MARKET NEWS

- Risk assets rebounded during June, as the Federal Reserve (Fed) signaled that it may be open to future interest-rate cuts
  - As a result of dovish Fed comments, the market is now pricing in a 100% probability for a July rate cut; the implied probability for three 25bps rate cuts by year-end rose above 50%
- Solid job market data persisted, as the unemployment rate held at 3.6%, though the Core Personal Consumption Expenditures Price Index (Core PCE), the Fed’s preferred inflation measure, came in at 1.6%, below its 2% target
- Treasury yields continued to fall across maturities, and the curve steepened, as short-end rates declined by over 15bps
  - The 3-month Treasury Bill (2.10%) continues to out-yield the 10-year Treasury Note (2.01%), despite a nearly 25bps drop in the 3-month T-Bill yield during the month
- In spite of an attractive funding environment with low all-in yields and solid demand for risk, investment-grade issuers priced only $75 billion, barely meeting the low end of estimates of $75-85 billion
  - After two months of light supply, the $574 billion printed year-to-date is now over 11% behind last year’s pace
  - July estimates are calling for $60-70 billion of supply, which would be roughly 30% below the 4-year average for July
- A stronger market tone acted as a tailwind for investment-grade corporate spreads, which tightened by 13bps, from 128bps to 115bps, retracing much of the spread widening that occurred during May
  - Industrial sectors such as Basic Industry, Communications, and Energy outperformed on a subsector basis
- High-yield corporate spreads tightened by 56bps, from 433bps to 377bps, as equity-market strength supported spreads
- Securitized sectors lagged corporates during the month, with both asset-backed securities (ABS) and commercial mortgage-backed securities (CMBS) delivering negative excess returns, as investors favored corporate risk amid the rally in spreads
- Municipals underperformed Treasuries during the month, as muni/Treasury ratios continued to rise off of all-time lows that were set just last month
  - The 10-year muni/Treasury ratio rose by 3%, from 78% to 81%, after bottoming out at 71.6% in May 2019

MARKET STATISTICS

<table>
<thead>
<tr>
<th>Maturity</th>
<th>2-year</th>
<th>5-year</th>
<th>10-year</th>
<th>30-year</th>
</tr>
</thead>
<tbody>
<tr>
<td>6/30/2019</td>
<td>1.76</td>
<td>1.77</td>
<td>2.01</td>
<td>2.53</td>
</tr>
<tr>
<td>MTD Change</td>
<td>-0.16</td>
<td>-0.14</td>
<td>-0.12</td>
<td>-0.04</td>
</tr>
</tbody>
</table>

As of: 6/30/19. 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. 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.