US and global equity markets severely corrected yesterday and overnight. The moves may have been a long overdue response to 2018’s consistently higher US yields. In the midst of yesterday’s selling, the US bond market rallied modestly with the yield on the 10-year Treasury falling from 3.20% to 3.16%; it now stands at 3.18%. The days when US bonds would rally hard in risk-off scenarios may be gone. We believe that we are in a new chapter of the monetary policy expansion/contraction story.¹

- US Treasury rates are stable or modestly higher from Wednesday’s close.¹
  - 2-year +1bp to 2.85%. 10-year +1bp to 3.17%. 30-year +1bp to 3.36%.
- “Safer” European sovereign debt is rallying. Germany, Netherlands, and Austria are approximately 3-4bp lower in yield.¹
  - The German 10-year measured 0.51%. The US/Germany 10-year spread narrowed to +266bp, which is 4bp lower than the all-time high of +270bp that was reached on Monday, October 8th.
  - The divergence between the US and Europe narrowed modestly, but the separation remains large.
- The yield on the Italy 10-year increased +10bp to 3.60%.¹
- US S&P 500 futures were down 0.50% overnight, which was off the lows. The market was down approximately 1% as of 5am EST.
- “Safer” European sovereign debt is rallying. Germany, Netherlands, and Austria are approximately 3-4bp lower in yield.¹
  - The German 10-year measured 0.51%. The US/Germany 10-year spread narrowed to +266bp, which is 4bp lower than the all-time high of +270bp that was reached on Monday, October 8th.
  - The divergence between the US and Europe narrowed modestly, but the separation remains large.
- The yield on the Italy 10-year increased +10bp to 3.60%.¹
- US S&P 500 futures were down 0.50% overnight, which was off the lows. The market was down approximately 1% as of 5am EST.
- Chinese, Korean, and Japanese equities were down an estimated 5%, 4.5%, and 4%, respectively, as of 6:30am EST.¹
- European equities were broadly down 1-2%.¹
- Credit spreads were weaker yesterday and remained weak overnight.¹
  - Investment Grade (IG) 5-year CDX now measures 66/67 vs. 65.5/66 at close on Wednesday. On Wednesday, that market widened 4bp.
  - LQD (liquid IG corporates ETF) closed Wednesday at $112.83, which implies a 4.63% yield and a +146 spread to 10-year Treasuries. The spread vs. the 10-year was 6bp wider yesterday.
  - HYG (liquid high yield ETF) closed Wednesday at $84.63, which indicates a 6.72% yield and a +371 spread to 5-year Treasuries. The spread vs. the 5-year was 20bp wider yesterday.
  - The Bloomberg Barclays Corporate OAS was 1bp wider yesterday at +107 OAS.
  - The Bloomberg Barclays Long Corporate OAS was 1bp wider yesterday at +152 OAS.
- Credit spreads were weaker yesterday and remained weak overnight.¹
  - Investment Grade (IG) 5-year CDX now measures 66/67 vs. 65.5/66 at close on Wednesday. On Wednesday, that market widened 4bp.
  - LQD (liquid IG corporates ETF) closed Wednesday at $112.83, which implies a 4.63% yield and a +146 spread to 10-year Treasuries. The spread vs. the 10-year was 6bp wider yesterday.
  - HYG (liquid high yield ETF) closed Wednesday at $84.63, which indicates a 6.72% yield and a +371 spread to 5-year Treasuries. The spread vs. the 5-year was 20bp wider yesterday.
  - The Bloomberg Barclays Corporate OAS was 1bp wider yesterday at +107 OAS.
  - The Bloomberg Barclays Long Corporate OAS was 1bp wider yesterday at +152 OAS.
- US credit morning runs are starting to come out, with markets being quoted generically wider. For example:
  - CVS 2048s +3bp to 175/172.
  - JPM 2029s +1bp to 126/122.


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.