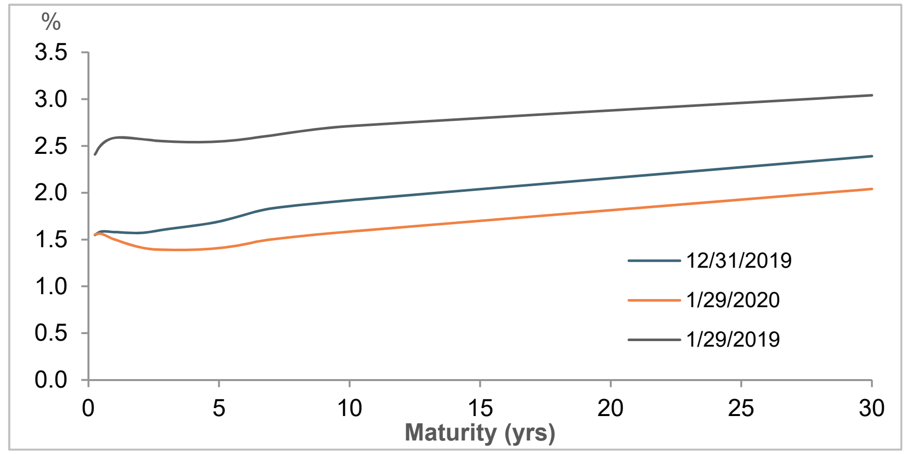
IR+M INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

January 24 – January 30, 2020

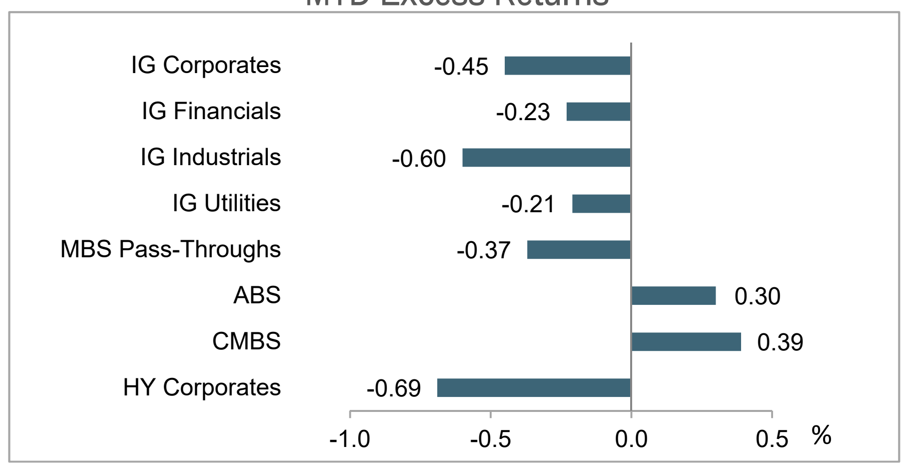
- Treasury yields broadly fell over the week and the curve flattened, amid growing concerns over the impact of the coronavirus outbreak and mixed US economic releases
  - US fourth quarter GDP growth was 2.1%, as the economy continued its longest expansion on record; however, growth for 2019 was 2.3%, the slowest annual pace since 2016
  - The US Census Bureau reported that new orders for durable goods increased 2.4% in December, but excluding defense, decreased 2.5%
- At its first meeting of the year, the Federal Reserve (Fed) left the fed funds target unchanged at 1.5% - 1.75%
  - Fed officials continue to view the economy as healthy and do not expect any rate changes through the end of year
  - The Fed's actions were interpreted as dovish, and the market-implied probability of at least one rate cut during the year increased from 74% to 87%
- Investment-grade corporate issuance trailed off, with less than $8 billion priced during the week, below expectations of $20 billion to $25 billion
  - Despite the low supply, investment-grade corporate spreads widened by 6bps week-over-week to 99bps
  - Given the risk-off tone, month-to-date corporate excess returns swung negative over the week
- Residential mortgage-backed securities (MBS) underperformed amid elevated refinance activity, as the MBA Refinance Index rose 8%
- The municipal bond market is on track for its biggest monthly gain in five years; the Bloomberg Barclays Municipal Bond Index month-to-date returned 1.69%, fueled by strong demand

Treasury Yield Curve



Maturity	2-year	5-year	10-year	30-year
1/29/2020	1.42	1.41	1.59	2.04
MTD Change	-0.15	-0.28	-0.33	-0.35

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.