IR+M
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
April 2019

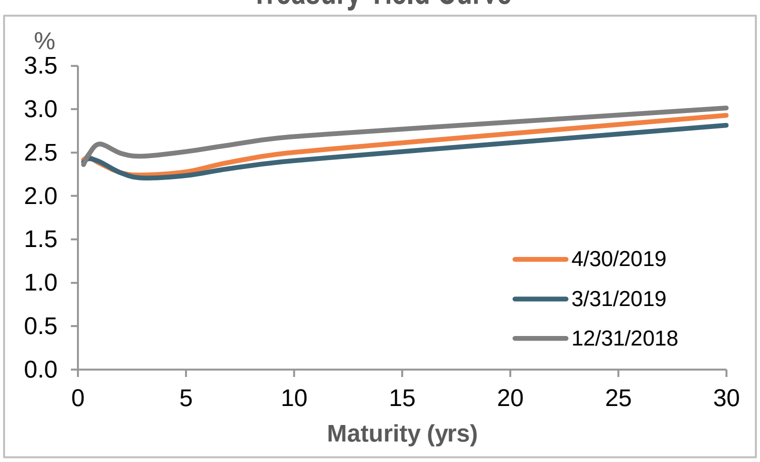
May 1, 2019

MARKET NEWS

- Investor appetite for risk persisted during the month amid a firm market tone, and equities continued to perform well, as the S&P 500 Index returned approximately 4% in April and reached an all-time high
- US economic data continued to suggest a fairly healthy economy, with first-quarter GDP coming in above expectations, at an annualized rate of 3.2%, and unemployment remaining below 4%
    - Inflation data was subdued; the Federal Reserve's preferred measure, Core Personal Consumption Expenditures (Core PCE), came in at 1.6%, which was below the Fed's 2% target and the lowest rate since September 2017
- Treasury yields rose across the curve and especially in the long end, as investors favored risk assets over Treasuries, and long-term inflation expectations rose, with the 10-year breakeven inflation rate climbing by 8bps, from 1.87% to 1.95%
    - The curve steepened during the month, as the difference between 10- and 2-year yields increased by 9bps to 23bps
- April corporate supply of roughly $76 billion came in at the low end of expectations, which called for $75 to $85 billion
    - Saudi Aramco's $12 billion deal was the largest of the month, and the bonds have since underperformed the market
    - Year-to-date issuance is approximately 7% behind last year's pace, mainly due to a heavy April 2018, in which investment-grade corporate issuers priced over $100 billion
- Strong demand met moderate supply, and investment-grade corporate spreads tightened by 8bps during the month, to close at 111bps, just 2bps above the year-to-date tight level of 109bps, which was achieved earlier in the month
- High-yield corporates followed suit, and spreads tightened by 33bps during the month, from 391bps to close at 358bps
- Securitized sectors struggled to keep pace with the rally in corporates, though both asset-backed securities (ABS) and commercial mortgage-backed securities (CMBS) outperformed Treasuries
- Municipal performance was bifurcated during the month, as long-end municipals significantly outperformed Treasuries while shorter-maturity muni bonds underperformed Treasuries
    - The 30-year muni/Treasury ratio declined by 6% during the month while the 2-year ratio rose by 2%

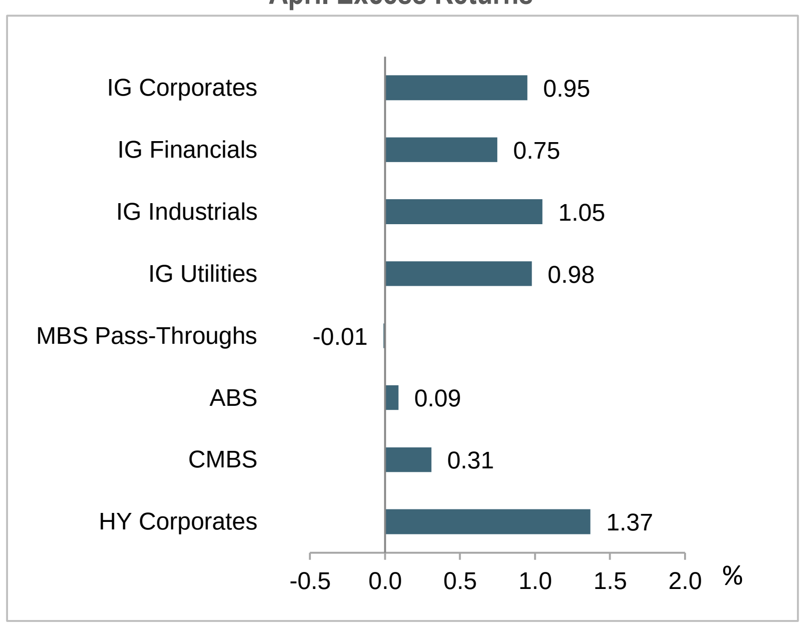
MARKET STATISTICS

Treasury Yield Curve



Maturity	2-year	5-year	10-year	30-year
4/30/2019	2.27	2.28	2.50	2.93
MTD Change	0.01	0.05	0.09	0.11

April Excess Returns*



As of: 4/30/19. 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.