IR+M
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
July 2018

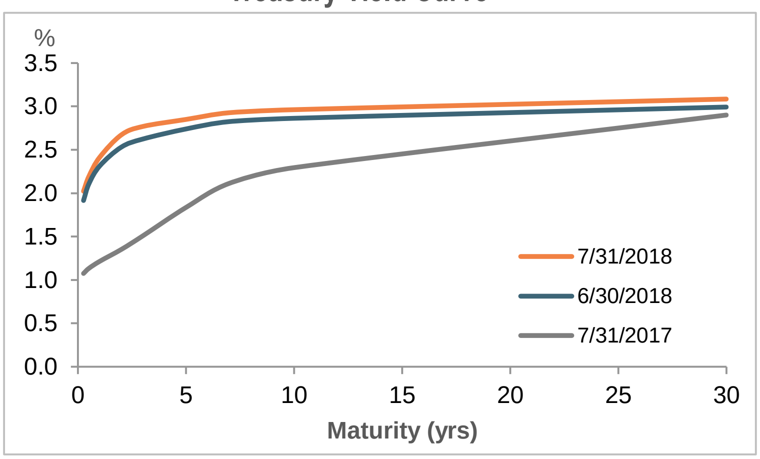
August 1, 2018

MARKET NEWS

- Second-quarter US GDP growth came in at 4.1%, a strong print, but slightly below consensus estimates for 4.2% growth[1]
    - July inflation and labor market data was also strong, as the Core Consumer Price Index (CPI) increased by 2.3% year-over-year and nonfarm payrolls grew by 213,000, setting the unemployment rate at 4.0%
- Market expectations for the August Federal Reserve (Fed) meeting suggest the Fed is likely to hold rates steady; however, the implied probability of a hike in September stands at over 90%[1]
    - Market implied probabilities suggest a 70% chance that the Fed hikes rates at least twice more in 2018
- Treasury yields rose in the wake of a strong GDP print and easing trade tensions, and the curve flattened, as short-term yields continued to rise in anticipation of future Fed rate hikes[1]
    - 30-year yields climbed back above 3% while 2-year yields increased by 14bps to close at 2.67%
- July was the lightest month for investment-grade corporate supply so far this year, with issuers pricing approximately $60 billion, just shy of expectations for $65-75 billion[2]
    - Expectations for August supply point to another light month, with estimates ranging from $50-60 billion
- Lighter issuance, strong earnings, and a firm market tone supported investment-grade corporate spreads, which tightened 14bps to close at 109bps, the tightest level since May[1]
    - High-yield bonds benefited from a stronger market risk appetite, and spreads tightened 27bps to close at 336bps
- Securitized sectors lagged corporates but outperformed Treasuries, as heavy supply in some markets weighed on spreads[1]
    - July issuance in asset-backed securities (ABS) was the third busiest month of the year, as over $23 billion priced; however, demand remained strong and the sector proved resilient, posting a positive excess return during the month
- Municipals outpaced Treasuries during July, as light supply and positive fund flows supported the sector[1]
    - The 10-year muni/Treasury ratio declined by 3% to close at 84%

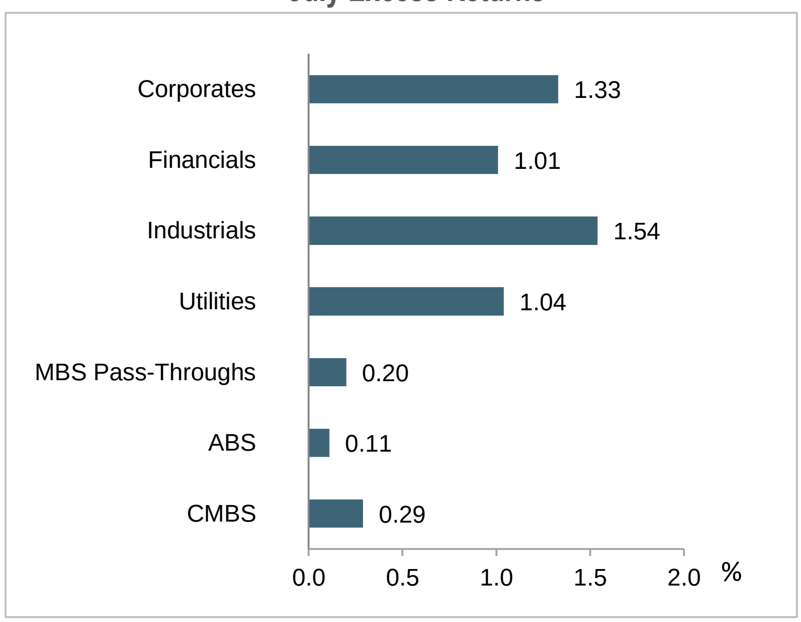
MARKET STATISTICS

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
7/31/2018	2.67	2.85	2.96	3.08
MTD Change	0.14	0.11	0.10	0.09

July Excess Returns[1*]



As of: 7/31/18. 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.