IR+M CLIENT UPDATE
October 2018

INCOME RESEARCH + MANAGEMENT

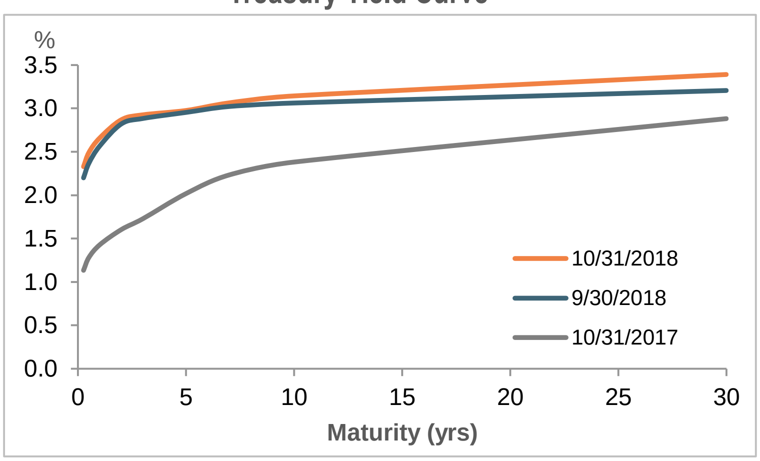
November 1, 2018

MARKET NEWS

- Third-quarter US GDP growth came in strong at an annualized rate of 3.5%, which beat expectations for 3.3% and was primarily driven by a 4.0% increase in consumer spending[1]
- Inflation data remained solid, as both the US Consumer Price Index (CPI) and Personal Consumption Expenditures (PCE) registered gains of 2% or more, which may be supportive of future Federal Reserve rate hikes[1]
    - A robust labor market has supported inflation, and September unemployment showed continued strength at 3.7%
- Treasury yields climbed across maturities as the curve steepened, with long-end yields rising more than shorter-term rates[1]
    - 30-year yields jumped 18bps during the month to 3.39%, only 1bp away from the multiyear high of 3.40%
    - The difference between 10- and 30-year yields, known as the 10s30s spread, widened by 11bps to close the month at 25bps, the steepest level since March 2018; 10s30s opened the year at 35bps
- October supply was lighter than expected, as investment-grade corporate issuers priced approximately $82 billion, below estimates that ranged from $100-110 billion[2]
    - Risk-market volatility and a heavy earnings calendar kept many issuers on the sidelines, and expectations call for November supply in the range of $85-90 billion; this year's pace now stands roughly 8% behind last year's
- Spreads leaked wider despite moderate supply and solid earnings, as equity-market weakness bled into the corporate bond market, and investment-grade spreads widened 12bps to close at 118bps, just 6bps inside of year-to-date wides[1]
    - High-yield spreads came under increased pressure and widened out 55bps to close at 371bps
- Securitized sectors were fairly insulated from risk-market weakness and outpaced corporates but lagged Treasuries[1]
    - Asset-backed securities (ABS) performed well relative to other spread sectors, despite a heavy month of supply, supported by continued robust demand for short-duration, high-quality bonds
- Short and intermediate municipals underperformed Treasuries during the month, as both the 2-year and 10-year muni/Treasury ratios increased by 2% to close at 72% and 88%, respectively[1]
    - Long-end municipals outpaced Treasuries, as the 30-year muni/Treasury ratio declined by 1% to close at 101%

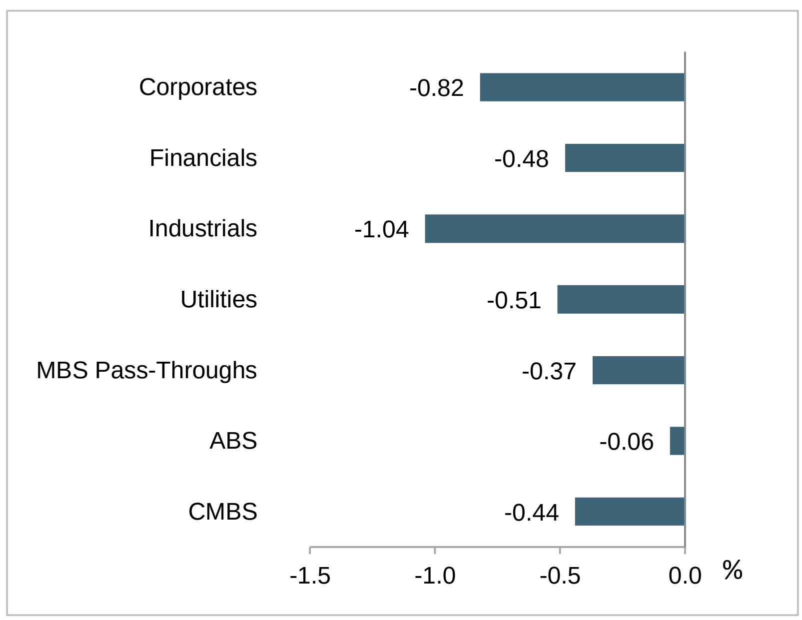
MARKET STATISTICS

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
10/31/2018	2.87	2.98	3.14	3.39
MTD Change	0.05	0.03	0.08	0.18

October Excess Returns[1*]



As of: 10/31/18. 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.

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