The Federal Reserve (Fed) conveyed further dovish signals to market participants, and Treasury yields moved higher month-to-date as investors favored risk-assets following the accommodative tone:

- In a congressional testimony, Fed Chairman Jerome Powell addressed the risks of slow global growth and trade tensions weighing on the economic outlook, and cited weaker-than-expected inflation readings.
- The market-implied probability of a 25bps rate cut at July’s Fed meeting increased from 84.5% on June 30th to 100%.
- More confident in the Fed’s support, investors sent the S&P 500 to a new intraday high and above 3,000 for the first time on record.

Issuance of investment-grade corporates totaled over $20 billion month-to-date, and is on pace to meet dealer estimates of $60 to $70 billion for July.

However, lower rates overseas continue to attract issuers, and year-to-date supply is 10% behind last year’s pace.

Amid the risk-on tone, investment-grade corporate spreads tightened by 2bps, to close at 113bps – 4bps shy of the year-to-date tights.

High-yield corporates extended solid gains on the heels of a strong equity market, and outperformed higher-rated bonds.

Asset-backed securities (ABS) underperformed other securitized sectors month-to-date, as expectations for heavy supply in July weighed on performance.

Municipals participated in the rally, outperforming Treasuries, and the 10-year muni/Treasury ratio decreased by over 3%, to close at 77%.

Sources: Bloomberg Barclays, Bloomberg, and Bloomberg Index Services Limited.

Excess returns are the curve-adjusted excess return of a given index relative to a term structure-matched position in Treasuries. The views contained in this report are those of IR+M and are based on information obtained by IR+M from sources that are believed to be reliable. This report is for informational purposes only and is not intended to provide specific advice, recommendations, or projected returns for any particular IR+M product. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission from Income Research & Management. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively “Bloomberg”). BARCLAYS® is a trademark and service mark of Barclays Bank Plc (collectively with its affiliates, “Barclays”), used under license. Bloomberg or Bloomberg’s licensors, including Barclays, own all proprietary rights in the Bloomberg Barclays Indices. Neither Bloomberg nor Barclays approves or endorses this material, or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith.