US midterm elections dominated investor attention early in the week, and the election resulted in Democrats now holding the majority in the House and Republicans expanding their majority in the Senate¹

  • A split Congress could make it more difficult for President Trump to move his agenda forward

  • Treasury yields rose after the election results, especially in the belly of the curve, and the curve modestly steepened¹

    • The Treasury auctioned the largest 10- and 30-year bond deals on record, with $27 billion and $19 billion issued, respectively; the 10-year auction was well received; however, the 30-year auction had relatively softer demand¹

  • Investor focus quickly shifted to the FOMC meeting, during which rates were left unchanged, as expected; the Fed’s comments remained consistent with expectations and signaled for ‘further gradual’ tightening into 2019, based on current market conditions¹

  • Issuers brought roughly $22 billion to market but remained largely on the sidelines until the dust settled from midterm elections; almost $20 billion of the total was issued after the election²

  • Investment grade corporate spreads tightened 6bps, from a three month wide of 119bps, to close at 113bps, despite new issue supply exceeding expectations¹

    • Over 78% of companies beat earnings estimates, providing a tailwind for corporate spreads

  • Securitized sectors couldn’t keep pace with the rally in corporate spreads, and underperformed month-to-date¹

  • Municipal investors withdrew roughly $1.3 billion from mutual funds, marking the sixth straight week of outflows; some believe that outflows could reverse now that midterm elections have concluded¹

Source: 1. Bloomberg Barclays 2. Citigroup

¹Excess returns are the curve-adjusted excess return of a given index relative to a term structure-matched position in Treasuries.

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