IR+M INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
September 2019

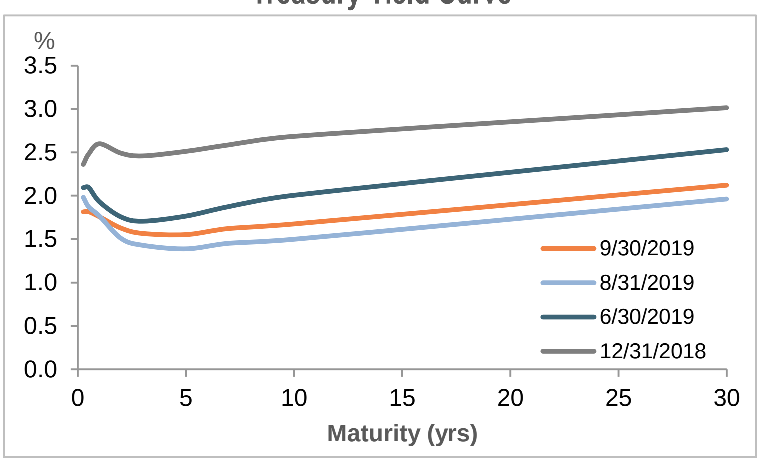
October 1, 2019

MARKET NEWS

- The Federal Reserve (Fed) cut rates by 25bps for the second time this year to 1.75-2.00%, as expected; however, members were divided on the decision, with one member voting for a 50bp cut and two voting for no cut
    - Although the Fed does not expect any additional cuts until after 2020, the market implied probability of at least a 25bp cut this December is roughly 70%
    - Increased volatility in overnight repo rates, which reached as high as 10%, caused the Fed to temporarily lend funds to primary dealers, which helped normalize the level to below 2%
- Treasury yields increased across the curve, and the 30-year Treasury yield surpassed 2% – partially retracing some of last month's dramatic rate rally; quarter-over-quarter, Treasury yields fell by between 13 and 42bps
- Investment-grade corporate borrowers issued almost $160 billion – the third highest month of issuance on record – behind the $176 billion and $177 billion priced in January 2017 and May 2016, respectively
    - October is expected to see relatively less supply, with estimates between $85 and $90 billion, due to the blackout period surrounding earnings season
    - With over $320 billion issued in the third quarter, we are approximately $50 billion ahead of 2018's third quarter pace
- A solid market tone, despite a wave of record-setting supply, pushed investment-grade corporate spreads 5bps tighter to 115bps, showcasing the depth of investor demand for yield
    - In the third quarter, spreads were as tight as 107bps and as wide as 124bps, before closing flat at 115bps
- Rising equity prices and an appetite for yield supported high-yield corporate spreads, which tightened 20bps for the month, from 393bps to 373bps
- Technicals acted as a headwind for asset-backed securities (ABS), which struggled to keep pace with other spread sectors, as the $25 billion of September issuance was the second heaviest month in 2019
- Municipalities brought over $37 billion of supply, which exceeded the five-year monthly average of $32 billion; the heavy issuance weighed on performance and munis underperformed Treasuries

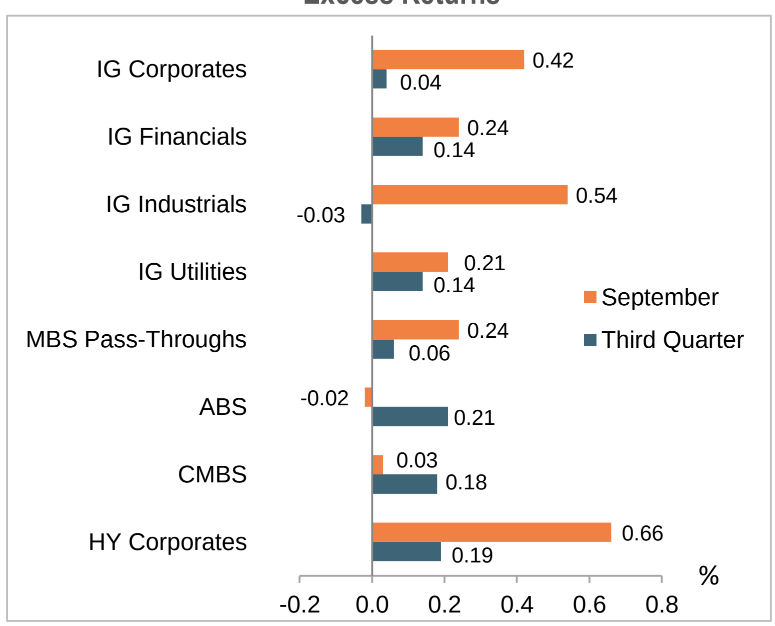
MARKET STATISTICS

Treasury Yield Curve



Maturity	2-year	5-year	10-year	30-year
9/30/2019	1.62	1.55	1.67	2.11
MTD Change	0.11	0.16	0.17	0.15

Excess Returns*



As of: 9/30/19. 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.