IR+M INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
September 2018

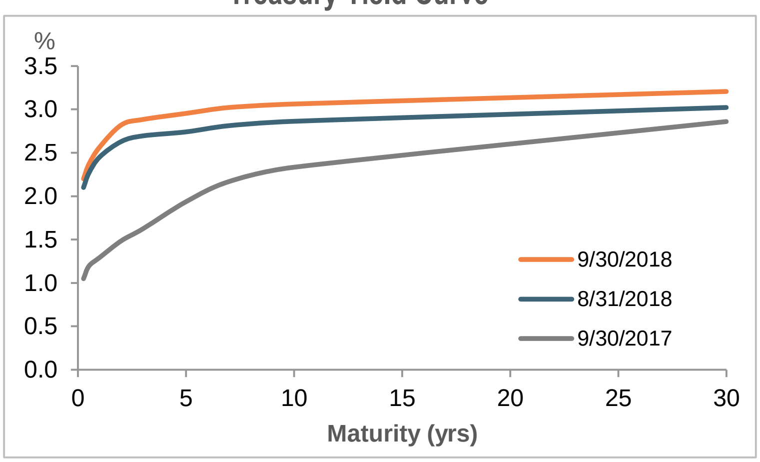
October 1, 2018

MARKET NEWS

- US economic data remained solid during the month, as the unemployment rate held at a healthy 3.9%, and the US consumer price index (CPI) increased by 0.2% on the month and 2.7% on the year[1]
- The Federal Reserve (Fed) voted to raise rates by another 0.25% to a range of 2.00-2.25%[1]
    - The Fed's statement cited strong job gains, low unemployment, and growth in household spending and business investment, while the most recent dot plot shows that the median voter expects three rate hikes in 2019
    - Market-implied probabilities indicate a 70% chance that the next rate increase will occur in December 2018
- Treasury yields climbed across the curve, as the 10-year yield jumped 20bps to close at 3.06%, and the 5-year rate hit a post-crisis peak of 2.98% before ending the month 21bps higher at 2.95%[1]
    - Foreign and yield-focused investors, which have seen hedging costs increase this year, could show more interest in US bond markets given the recent jump in US Treasury rates
- Investment-grade corporate issuers priced over $126 billion during September, which was in line with supply expectations[2]
    - Total issuance this month marked an increase from September 2017, and year-to-date supply is now approximately 6% behind last year's pace
- Spreads proved resilient in the face of a heavy month of supply, as investment-grade corporate spreads tightened 8bps to close at 106bps, hitting the tightest level since April 2018[1]
    - High-yield spreads benefitted from lighter supply and tightened 22bps to close at 316bps
- Strong demand in the securitized market led to positive excess returns versus Treasuries across sectors, especially in the commercial mortgage-backed securities (CMBS) market[1]
- Long and intermediate municipals performed roughly in line with Treasuries during the month, as the 10-year muni/Treasury ratio oscillated between 85% and 87% before settling in unchanged at 86%[1]
    - Within municipals, front-end bonds underperformed; the 1-year muni/Treasury ratio climbed by 10% to close at 75%

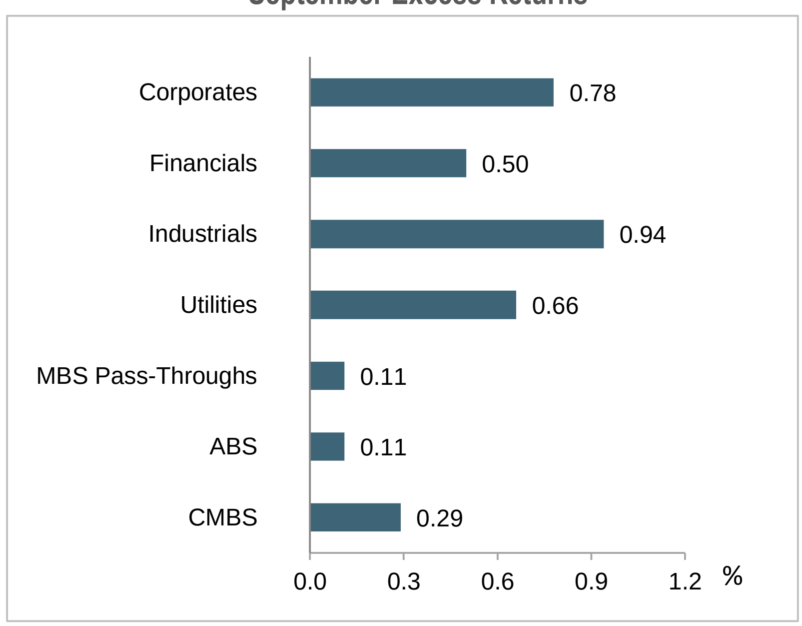
MARKET STATISTICS

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
9/30/2018	2.82	2.95	3.06	3.21
MTD Change	0.19	0.21	0.20	0.19

September Excess Returns[1*]



As of: 9/30/18. 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.