INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
January 2019

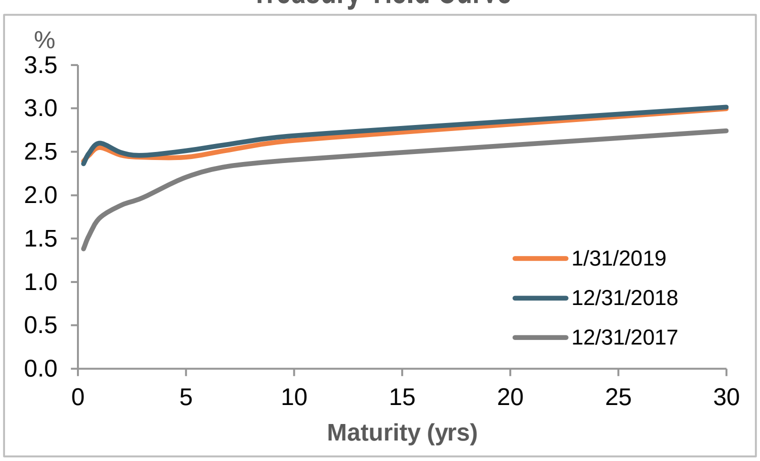
February 1, 2019

MARKET NEWS

- Market sentiment rebounded during January, as risk assets performed well, and corporate spreads tightened
  - The S&P 500 Index bounced back with a return of over 7% during the month, the strongest January in over 30 years
- US payrolls continued to build in January, as US employers added 304,000 jobs, which beat consensus expectations for growth of 165,000 and also marked a 100-month streak of job creation
  - Beginning in October 2010, the streak is more than twice as long as the next longest stretch of continuous employment growth, which were the 48 months ended June 1990
- The Federal Reserve (Fed) held rates steady during its January meeting, and investors interpreted its statements as dovish
  - Following the press conference, the market placed a higher probability on a rate cut than a rate hike in 2019
- Treasury yields declined across the curve despite an increased appetite for risk, as the Fed's dovish remarks applied downward pressure on yields
- Investment-grade supply picked back up, as issuers priced approximately $105 billion, which came in at the midpoint of estimates that called for $100-$110 billion
  - Despite meeting expectations, some investors felt that January supply was underwhelming, as January supply has averaged more than $135 billion over the past three years
- Generally solid corporate earnings and a renewed appetite for risk buoyed investment-grade corporate spreads, which tightened by 25bps, from 153bps to 128bps; long corporate spreads tightened by 22bps, from 200bps to 178bps
  - High-yield spreads followed suit and tightened by 103bps, from 526bps to 423bps
- Securitized sectors struggled to keep pace with the rally in other risk assets, though each sector still outpaced Treasuries
  - Commercial mortgage-backed securities (CMBS) outperformed other securitized sectors, as an industry conference led to light supply, which acted as a tailwind for spreads
- Municipals outpaced Treasuries within short to intermediate maturities, but lagged in the long end
  - The 2-year and 10-year muni/Treasury ratios fell by 3% and 4%, respectively, and the 30-year ratio increased by 1%

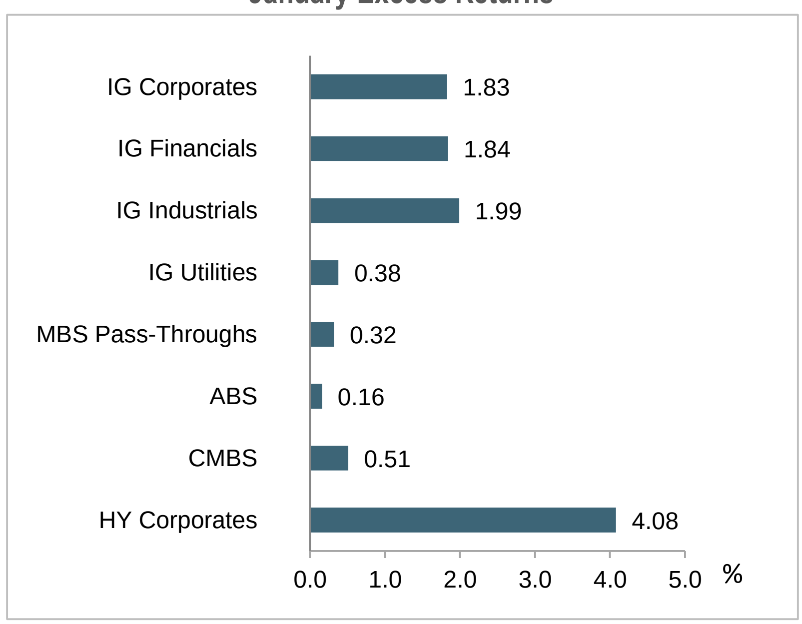
MARKET STATISTICS

Treasury Yield Curve



Maturity	2-year	5-year	10-year	30-year
1/31/2019	2.46	2.44	2.63	3.00
MTD Change	-0.03	-0.07	-0.06	-0.02

January Excess Returns*



As of: 1/31/19. Sources: Bloomberg, Bloomberg Barclays, 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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