Fixed income markets continued to anticipate the July Federal Reserve (Fed) meeting, broadly expecting the Fed to lower rates, which would be the first rate cut since 2008

- The market-implied probability of a 25bps rate cut is 100%, while the odds of a 50bps rate cut have increased from 0% to 32.5% since May
- However, recent data on inflation, the labor market, retail sales, and manufacturing output has surprised to the upside, and continues to point to a resilient US economy
- Issuance of investment-grade corporates was muted, totaling approximately $7 billion, which fell short of dealer estimates of $20 to $25 billion
  - Lower supply is largely due to the lack of issuance from major US banks, despite most exiting earnings blackout periods
- Investment-grade corporate spreads were flat week-over-week, and tightened by 1bp to 112bps, as lower Treasury yields and weaker oil prices were offset by light new issuance
  - Utilities outperformed as California passed wildfire legislation which will help stabilize the state’s large utility companies and avoid a potential multi-notch downgrade
- Asset-backed securities (ABS) underperformed other securitized sectors, as investors expect that this week may have the most issuance of the summer
- Demand for municipal bonds remain high as municipal bond funds saw net inflows of $47 billion in the first six months of 2019

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.