IR+M
INCOME RESEARCH + MANAGEMENT

# IR+M CLIENT UPDATE
## May 2018

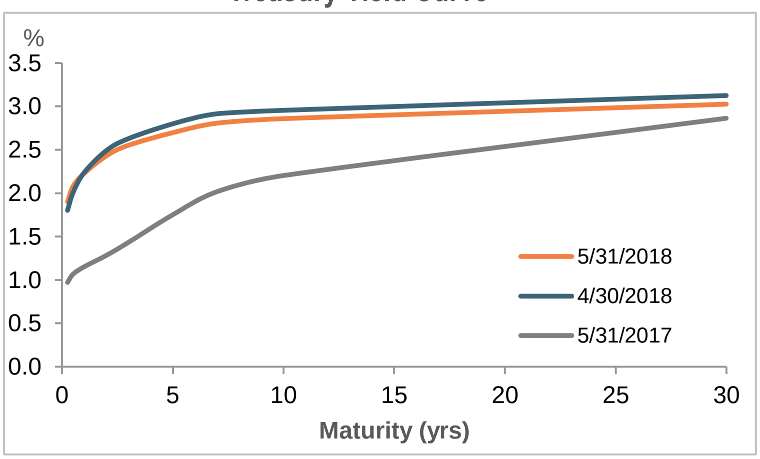
June 1, 2018

## MARKET NEWS

- US economic data continued to trend positively, as May payrolls beat expectations and the unemployment rate fell to 3.8%, while average hourly earnings growth picked up to an annualized rate of 2.7%, which was also above estimates[1]
    - Inflation data met expectations as the Federal Reserve's (Fed) favored inflation measure, Core Personal Consumption Expenditures, grew at 1.8% year-over-year, slightly below the Fed's 2% target
- Treasury yield volatility increased during the month, as yields rose across the curve before falling sharply in response to geopolitical tensions in Europe and continued uncertainty related to potential trade tariffs[1]
    - After hitting its highest point since 2011 at 3.11%, the 10-year Treasury yield ended the month at 2.86%, which was down 9bps from April month-end
    - Treasury curve flatness persisted, and the spread between 10-year and 2-year yields narrowed 5bps, to 42bps
- Supply met expectations, as investment-grade corporate issuers priced approximately $115 billion; the three largest deals during the month were issued to fund merger and acquisition activity[2]
    - Vodafone, Keurig Green Mountain, and General Dynamics combined to issue $27 billion, with each firm using proceeds to fund acquisitions
- Corporates underperformed Treasuries during the month, as investment-grade spreads widened 7bps to close at 115bps, the widest level this year[1]
    - High-yield bonds spreads widened 24bps to close at 362bps, underperforming Treasuries by 0.65%
- Securitized sectors performed well relative to Corporates during the month, as strong demand outweighed interest rate volatility and spread widening[1]
    - Asset-backed securities (ABS) performed particularly well despite a heavy month of supply of approximately $25 billion, outpacing Treasuries during the month, as strong demand for front-end carry supported the sector
- Municipals outperformed Treasuries during the month, and the 10-year municipal/Treasury ratio was volatile, trading between 81% and 87% before settling at 85%, down 1% from last month[1]

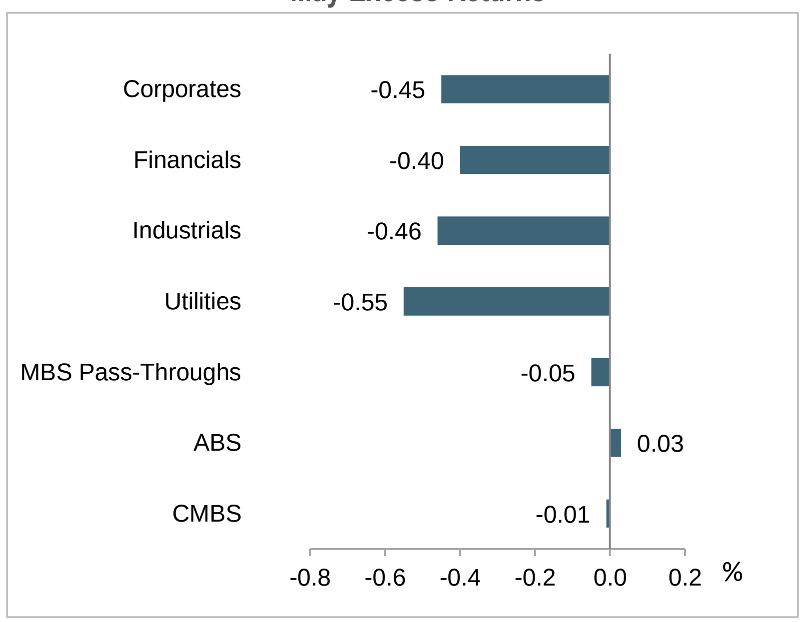
## MARKET STATISTICS

### Treasury Yield Curve[1]




| Maturity | 2-year | 5-year | 10-year | 30-year |
|---|---|---|---|---|
| *5/31/2018* | 2.43 | 2.70 | 2.86 | 3.03 |
| *MTD Change* | -0.06 | -0.10 | -0.09 | -0.09 |

### May Excess Returns[1*]




As of: 5/31/18. Sources: 1. Bloomberg Barclays 2. Citigroup

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