Treasury bonds traded in a narrow range ahead of the Federal Reserve’s (Fed) policy meeting next week, as mixed economic data provided no confirmation on the timing of interest rate changes

- The 10-year Treasury rate hovered in a 7bp range month-to-date, closing Wednesday at 2.20%¹

- Last week’s employment report indicated that the economy added a less-than-anticipated 173,000 jobs in August; however, the unemployment rate declined 0.2% to 5.1% and wage growth exceeded expectations¹

- Outside the US, rating agency Standard and Poor’s downgraded Brazil into “junk” territory (below investment-grade) following a report that the country’s economy contracted 1.9% in the second quarter¹

- The corporate primary market came alive on Wednesday following a late summer hiatus, a sign of strength in the bond market after weakness in August

  - High-grade supply totaled approximately $21 billion across 14 issuers, including Gilead Sciences, Marriot International, and Lowe’s²

- Corporate bonds outperformed Treasuries amid strong demand for new issue supply and a rebound in the oil market

  - Investment-grade spreads tightened 3bps month-to-date to 160bps, after hitting a recent high of 168bp in late August³

- In the securitized market, new issuance ticked up as risk sentiment improved, with 13 deals in the market totaling approximately $8 billion¹

- Puerto Rico released a 5-year restructuring plan to help reduce the island’s $28 billion financing gap¹

  - The proposal would likely include losses on Puerto Rico’s $72 billion in debt, but did not contain precise estimates

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Sources: 1. Bloomberg  2. JPMorgan  3. Barclays

¹Excess returns are the curve-adjusted excess return of a given index relative to a term structure-matched position in Treasuries.

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