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Credit Markets: 2022 Marks Worst Year for Bonds in History

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Aggressive interest rate hikes led to unprecedented losses in the bond market.

Amidst continued aggressive monetary tightening by the Federal Reserve, the U.S. bond market notched its worst year on record in 2022. At the start of the year, the Federal Funds Target Rate Range stood at just 0-0.25%; by year-end, the range was 4.25-4.50%. Two fourth quarter hikes, combining for an additional 125 basis points of tightening, solidified the fastest and most aggressive year of interest rate policy moves since the early 1980s as the Fed remains laser-focused on taming inflation. Overall, the average U.S. bond fell over 13% with damage across all types of bond issues. U.S. Corporate bonds fared worst, losing nearly 16% for the year, while Municipal bonds fared best losing about 7.6%.

Announcing the most recent rate hike in mid-December, Fed Chair Powell noted a welcome reduction in the monthly pace of price increases in October and November but indicated the Fed will need to see substantially more evidence showing inflation is on a sustained downward path before halting rate hikes. The median expected "terminal rate" at which the Fed believes these hikes will end currently stands at a 5.1% Federal Funds rate.

Historically, the yield on the 2-year U.S. Treasury has been a reasonable indicator of peaks and troughs in the Federal Funds rate. The 2-year rate most recently hit a high of 4.81% in early November and currently sits at 4.41% as of this writing. So, despite the fact policy members at the Fed are projecting at least a couple more rate hikes from here, markets seem to be less sure they'll ultimately be that aggressive. Either way, 2022's aggressive Fed policy has likely brought us close to the end of this tightening cycle and should allow the Fed to pause hiking rates soon.

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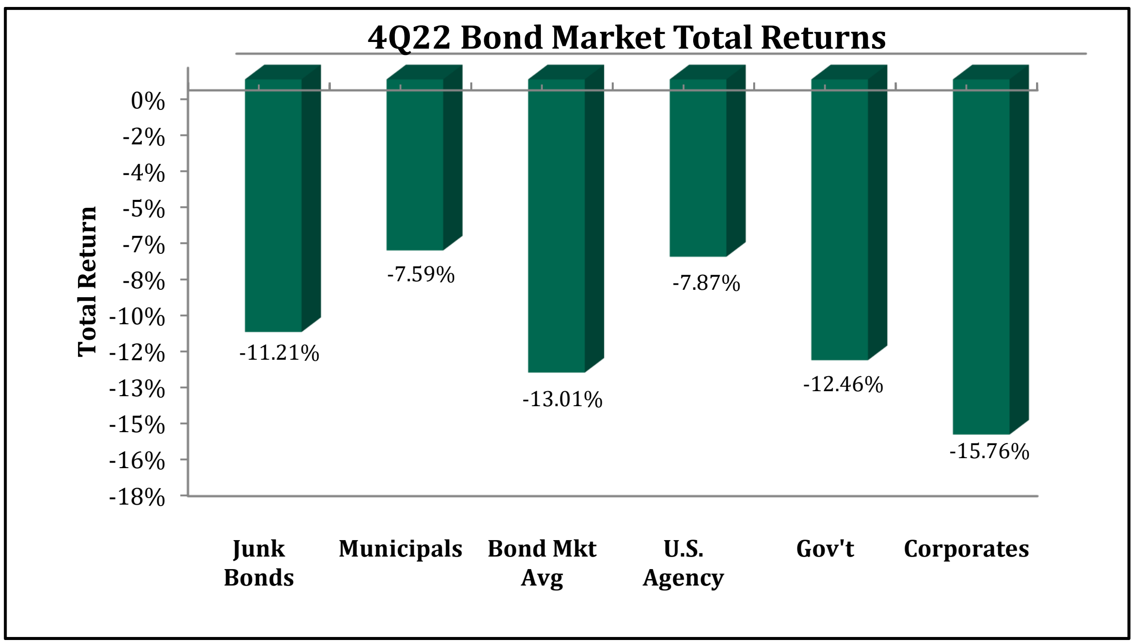
Bond Market Yields 12/31/2022

Average Money Market Fund	0.34%	10 Yr. AAA Muni Bond	2.64%
5 Yr. AAA Muni Bond	2.56%	10 Yr. AA Corporate Bond—Long Term	4.72%
5 Yr. AA Corporate Bond—Intermediate	4.58%	10 Yr. U.S. Treasury	3.88%
		30 Yr. Fixed Rate Mortgage (Conforming)	6.66%

Source: Bankrate.com



Source: Wall Street Journal