Weakening economic data in Germany and China prompted a selloff in risk assets globally, and a rally in US Treasury rates led to the first yield-curve inversion of 2- and 10-year rates since 2007.

- German officials pointed to US-China trade tensions as the country’s GDP contracted 0.1% in the second quarter.
- In China, the jobless rate ticked up to its highest reported level, and key figures on consumption and property investment declined.
- As investors collectively moved into safe-haven Treasuries, the yield curve flattened, and the 10-year Treasury rate dipped below the 2-year rate before closing at 1.58%.
- US equity markets reacted swiftly as participants feared that a yield-curve inversion may be a precursor to a recession, and the S&P 500 dropped almost 3% on Wednesday.
- The 30-year Treasury yield closed at a record low of 2.02% on Wednesday, and fell further to 1.94% overnight before rebounding on a more constructive tone from China Thursday morning.
- The rally in US Treasury rates was exacerbated as numerous foreign government yields remain negative, attracting investment from abroad.
- Low all-in yields produced a flurry of issuance, and investment-grade corporate issuers priced over $62 billion this month, on pace to surpass dealer estimates of $65 to $75 billion.
- ExxonMobil – one of the few AAA-rated corporate issuers – priced a 7-year deal, pricing $7 billion in 3-year to 30-year bonds.
- Amid the volatility, corporate spreads were pushed wider by just 1bp week-over-week to close at 123bps; spreads remain tight to historical averages, as demand for US fixed-income continues to be strong.
- Short duration, higher-quality asset-backed securities (ABS) outperformed other securitized sectors, and dealers struggled to find demand for mortgage-backed securities (MBS) amid heightened volatility.

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.