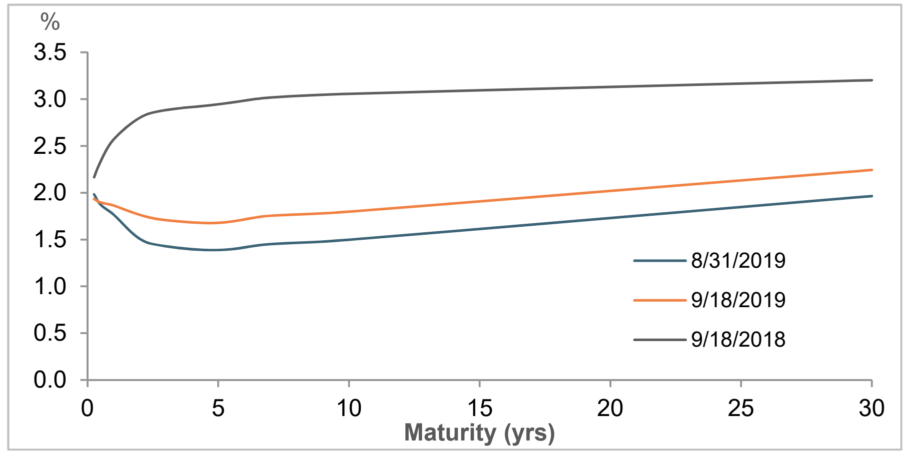
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
September 13 – September 19, 2019

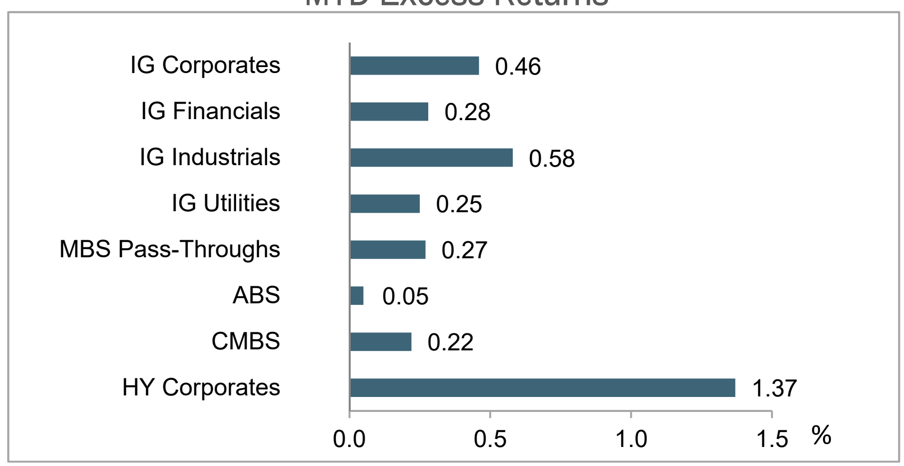
- The Federal Reserve (Fed) cut rates by 25bps, which was expected by the market; however, the decision was divided amongst voting members, as two members called for no rate cut and one for a 50bps cut
  - The overall rate outlook is hawkish, as Fed expectation is for no further cuts in 2019 or 2020; however, the market is pricing in one additional rate cut in 2019 and two more cuts in 2020
- Treasury rates initially increased broadly across the curve on the news of a potential de-escalation in US and China trade tensions; rates drifted downward over the week, but still closed up as much as 9bps
- Overnight repo rates soared during the week as a mid-month corporate tax deadline and large Treasury settlement contributed to an imbalance in the supply and demand of cash
  - The Fed stepped into the market three times, temporarily lending cash to primary dealers, which appeared to help normalize the rates
- Investment-grade corporate issuers priced roughly $23 billion, falling short of dealer expectations of $30 billion
  - Corporate spreads tightened by 4bps week-over-week and closed at 114bps, as corporate issuance cooled
- High-yield spreads, supported by an increase in oil prices from a disruption at a Saudi oil facility earlier in the week, tightened by 9bps to close at 356bps
- Mortgage-backed securities (MBS) continued to outperform other securitized sectors, as the increase in rates slowed borrower refinancing activity
- In the municipal market, investors added $1.2 billion to municipal bond mutual funds, the 36th straight week of net inflows

Treasury Yield Curve



Maturity	2-year	5-year	10-year	30-year
9/18/2019	1.76	1.68	1.80	2.24
MTD Change	0.25	0.29	0.30	0.30

MTD Excess Returns



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.

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