IR+M CLIENT UPDATE
February 2020

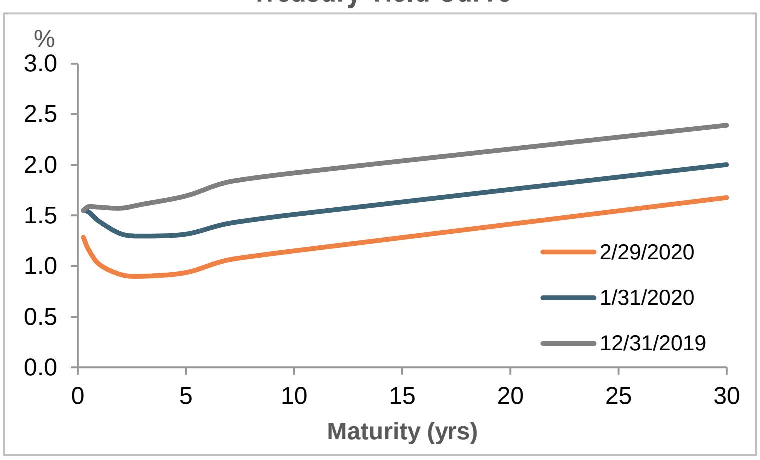
March 2, 2020

MARKET NEWS

- Risk-off sentiment built momentum throughout the month of February, as investors disregarded positive economic reports amid growing concerns over the spread of coronavirus, and favored safe-haven assets, such as US Treasuries
    - The S&P 500 Index reached a new all-time high before closing the month down over 8%
    - The Producer Price Index (PPI) grew by 2.1% year-over-year, ahead of expectations of 1.6%
    - Treasury yields declined significantly across the curve, as rates dropped by over 30bps and reached record lows; the 30-year Treasury yield began the month at 2.00%, reached as high as 2.16%, and closed at 1.68%
- Market participants expect the Federal Reserve (Fed) to intervene and cut rates to support the US economy with the market-implied number of rate cuts in 2020 increasing from 2 to 4
    - The next Fed meeting is on March 18th, and Powell recently commented that the Fed will "act as appropriate" in regards to the risks from the spread of the virus
- Supply was notably light, with the $87 billion of investment-grade issuance well behind expectations of at least $100 billion
    - There was no supply during the last week of February, marking the first week without any issuance since July 2018, excluding weeks with seasonality factors
    - Year-to-date supply is still 2% ahead of last year's pace, with over $220 billion priced so far in 2020
- Despite the lack of supply, spreads closed the month wider, with investment-grade and high-yield spreads widening by 20bps and 110bps, respectively, to 122bps and 500bps
    - However, given light trade volumes with little price discovery, the full extent of widening may not be fully realized
    - Long-duration bonds were most influenced by headlines, and underperformed Treasuries by almost 350bps
- Securitized sectors proved resilient to broader weakness, outperforming corporates but underperforming Treasuries
- Municipals underperformed Treasuries during the month, and the 10-year muni/Treasury ratio increased by 5% to 83%, remaining below the five-year trailing average of 89%

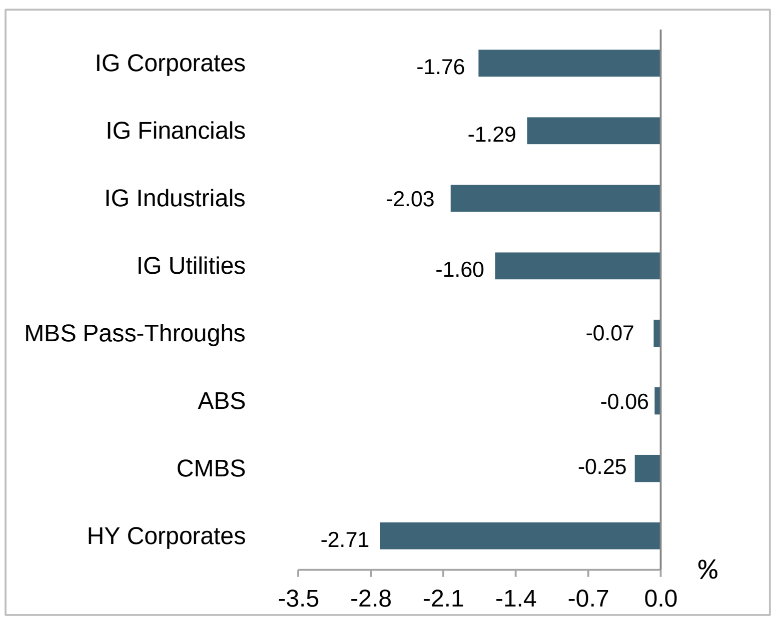
MARKET STATISTICS

Treasury Yield Curve



Maturity	2-year	5-year	10-year	30-year
2/29/2020	0.92	0.94	1.15	1.68
MTD Change	-0.40	-0.37	-0.36	-0.32

Excess Returns*



As of: 2/29/20. 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.