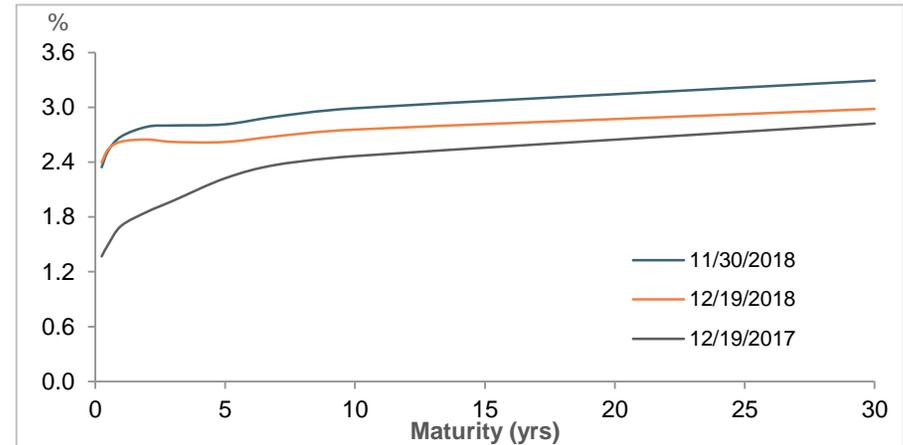




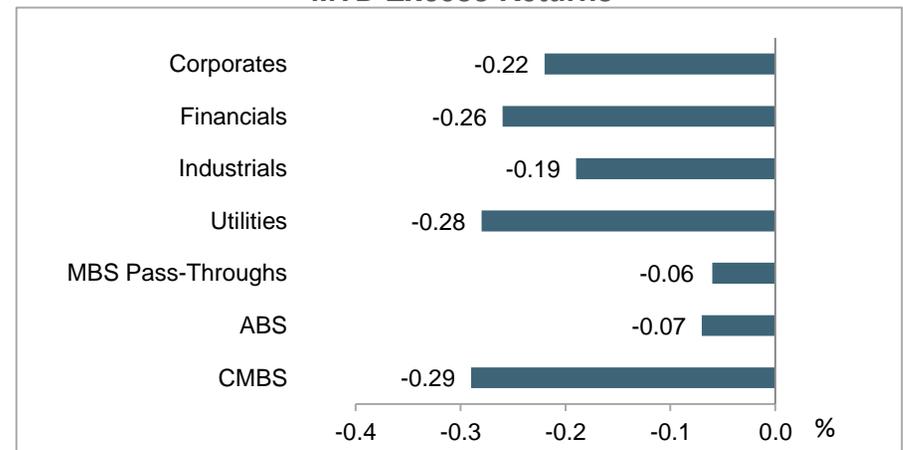
- Market volatility picked up this week, and risk-market assets broadly underperformed Treasuries
- The Federal Reserve (Fed) raised rates by 0.25%, which was expected by the market, as the implied probability of a hike was over 65%
  - Interest rates reacted by falling, as Fed voters lowered their expectations for 2019 rate hikes from three to two
- Treasury yields dropped across the curve, especially in the long end, where the 30-year rate fell below 3% for the first time since August
  - The 2- to 5-year part of the curve remained inverted, as the 2-year yield closed at 2.65%, 3bps higher than the 5-year
- Investment-grade corporate issuance grinded to a halt, with no activity taking place as market volatility, the Fed rate decision, and geopolitical tensions kept issuers on the sidelines
  - Expectations suggest that supply is likely finished for 2018, which would point to \$1.1 trillion in issuance, over 10% lower than 2017
  - Despite an absence of supply, investment-grade corporate spreads widened by 1bp during the week to close at 143bps
- Supply was even quieter in the high-yield corporate market, as there has been no issuance during the entire month
  - High-yield spreads widened by 44bps during the week to close at 475bps, and underperformed Treasuries by 1.94% month-to-date
- Commercial mortgage-backed securities spreads widened in sympathy with corporate bonds, lagging Treasuries by 0.29% month-to-date
  - Both asset-backed and mortgage-backed securities have held in relatively well, underperforming Treasuries by less than 10bps
- Municipals struggled to keep pace with the rally in Treasuries, and the 10-year muni/Treasury ratio increased by 2% to 86%

Treasury Yield Curve



Maturity	2-year	5-year	10-year	30-year
12/19/2018	2.65	2.62	2.76	2.98
MTD Change	-0.14	-0.19	-0.23	-0.32

MTD Excess Returns



Sources: Bloomberg Barclays, Bloomberg and 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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