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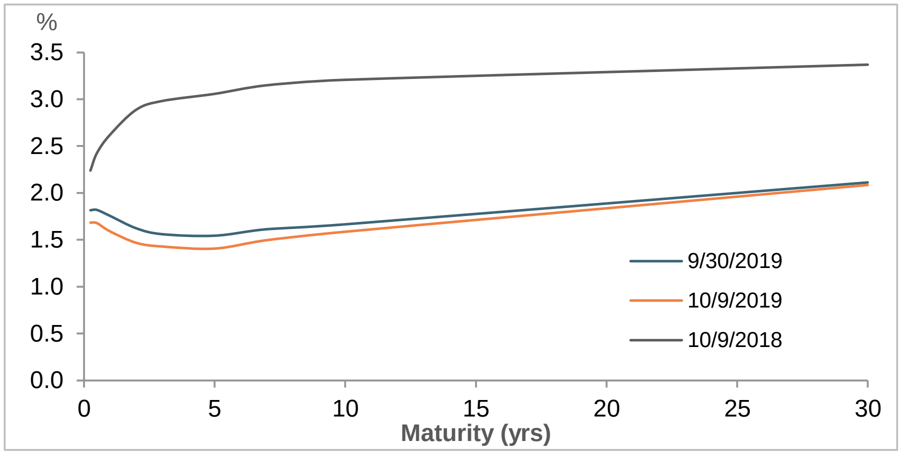
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

October 4 – October 10, 2019

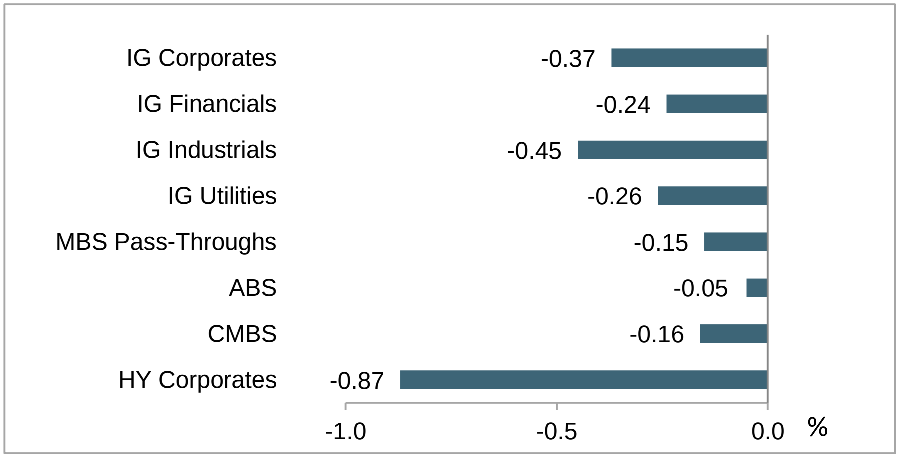
- Treasury yields fell week-over-week amid a cautious market tone, as geopolitical tensions persisted and mixed economic data was reported
  - The September payrolls figure of 136,000 missed expectations by 9,000; however, the August release was revised up by 38,000, and the unemployment rate fell to a 50-year low of 3.5%
  - Risk assets fluctuated as varied messages on the state of US-China trade talks were released from the White House, fostering the rally in Treasuries
- Minutes released from September’s Federal Reserve (Fed) meeting showed increasing uneasiness in economic conditions abroad and a “softness in business investment and manufacturing” domestically
  - Fed officials were divided at the meeting, which ended in a 25bps Fed Funds rate cut; two of ten members voted for no cut, while a third voted for a 50bps rate cut
- Investment-grade borrowers priced $8.5 billion this week, below dealer estimates of $10 to $15 billion
  - Multiple deals launched with little to no spread concession, as the appetite for US fixed-income remained strong; however, corporate spreads were wider by 1bp, closing at 120bps
- Month-to-date excess returns of high-yield corporates were increasingly negative at -0.87%, reacting to the volatility in equity markets
- Highlighted by Blackstone’s $5.6 billion securitization of industrial properties, heavy supply of commercial mortgage-backed securities (CMBS) weighed on the sector’s returns
- Municipals outperformed Treasuries, and the 10-year muni/Treasury ratio fell from a one-year high of 90% to close at 85%

Treasury Yield Curve



Maturity	2-year	5-year	10-year	30-year
10/9/2019	1.47	1.41	1.59	2.09
MTD Change	-0.15	-0.14	-0.08	-0.02

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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