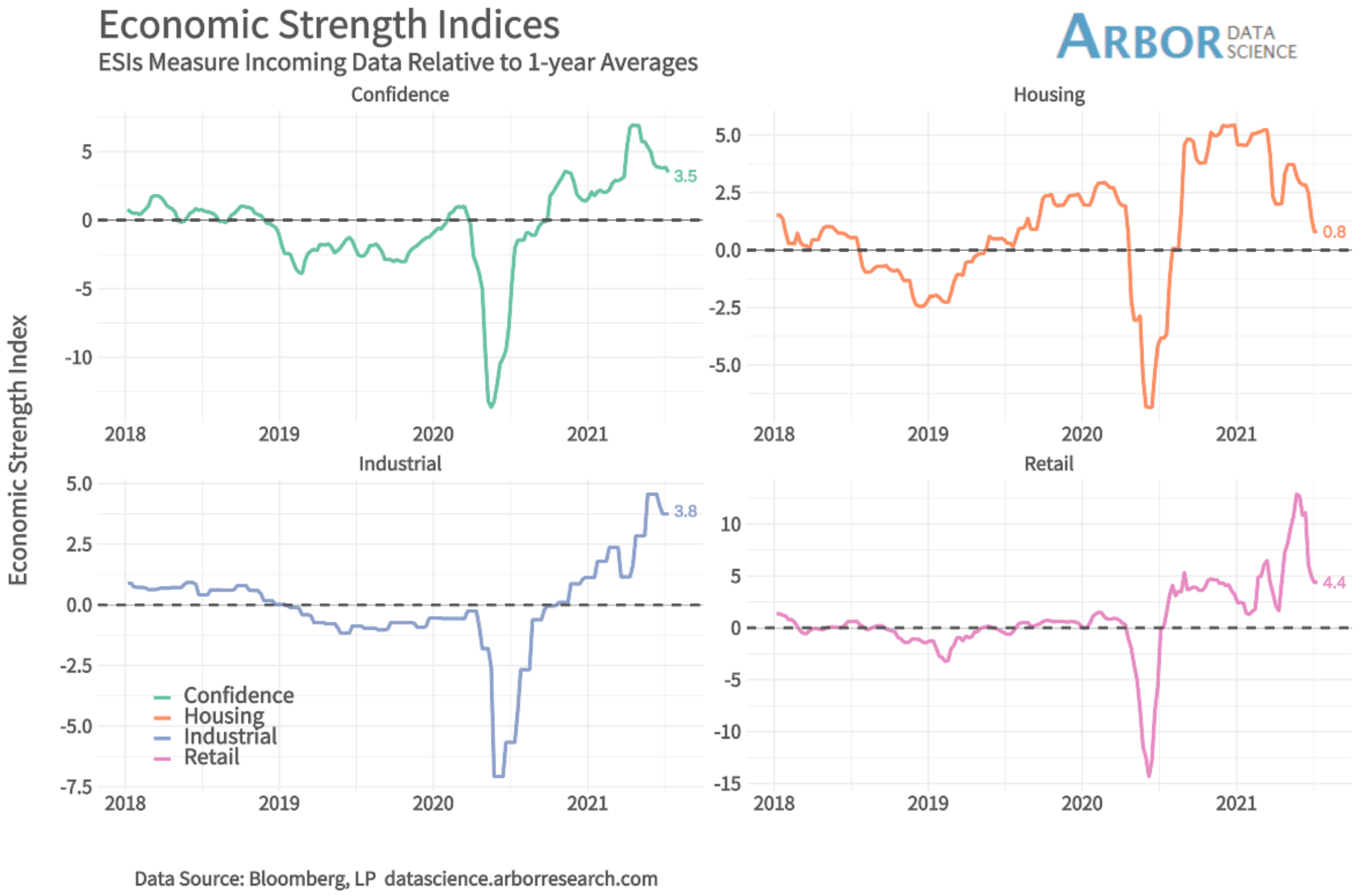
The chart shows stacked rolling one-month flows into bond ETFs.



Reported Economic Data - Economic Strength Indices

Last week saw very little change to our economic strength indices relative to their 1-year average. Though this could be a sign of slowing growth (especially in housing), keep in mind that the average is no longer being dragged down by the worst period in the past few years that begun around last March and had reversed around June.

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

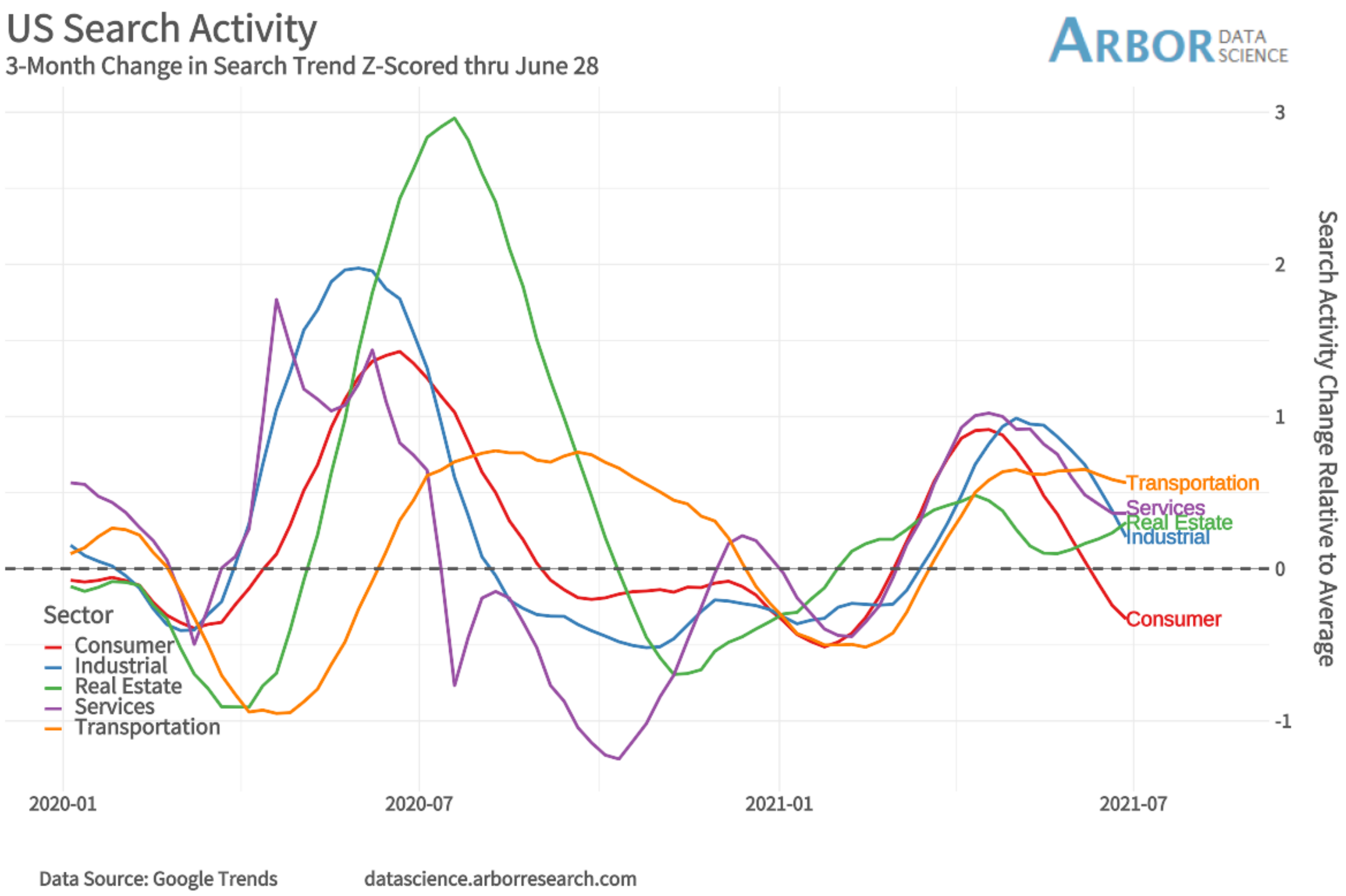


Real Time Indicators – Google Search Activity

US Google search activity has fallen somewhat since its reopening burst. Transportation, industrial, and service sector searches remain elevated, but consumer sector searches have fallen. Real Estate searches have been seeing a bit of a second wind. Perhaps this is an indication that the pent-up demand is abating or that consumers are reacting negatively to higher prices.

Supply chain frictions and lockdowns abroad will continue to be constraints, but the US economy is still on track to recovery.

The chart aggregates Google searches across several dozen topics, showing the three-month change in search activity relative to historical average in five key sectors.



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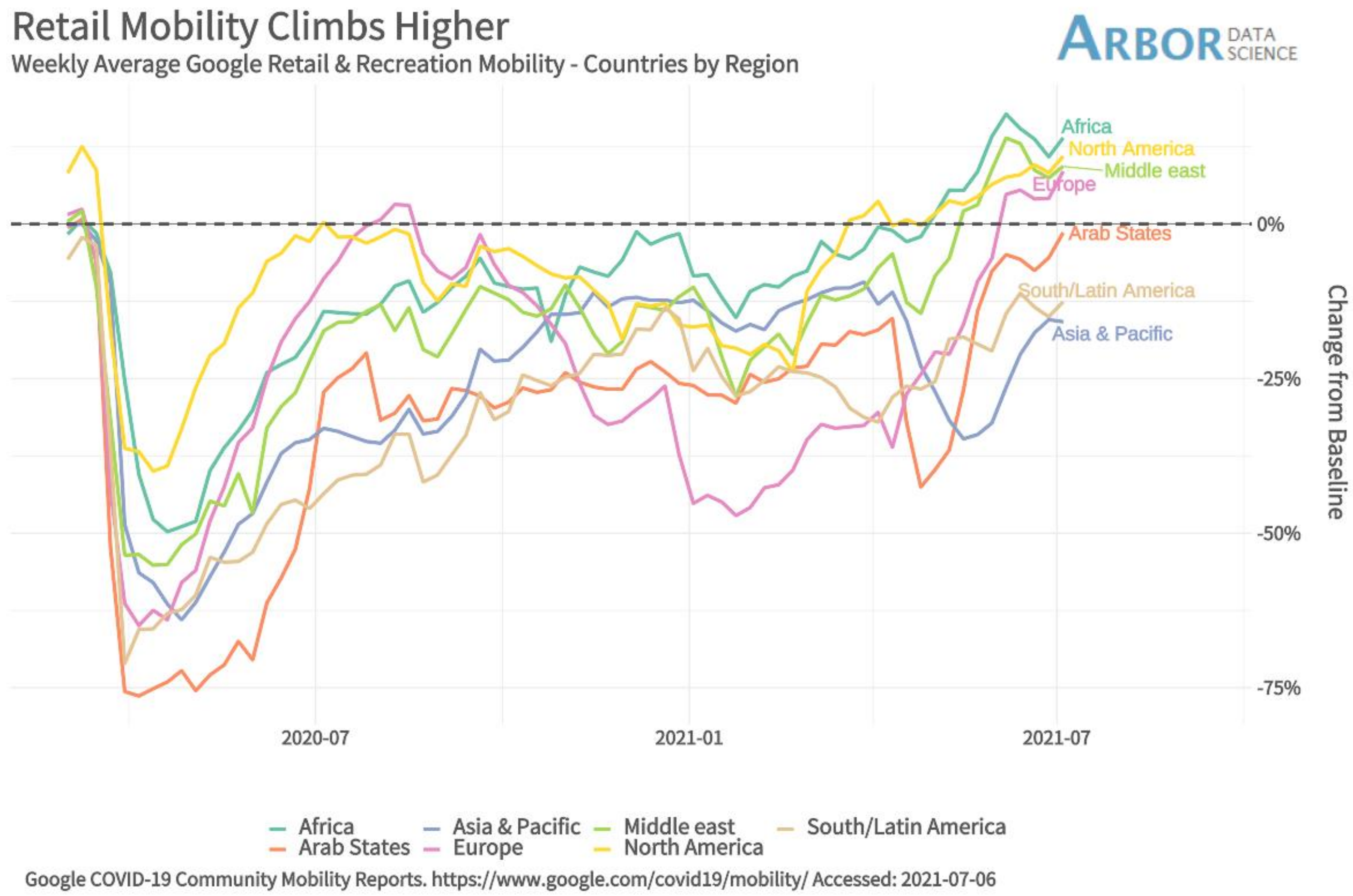
Real Time Indicators – Mobility

Google's retail & recreation mobility is surging across Africa, Europe, the Middle East, and North America. All these regions are now above baseline.

South/Latin America and Asia's mobility have not yet bounced back from the most recent virus outbreaks in the regions. India and Brazil were hammered by COVID variant cases slowing the reopening. Outbreaks of the Delta variant across the globe will continue to be an important variable, even in the US and Europe.

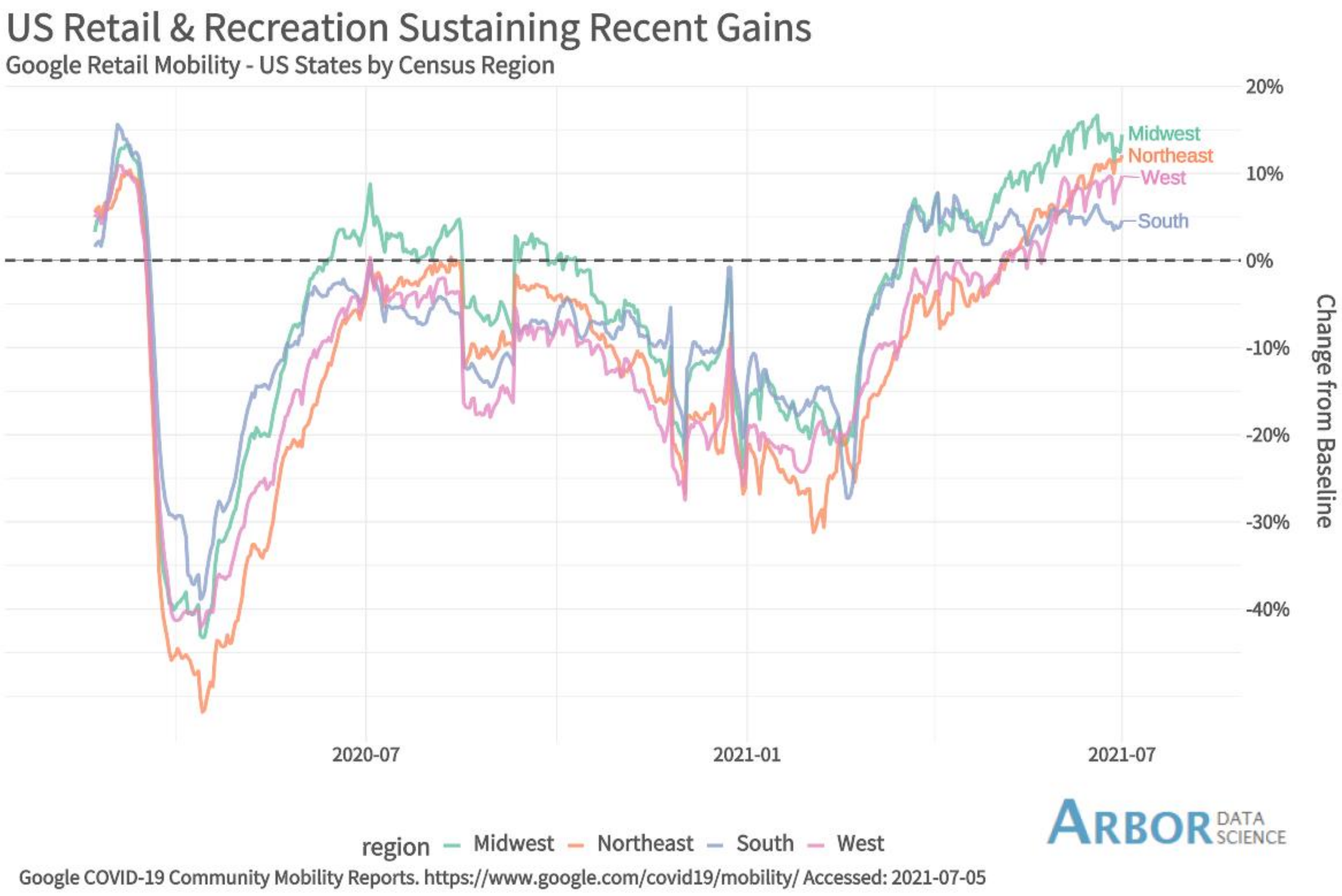
The chart shows global 7-day averages of Google's retail & recreation mobility relative to the pre-lockdown baseline by census region.



Real Time Indicators – Mobility

U.S. retail mobility has continued to grow in every region except the South where it has remained about stable. If all goes well, we expect mobility to remain around pre pandemic levels. The Delta variant of COVID-19 is a potential threat to mobility but it's questionable how much, if at all, the U.S. will be affected.

The chart shows Google U.S. retail Mobility by region.



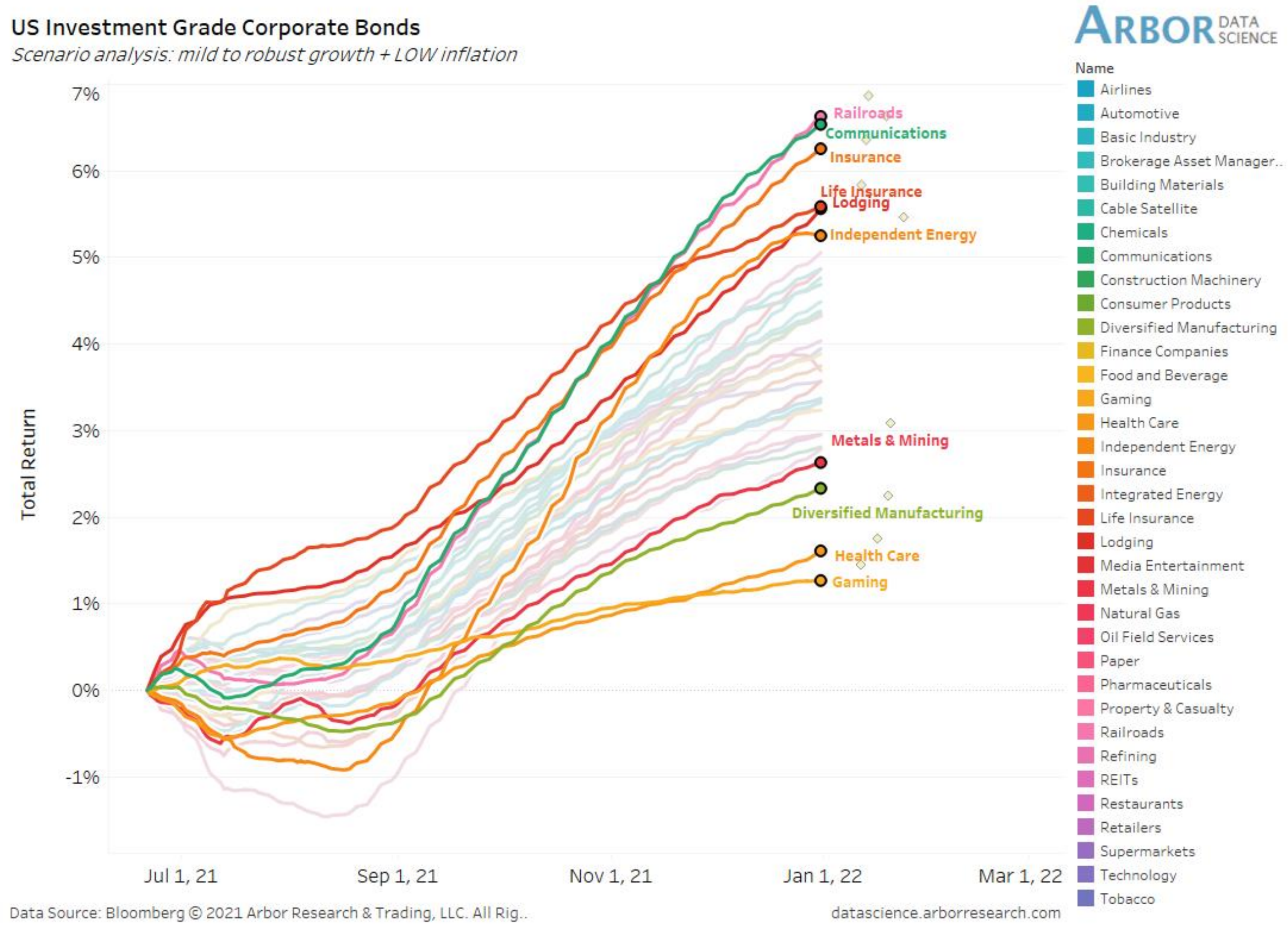
Scenario Analysis – Low Inflation

Looking ahead, economic growth and inflation will be major variables in the direction of US Credit Returns.

Assuming low inflation, Railroads and Communications are projected to be the greatest outperformers trailed by Insurance, Lodging, and Independent Energy.

Meanwhile, industries like gaming, health care, and Manufacturing are expected to underperform.

The chart shows projected U.S. Corporates Total Returns through year-end based on scenarios of varying economic data, search activity, and policy uncertainty.



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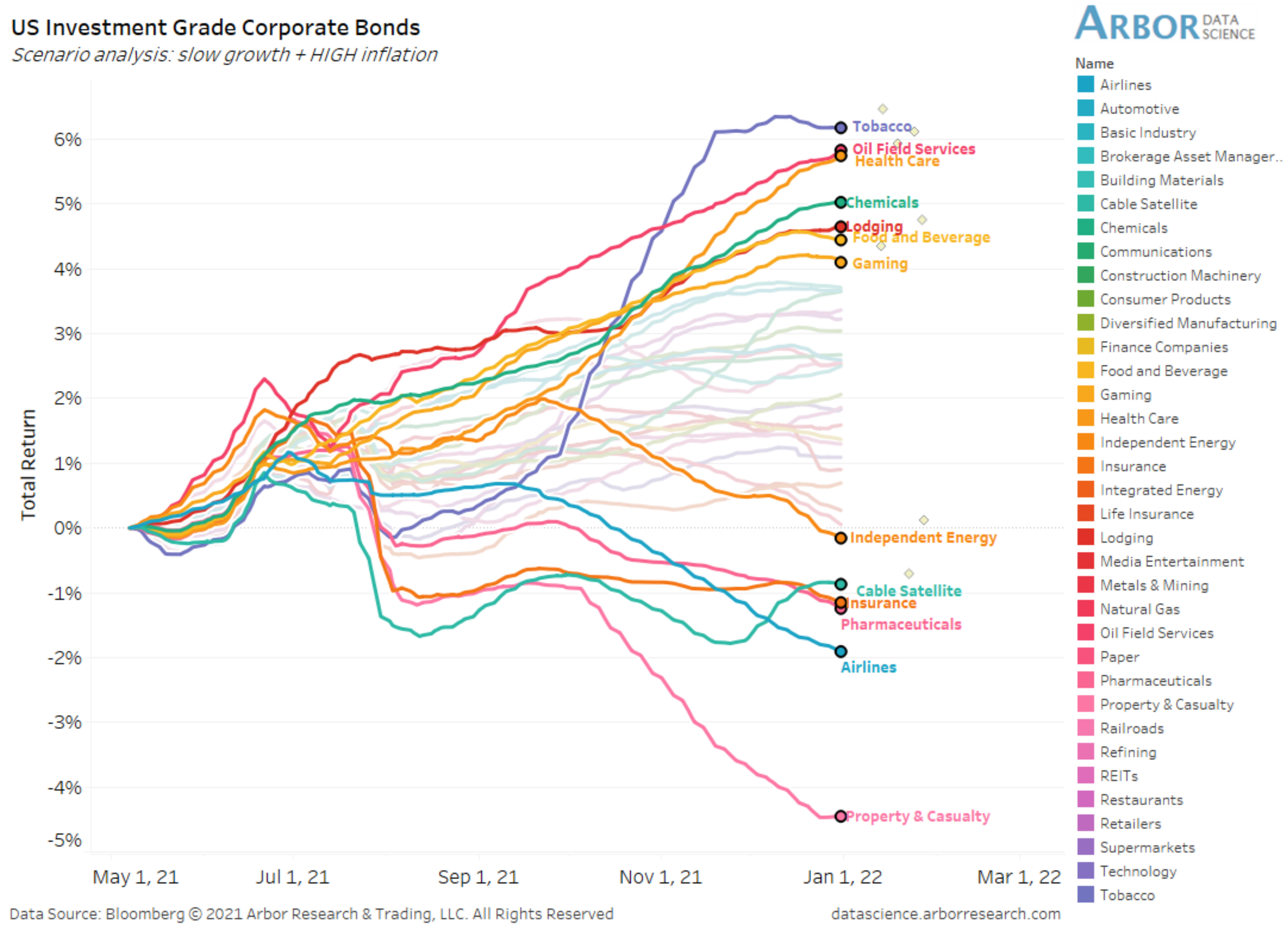
Scenario Analysis – High Inflation and Slow Growth

If we have high inflation, Tobacco, Health Care, and Oil Field Services are more likely to outperform. Property & Casualty, Airlines, and Pharmaceuticals are projected to fare worse.

The chart shows projected U.S. Corporates Total Returns through year-end based on scenarios of varying economic data, search activity, and policy uncertainty.

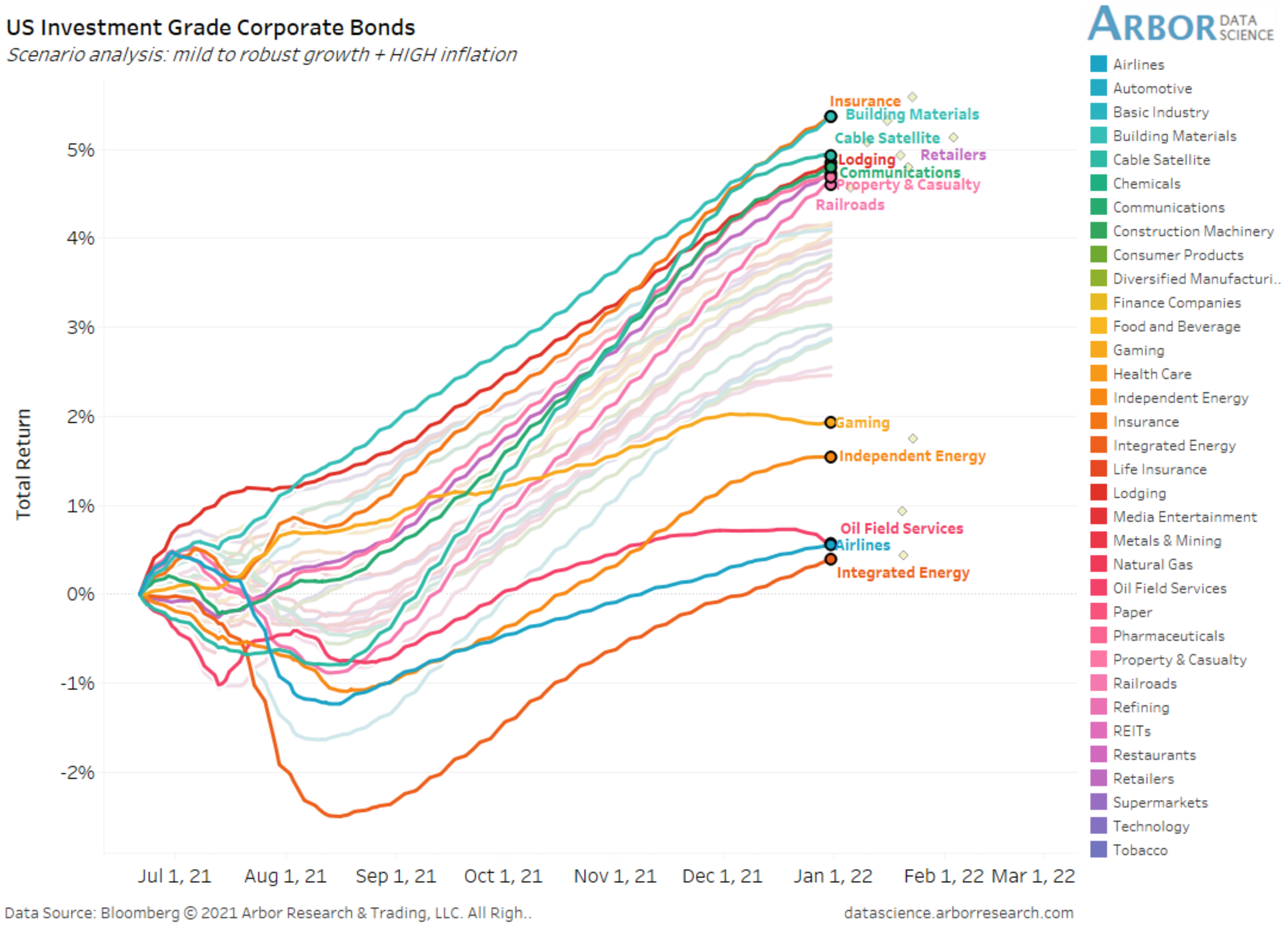


Scenario Analysis – High Inflation and Robust Growth

With higher inflation combined with higher growth, some sectors are predicted to swap places. Insurance and Building Materials are the largest projected outperformers with Integrated Energy and Airlines the largest underperformers.

For more info on scenario analysis:
[See Here]

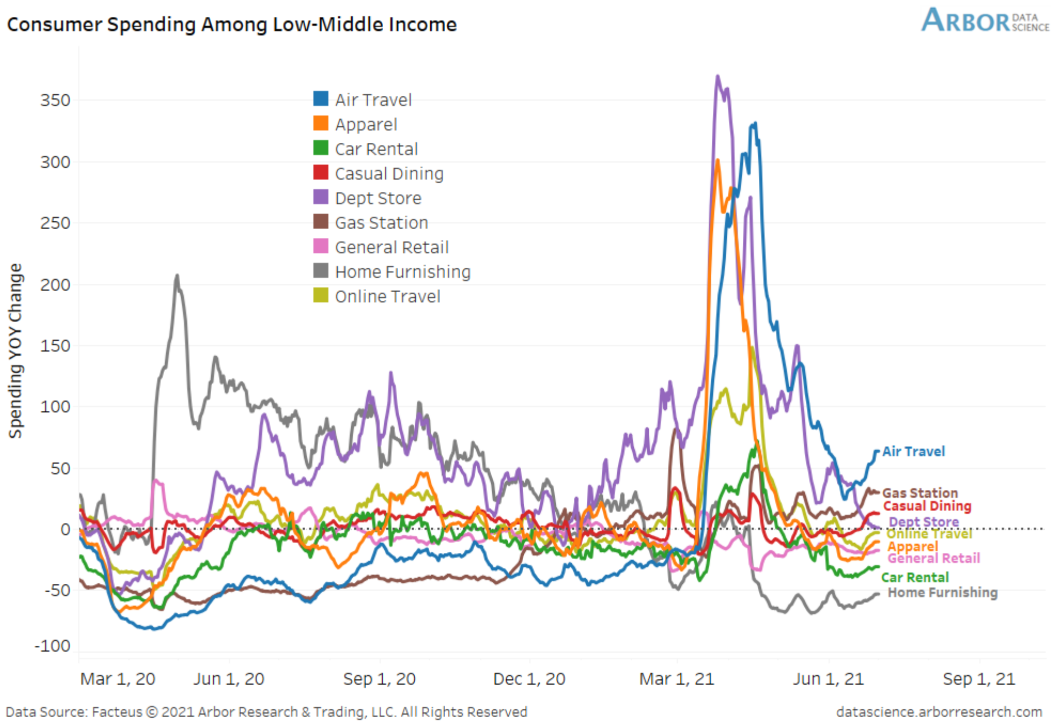
The chart shows projected U.S. Corporates Total Returns through year-end based on scenarios of varying economic data, search activity, and policy uncertainty.



Weekly Feature – Consumer Spending on the Mend from a Sub-Par May

Consumer spending as tracked by [Facteus](), which sources from financial institutions offering services to the low-to-middle income, has rebounded across numerous goods and services since the first week of June.

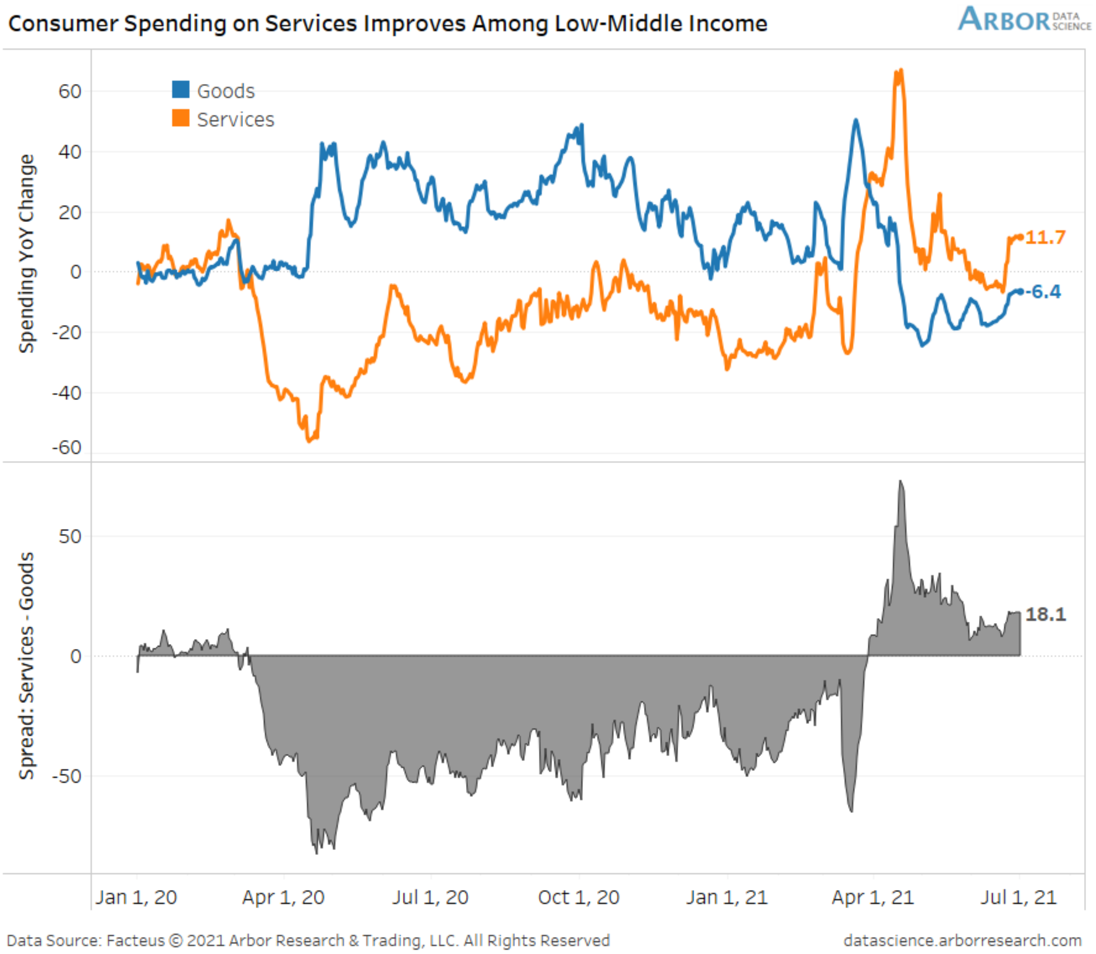
The retail sales miss in May (-1.3% vs -0.8% MoM) prompted concerns about the waning impact of stimulus after an exceptionally strong March print (11.3% MoM). However real-time measures of consumer spending suggest moderate improvements as we head into the summer months.



Weekly Feature – Consumer Spending on the Med from a Sub-Par May

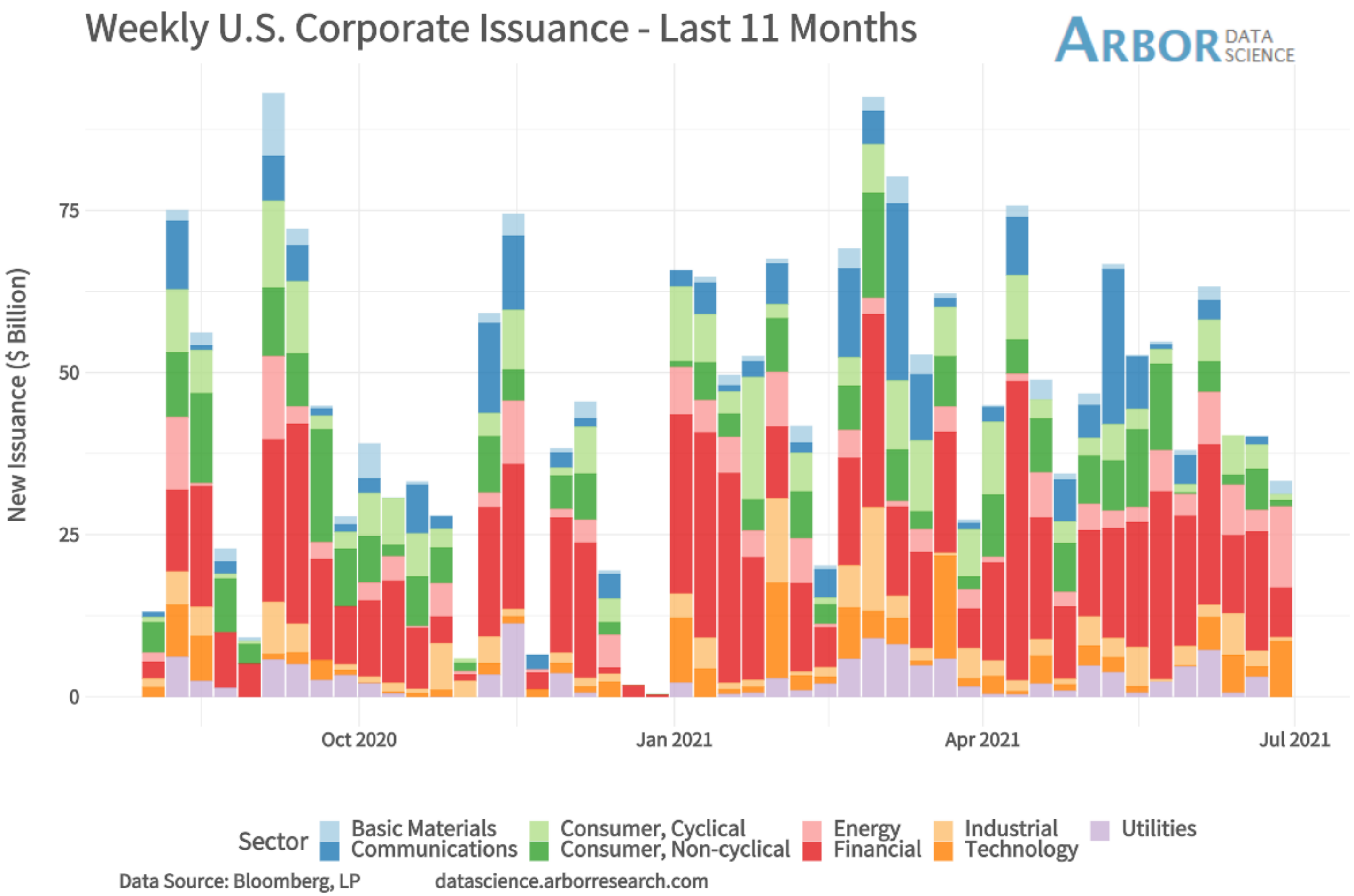
Consumers' shift from goods to services remains clearly visible. Spending on services including air travel, dating apps, and dining are now 11.7% higher than a year ago. Goods have improved but remain -6.4% below a year ago. The spread between the median year-over-year change has been convincingly tilted toward services since late March 2021.

Read the full post here:
[Consumer Spending on the Mend from a Sub-Par May]

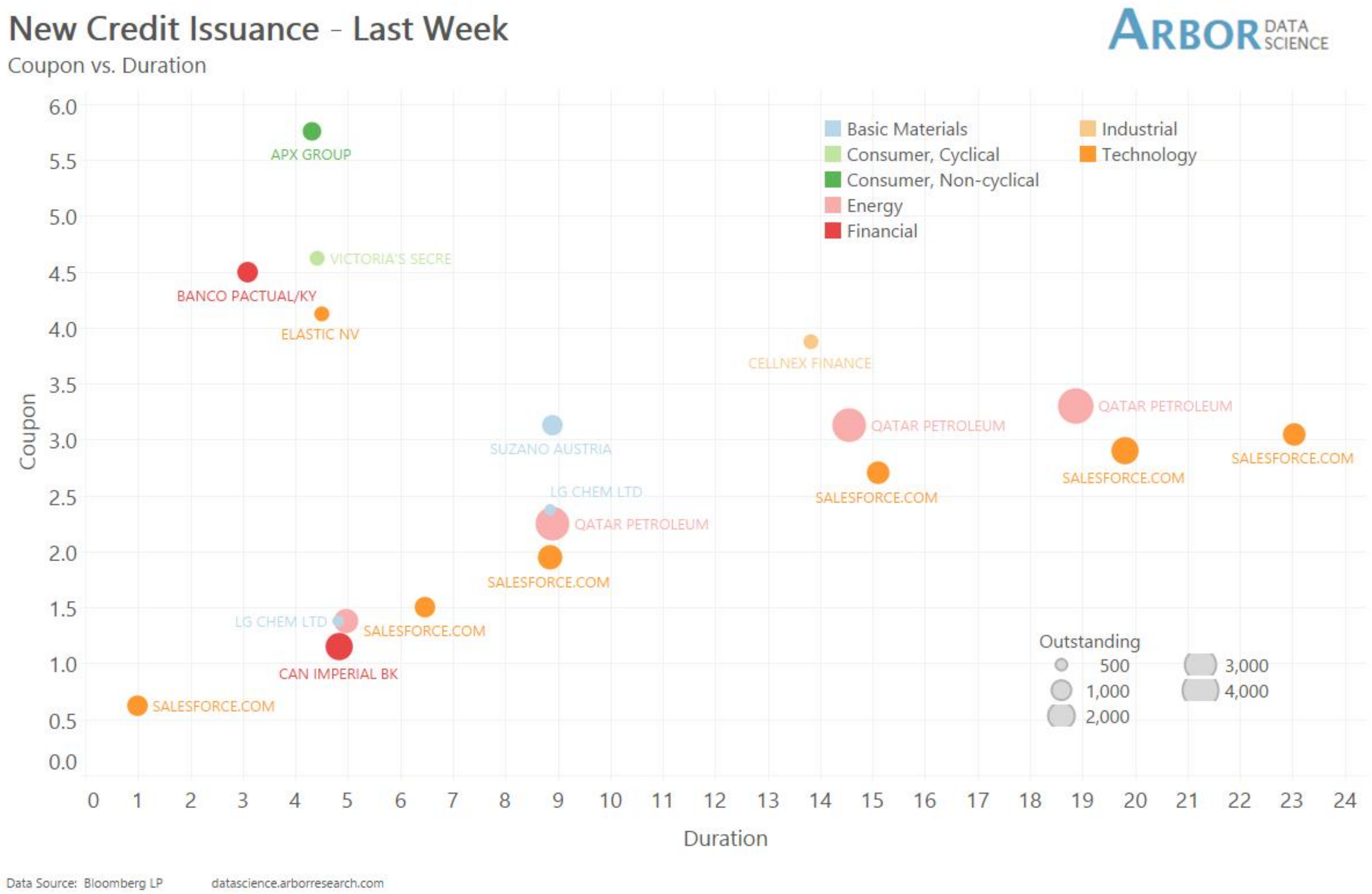


Issuance Recap

Issuance was rather quiet again last week. $164 billion of IG/XO paper was priced in last month, making it the second most active June on record behind 2020. YTD volumes are down 21% v. the first half of 2020. Underwriters expect a significant slowdown in primary issuance during 2H21 as industrial companies have taken care of their financing needs. Some are calling for a 55-45% mix between financials and industrials, flipping what we saw during the first six months of this year.



Issuance Recap



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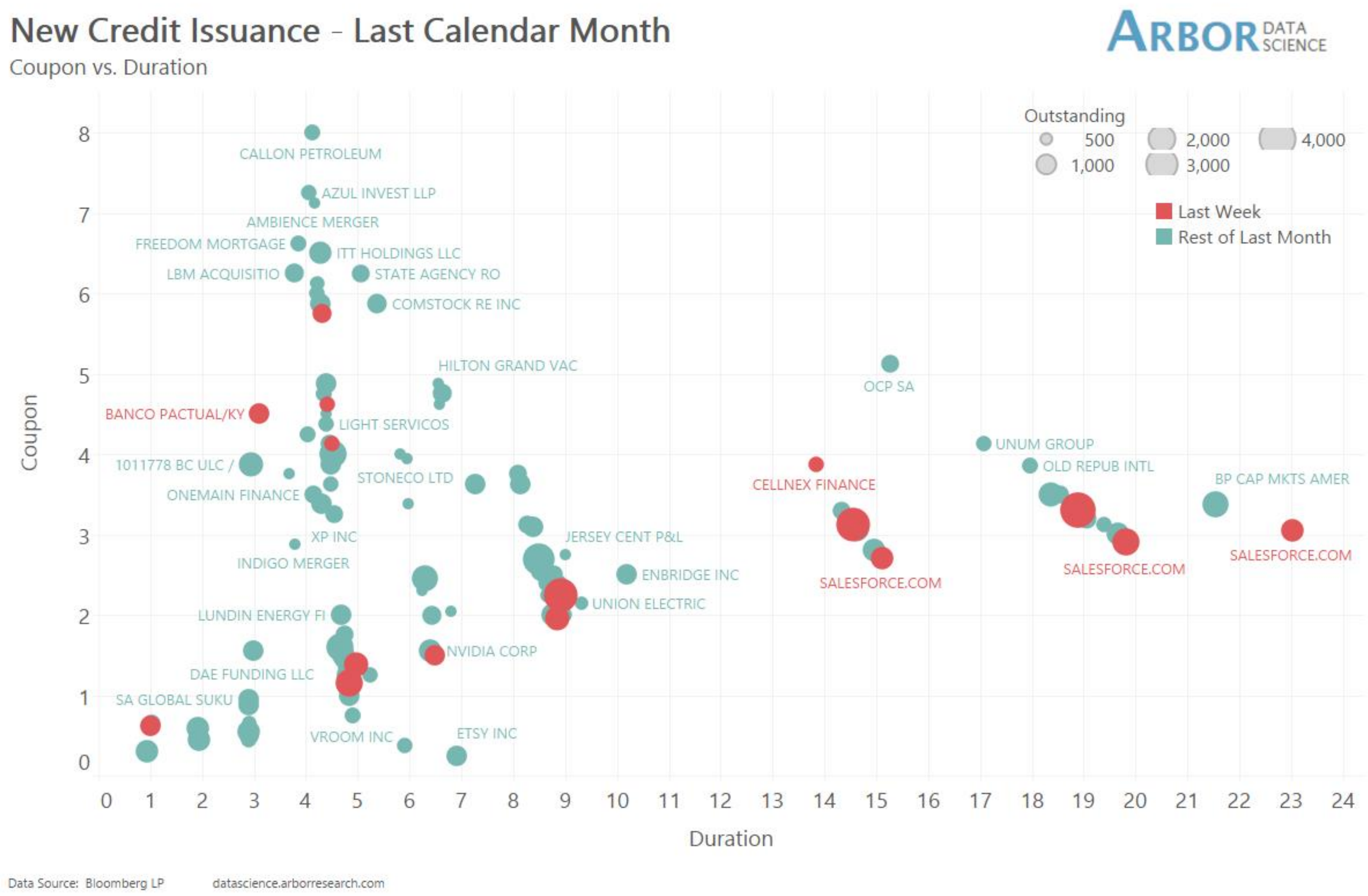
Issuance Recap



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

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