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 retracting 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

<table>
<thead>
<tr>
<th>Maturity</th>
<th>2-year</th>
<th>5-year</th>
<th>10-year</th>
<th>30-year</th>
</tr>
</thead>
<tbody>
<tr>
<td>9/30/2019</td>
<td>1.62</td>
<td>1.55</td>
<td>1.67</td>
<td>2.11</td>
</tr>
<tr>
<td>MTD Change</td>
<td>0.11</td>
<td>0.16</td>
<td>0.17</td>
<td>0.15</td>
</tr>
</tbody>
</table>

Excess Returns

- IG Corporates
  - September: 0.42
- IG Financials
  - September: 0.24
- IG Industrials
  - September: 0.54
  - Third Quarter: -0.03
- IG Utilities
  - September: 0.14
- MBS Pass-Throughs
  - September: 0.21
  - Third Quarter: 0.24
- ABS
  - September: 0.21
  - Third Quarter: 0.06
- CMBS
  - September: 0.03
  - Third Quarter: 0.18
- HY Corporates
  - September: 0.66

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.

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