IR+M CLIENT UPDATE
November 2018

INCOME RESEARCH + MANAGEMENT

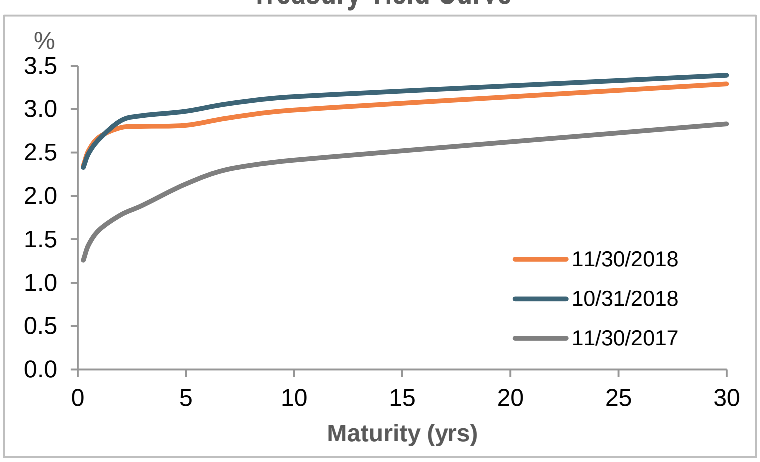
December 3, 2018

MARKET NEWS

- Elevated market volatility persisted during November, and investment-grade corporate credit underperformed Treasuries by 1% or more across sectors
  - High-yield corporates underperformed Treasuries by 1.55%, and spreads widened by 47bps to close at 418bps
- US economic data remained strong, as third-quarter GDP growth of 3.5% was affirmed, unemployment held at 3.7%, and the US consumer price index (CPI) increased at a rate of 2.5% year-over-year, with core CPI increasing by 2.1% on the year
- Treasury yields declined, especially in the belly of the curve, as both 5-year and 10-year rates fell by 15bps or more
  - While the yield curve remains flat across longer maturities, the short end is actually relatively steep
  - The spread between 3-month bills and 2-year notes closed the month at 44bps, a level that is in line with long-term averages, but the difference between 10-year and 2-year notes reached a new post-crisis low of 20bps
- Investment-grade corporate issuers priced approximately $86 billion during the month, meeting expectations, which ranged from $80-90 billion; estimates point to $30 billion of supply for December, which would be a slight increase from 2017
  - Year-to-date issuance stood roughly 10% behind last year's pace as of month end
  - Over 70% of 2018 supply has come from issuers rated BBB+ or below versus less than 50% of 2017 supply
- Geopolitical concerns related to trade tensions, Brexit, and falling oil prices combined with various idiosyncratic issues, such as the impact of California wildfires on Utilities, to push corporate spreads wider during the month
  - Investment-grade spreads widened by 19bps to close at 137bps, the widest level since September 2016
- Securitized bonds were fairly insulated from corporate spread widening, as agency mortgage-backed securities (MBS) and asset-backed securities (ABS) performed roughly in line with Treasuries
  - Commercial mortgage-backed securities (CMBS) experienced modest widening, but still outperformed corporates
- Municipals outperformed Treasuries during the month, as the 10-year muni/Treasury ratio declined by 3%, from 88% to 85%
  - Performance was solid across the curve in the municipal space, as both 2-year and 30-year ratios fell, as well

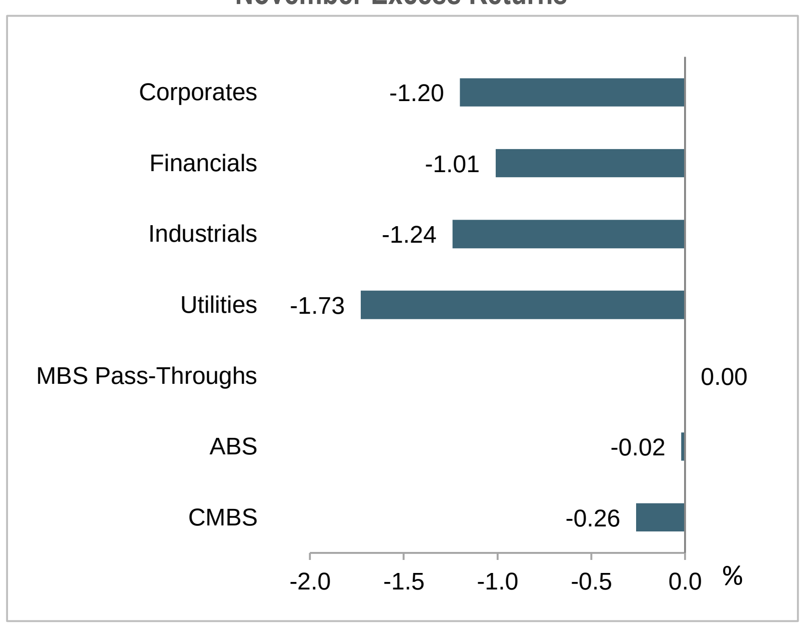
MARKET STATISTICS

Treasury Yield Curve



Maturity	2-year	5-year	10-year	30-year
11/30/2018	2.79	2.81	2.99	3.29
MTD Change	-0.08	-0.17	-0.15	-0.10

November Excess Returns*



As of: 11/30/18. Sources: Bloomberg Barclays, Citigroup

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