IR+M

INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

June 2019

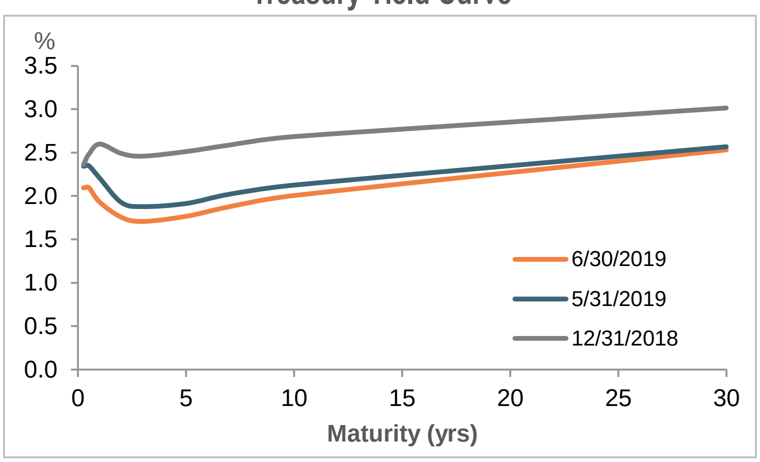
July 1, 2019

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

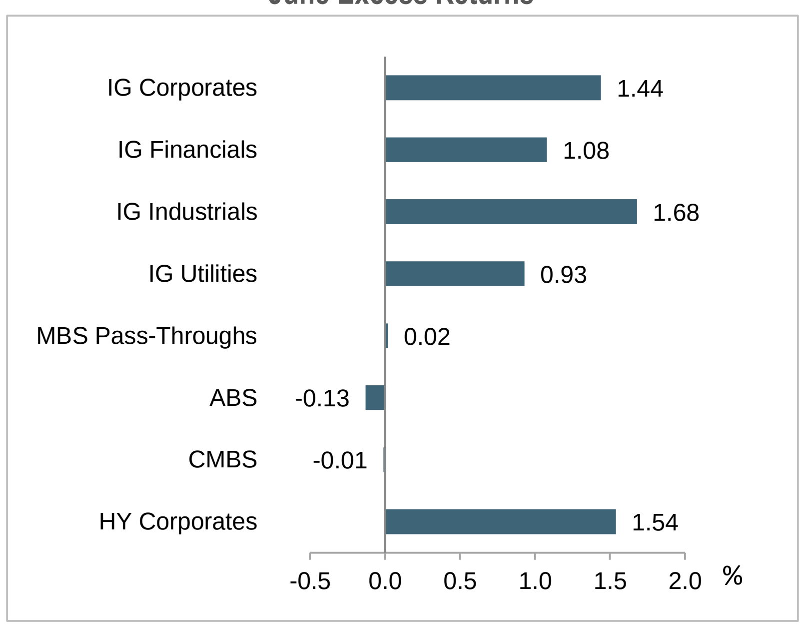
MARKET STATISTICS

Treasury Yield Curve



Maturity	2-year	5-year	10-year	30-year
6/30/2019	1.76	1.77	2.01	2.53
MTD Change	-0.16	-0.14	-0.12	-0.04

June Excess Returns*



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.