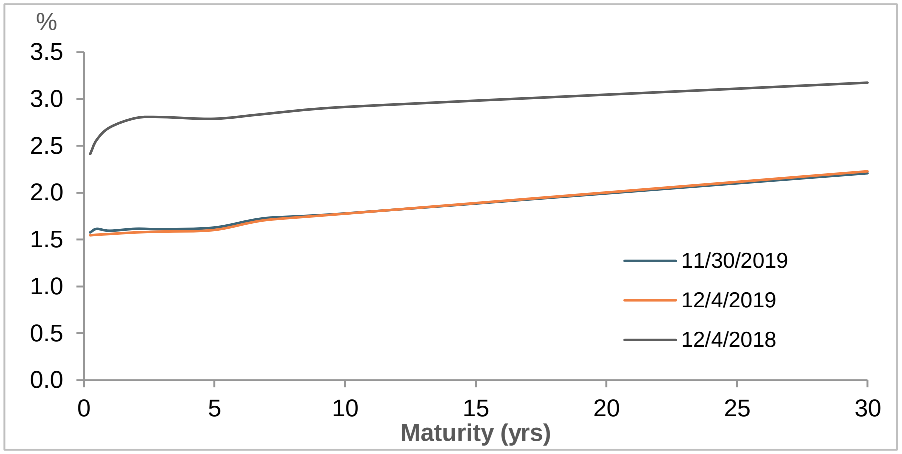
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

December 1 – December 5, 2019

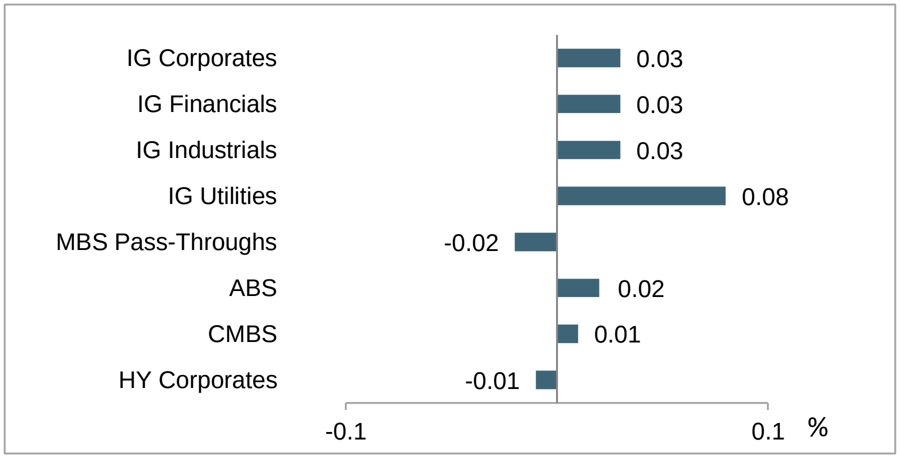
- The Treasury curve steepened modestly over the week, as front-end yields fell amid trade headlines and mixed economic data that triggered volatility in risk assets
    - President Trump's comments that US-China trade talks could last into the 2020 US elections initiated a flight to quality and a selloff in equity markets
    - November's nonfarm payrolls employment report of 67,000 fell well short of expectations for 156,000, causing concern over economic growth
- The Federal Reserve again added temporary liquidity to financial markets, buying $96 billion of overnight and 14-day repurchase agreements, in an attempt to keep costs of short-term borrowing consistent with its federal-funds rate
- Issuers priced over $13 billion of investment-grade corporate debt month-to-date, meeting dealers' estimates of $10 to $15 billion
    - This month's issuance has already surpassed the $8 billion priced during December 2018
    - Total year-to-date supply remains roughly 5% behind 2018's pace
- Despite the heightened volatility, investment-grade corporate spreads were unchanged at 105bps, just 1bp shy of the year-to-date tights
    - Spreads of high-yield corporates widened by 8bps to close at 378bps, echoing the softer tone in equity markets
- Utilities outperformed other corporate sectors, as investors preference for up-in-quality, defensive sectors drove performance in the sector
- Mortgage-backed securities (MBS) lagged Treasuries, reflecting investors' expectations for higher prepayment speeds amid the low rate environment
- Improved interest from foreign buyers helped municipal bond funds post the 47th consecutive week of inflows

Treasury Yield Curve



Maturity	2-year	5-year	10-year	30-year
12/4/2019	1.58	1.60	1.78	2.23
MTD Change	-0.03	-0.03	0.00	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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