INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
March 2019

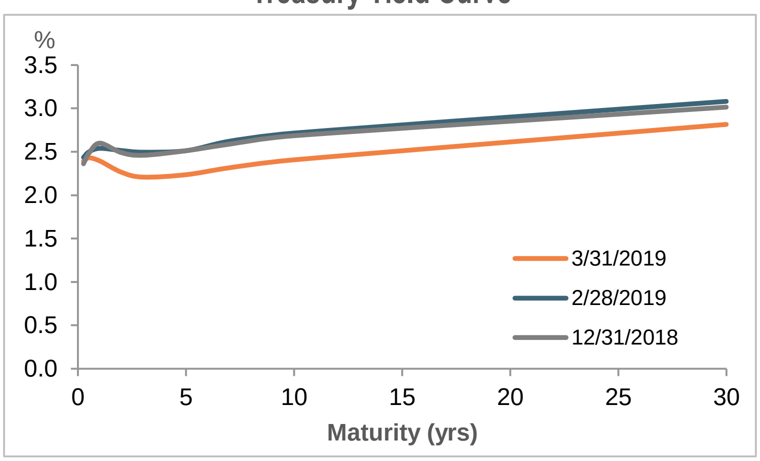
April 1, 2019

MARKET NEWS

- The Federal Reserve (Fed) delivered a dovish surprise following its March meeting, as it left rates unchanged, revised future rate expectations down, and discussed ending its balance sheet reduction program in September, earlier than expectations
    - Following the meeting, President Trump announced that he would nominate Stephen Moore to the Fed
    - The implied probability of a 2019 rate cut rose above 80% before settling in at approximately 65% at month end
- Rates dropped across the curve following the Fed announcement, falling by as much as 31bps
    - The yield on 3-month Treasury bills briefly eclipsed the yields on 10-year Treasuries, though the 10-year ended the month at 2.41%, 2bps higher than 3-month bills
- Investment-grade corporate issuers priced approximately $116 billion during the month, which met expectations, as the credit environment remained supportive
    - March supply was punctuated by an upsized $11 billion, five-tranche deal from Broadcom, which received solid demand, allowing the issuer to tighten pricing by 15-20bps from initial talk
    - Year-to-date issuance stands approximately 4% behind last year's pace, with Financial issuers accounting for less than 40% of investment-grade corporate supply, versus over 50% at this point last year
- Solid demand for investment-grade bonds acted as a tailwind for corporate spreads, which tightened 2bps to close at 119bps
    - Investment-grade bond funds have enjoyed nine straight weeks of inflows, with over $10 billion of inflows in March
- High-yield corporates underperformed higher-quality credit and Treasuries despite solid fund flows, as spreads widened by 12bps to close the month at 391bps
- Securitized assets generally struggled to keep pace with investment-grade corporates, and agency mortgage-backed (MBS) securities lagged Treasuries amid the sharp drop in interest rates
- Municipals performed roughly in line with Treasuries, as the 10-year muni/Treasury ratio remained near historic lows of 78%
    - With municipals, short-maturity bonds underperformed, as the 2-year ratio climbed by 3% to close at 67%

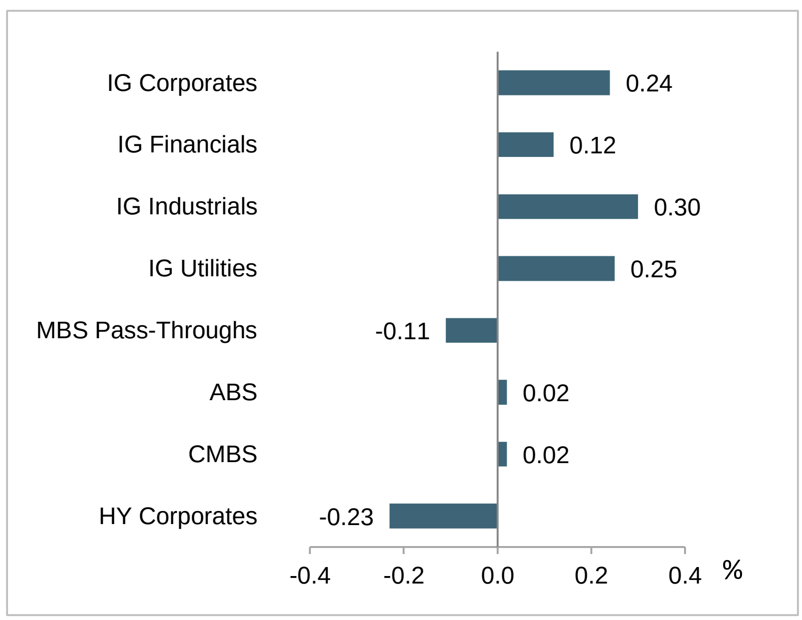
MARKET STATISTICS

Treasury Yield Curve



Maturity	2-year	5-year	10-year	30-year
3/31/2019	2.26	2.23	2.41	2.82
MTD Change	-0.26	-0.28	-0.31	-0.26

March Excess Returns*



As of: 3/31/19. 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.

100 Federal Street, 30th Floor Boston, MA 02110 (617) 330-9333 www.incomeresearch.com