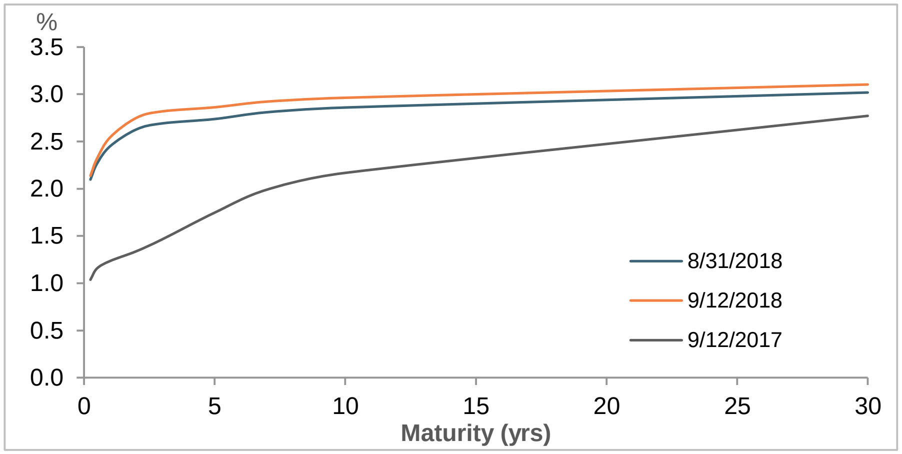
IR+M
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
September 7 – September 13, 2018

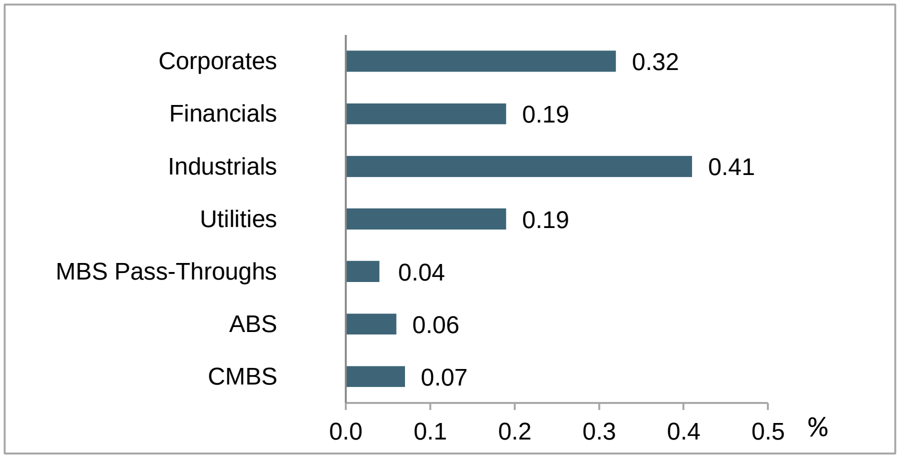
- Average hourly earnings increased 2.9% year-over-year, the highest level post-crisis; the US Consumer Price Index (CPI) slowed to 2.7%, slightly less than market expectations of 2.8%[1]
    - The US Producer Price Index (PPI) fell by 0.1% - the first decline in 18 months - suggesting upward pressure on prices may be leveling off
- Treasury yields rose and the curve flattened, with the market-implied probability of a rate hike in September reaching 97.5%[1]
    - Nonfarm payrolls rose by 201k last month, ahead of expectations; following the release, the 2-year Treasury yield reached its highest level in 10 years
- The US Treasury auctioned $23 billion of 10-year notes at a yield of 2.957%, below the 2.963% trading level before the auction[1]
    - The decrease in yield indicates investors' solid demand for Treasuries at a time when a growing budget deficit calls for increased debt issuance
- Borrowers took a slight breather compared to last week and brought over $27 billion to market; last week's total of $53 billion was the fourth heaviest week of issuance on record[1]
- A risk-on market tone helped investors brush off the continued flow of supply from the primary market; investment-grade corporate spreads tightened 3bps to 111bps[1]
- Overall, securitized sectors struggled to keep up with corporates, although asset-backed securities (ABS) generated healthy excess returns despite a pickup in supply[1]
- S&P removed New Mexico's negative outlook from its credit rating; for the first time since 2008, no state has a negative credit outlook from S&P[1]

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
9/12/2018	2.75	2.86	2.96	3.10
MTD Change	0.12	0.12	0.10	0.08

MTD Excess Returns[1*]



Source: 1. Bloomberg Barclays

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