MARKET NEWS

- Trade tensions escalated this month, which overshadowed solid US economic data prints and led to risk market weakness¹
  - Core Personal Consumption Expenditures (Core PCE), the Federal Reserve’s (Fed) preferred measure of inflation, rose by 2.0% year-over-year, which met the Fed’s 2.0% inflation target and modestly beat expectations for growth of 1.9%
- Short-term Treasury yields rose and longer-maturity yields fell as the Treasury curve continued to flatten¹
  - 30-year yields fell back below 3% and 2-year yields climbed above 2.5%
  - The spread between 10-year yields and 2-year yields declined 10bps to a new post crisis low of 33bps
- June supply beat expectations of $85-95 billion, as issuers priced nearly $110 billion, which set a record for investment-grade issuance during the month of June; despite this, year-to-date supply remains approximately 3% behind last year’s pace²
  - Over 50% of issuance this year has come from companies rated BBB+ or below, and less than 2% has come from the technology sector, which accounted for roughly 10% of total supply last year
- Heavy supply and a soft market tone weighed on investment-grade corporate spreads, which widened 8bps to close at 123bps, the widest level since late 2016¹
  - High-yield corporate spreads benefited from light supply, widening only 1bp to close at 363bps
- Securitized sectors were insulated from trade tension-related weakness, and fared better than corporates during the month¹
  - Mortgage-backed Securities (MBS) were the top performer among securitized sectors, as strong housing data and demand for high-quality bonds outweighed heavy supply in the space
- Municipals performed well during the month, outperforming corporates, as positive fund flows and light supply acted as tailwinds to municipal performance¹
  - Within municipals, short and intermediate maturity bonds outperformed longer-maturity munis, and the 5-year muni/Treasury ratio declined by 2% to 73% while the 30-year muni/Treasury ratio increased by 3% to 100%

MARKET STATISTICS

 Treasure Yield Curve¹

<table>
<thead>
<tr>
<th>Maturity</th>
<th>2-year</th>
<th>5-year</th>
<th>10-year</th>
<th>30-year</th>
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<tbody>
<tr>
<td>6/30/2018</td>
<td>2.53</td>
<td>2.74</td>
<td>2.86</td>
<td>2.99</td>
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<td>MTD Change</td>
<td>0.10</td>
<td>0.04</td>
<td>0.00</td>
<td>-0.04</td>
</tr>
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</table>

June Excess Returns”¹

- Corporates: -0.60
- Financials: -0.32
- Industrials: -0.70
- Utilities: -1.03
- MBS Pass-Throughs: 0.03
- ABS: 0.01
- CMBS: -0.14


¹Excess returns are the curve-adjusted excess return of a given index relative to a term structure-matched position in Treasuries. The views contained in this report are those of IR+M and are based on information obtained by IR+M from sources that are believed to be reliable. This report is for informational purposes only and is not intended to provide specific advice, recommendations, or projected returns for any particular IR+M product. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission from Income Research + Management.