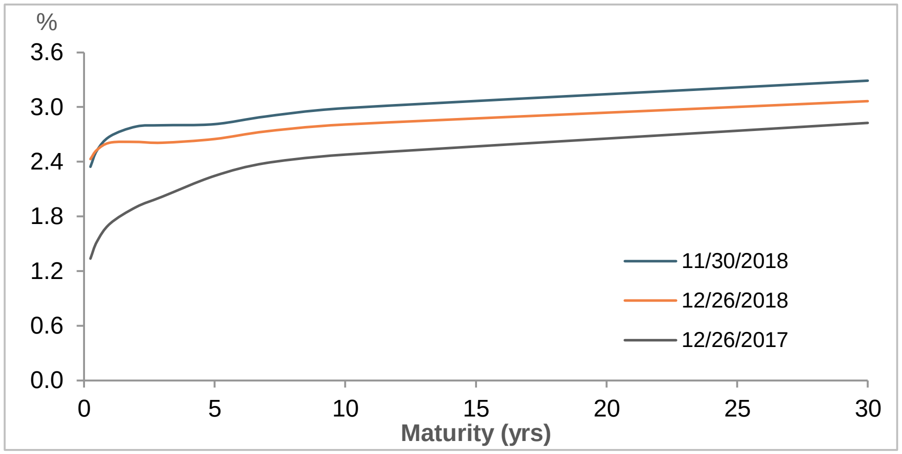
IR+M INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
December 21 – December 27, 2018

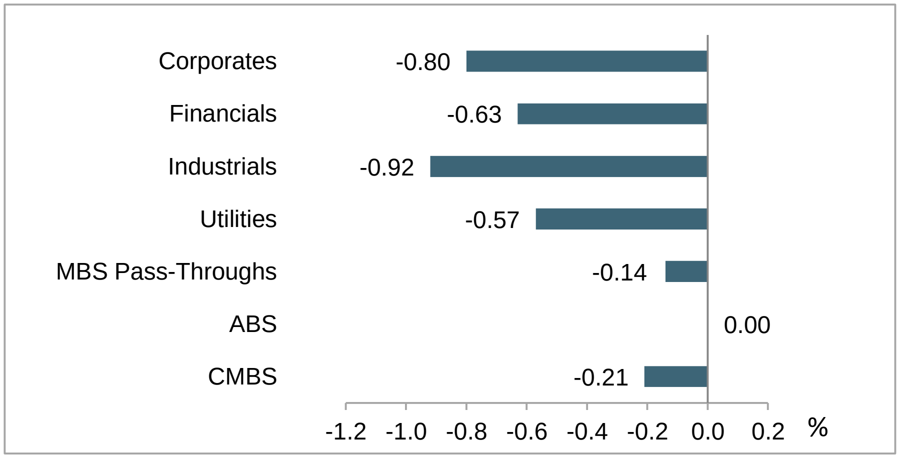
- The US government partially shut down on Saturday, as President Trump and Congress reached an impasse on border wall funding; essential functions such as airport operations and mail delivery will remain open
  - This is the third shutdown of the year, and there is a possibility that it could last into 2019
- Heightened equity market volatility, potentially as a result of the partial government shutdown, caused investors to demand relatively safer assets, and the Treasury curve steepened
  - The 2-year yield fell 2bps during the week to 2.62%, while the 30-year yield climbed 4bps to 3.07%
- Economic news was mixed, as home prices increased by 5% year-over-year and retail sales grew at the fastest rate in 13 years, but manufacturing production fell suddenly and consumer confidence hit a five-month low
- Primary market activity was quiet as no investment-grade or high-yield corporate issuers came to market; month-to-date issuance totaled $8 billion, the lightest total supply in the month of December in over 18 years
  - Over 70% of all investment-grade corporate bonds issued year-to-date came from companies rated BBB+ or lower
- A seasonal slowdown in demand combined with a risk-off market sentiment to push investment-grade corporate spreads 2bps wider to 150bps, despite a lack of supply
  - High yield corporate prices moved in tandem with falling equity and oil prices, and spreads moved 16bps wider to close at 530bps
- Demand for high-quality, short duration bonds benefited asset-backed securities (ABS), which outperformed spread product month-to-date
- Municipal market activity slowed during the holiday-shortened week; issuance totaled $317 billion this year, over $90 billion less than in 2017

Treasury Yield Curve



Maturity	2-year	5-year	10-year	30-year
12/26/2018	2.62	2.65	2.81	3.07
MTD Change	-0.17	-0.16	-0.18	-0.22

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.