• The US Government has been shut down for 20 days, as political parties remain at an impasse over spending; if the shutdown lasts until Saturday, it will surpass the record for the longest ever

• Optimism over trade talks with China caused investors to favor riskier assets; Treasury yields in the front end increased by 2-8bps month-to-date, while the 30-year yield fell by 2bps

• Fed minutes were released this Wednesday and suggested that members may be open to slower policy tightening going forward amid subdued inflation and recent market volatility
  • Investors interpreted the comments as dovish and Treasury yields fell that day as a result by up to 4bps, most notably in shorter-maturities

• Positive market sentiment and trade talks supported investment-grade corporate spreads, which tightened 5bps to 148bps

• Momentum picked up in the primary market after a light December, and investment-grade issuers brought over $57 billion of supply
  • Issuance was skewed to companies with BBB ratings, which made up over 60% of the month-to-date total

• The strong rally in equity prices spilled over to high-yield corporates, which have yet to see any new issuance, and spreads tightened 81bps to close at 445bps
  • Companies rated below investment-grade have been absent from the new issue market for 41 days, the longest supply drought in over 20 years

• Lighter supply and solid demand helped securitized sectors outperform Treasuries month-to-date

• Municipal bonds broadly outperformed Treasuries month-to-date and muni/Treasury ratios fell by 1-4%; however, the 30-year muni/Treasury ratio rose by 1%

Sources: Bloomberg Barclays, Bloomberg and JP Morgan
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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