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.

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.