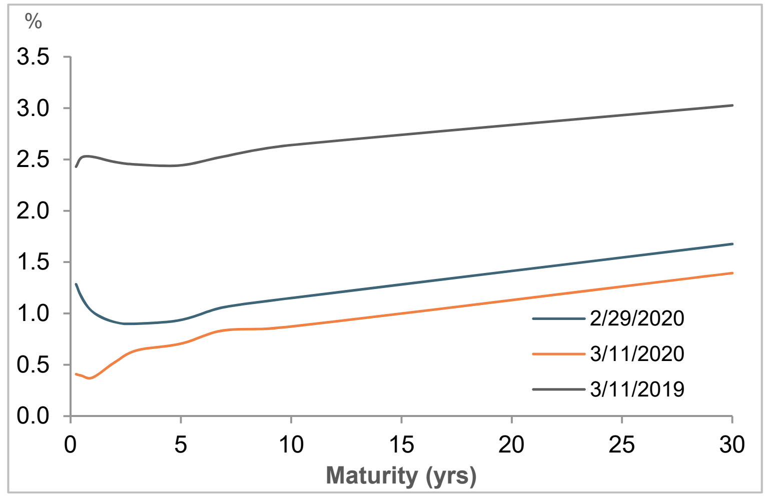
IR+M
INCOME RESEARCH + MANAGEMENT

IR+M SPECIAL MARKET UPDATE
March 6 – March 12, 2020

MARKET NEWS

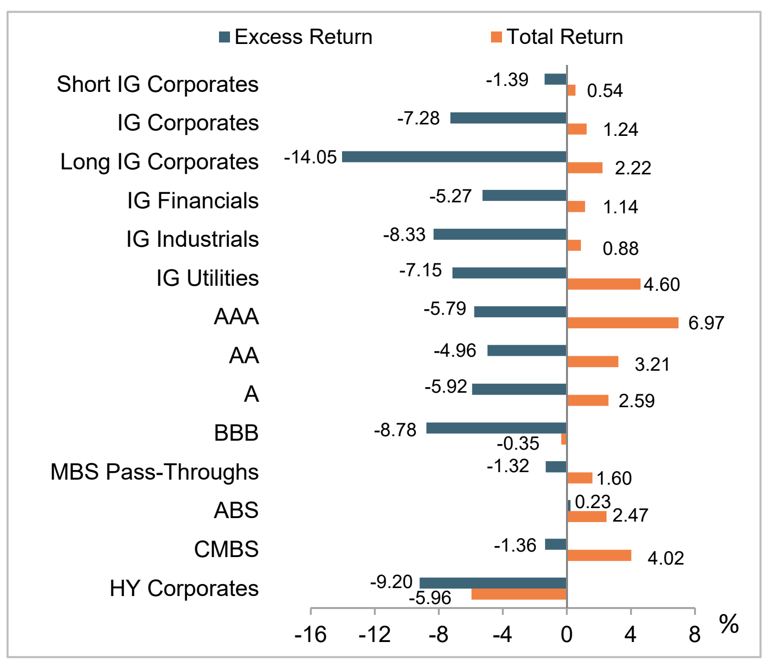
- Markets continue to be rattled, as investor uncertainty over the mounting economic impact of the coronavirus outbreak has been exacerbated by a developing oil-price war between Saudi Arabia and Russia.
- Equity markets entered bear market territory in response, with both the Dow and S&P 500 indices down over 20% from recent highs. A surprise announcement by the White House, which banned incoming passenger travel from most of Europe for 30 days, caused further turmoil.
- Treasury yields fell sharply in response; the entire yield curve dropped below 1% earlier in the week, with the 10-year Treasury yield hitting an all time low of 0.32%. Yields recovered later in the week, partially due to a 10-year Treasury auction, as well as a Treasury sell-off by banks to raise cash.
- The Federal Reserve (Fed) implemented additional monetary policy in response to market conditions: increasing the amount of overnight lending from $100 billion to $175 billion, expanding its monthly Treasury purchases to include bills, notes and TIPS, and offering $500 billion in three-month and one-month repo operations on a weekly basis through April.
- The market is pricing in a 100bps rate cut at the Fed's meeting next week.
- Amidst the volatility, the US high-grade primary market was largely quiet this week. Four investment-grade corporate issuers came to market with $5.2 billion, while at least ten issuers decided to suspend their offerings. Initial expectations called for weekly supply of $0 - $30 billion.
- Broad market concerns put pressure on corporate spreads, which widened 55bps week-over-week to 183bps, well above the 5-year average of 126bps. High-yield spreads were up 152bps on equity market weakness and energy sector concerns.
- In the securitized market, commercial mortgage-backed securities (CMBS) underperformed on elevated issuance, which is over 50% ahead of last year's pace.
- Mortgage-backed securities (MBS) also underperformed on fears of increased prepayment activity; mortgage refinance applications were up 79% week-over-week.
- Municipal funds saw their first week of outflows after 60 weeks of inflows, as investors withdrew $430 million.
- Municipal yields, which hit a record low early in the week as investors sought out safe-haven assets, widened out substantially as municipal bonds were seen as a source of liquidity.

Treasury Yields Continue to Fall



Maturity	2-year	5-year	10-year	30-year
3/11/2020	0.52	0.71	0.87	1.39
MTD Change	-0.40	-0.23	-0.28	-0.29
YTD Change	-1.05	-0.98	-1.05	-1.00

YTD Returns*



IR+M INCOME RESEARCH + MANAGEMENT

IR+M SPECIAL MARKET UPDATE
March 6 – March 12, 2020

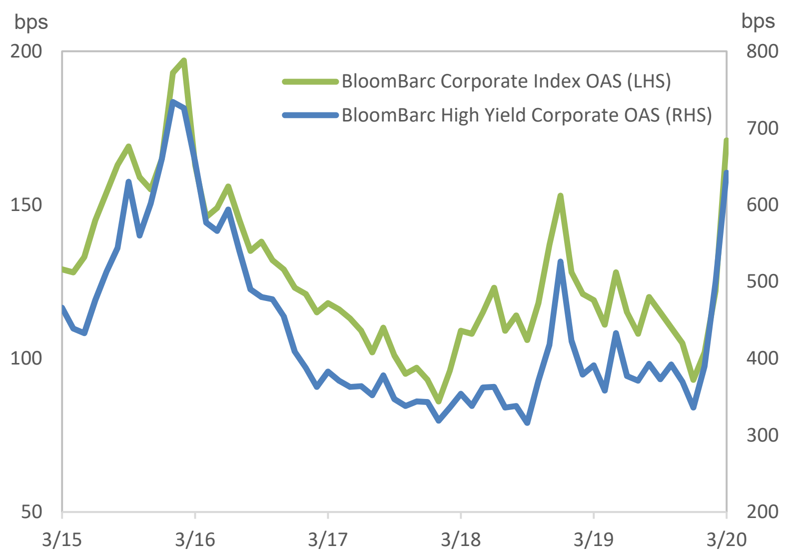
TRADING DESK OBSERVATIONS

- Corporates
  - High-quality corporates held in, and we saw demand for 10-year-and-in bonds. However, liquidity for lower quality bonds deteriorated, and spreads widened significantly, particularly within BBBs and Energy.
  - Odd lot bid/ask spreads, especially on the front-end, widened as much as 50-100bps.
- Securitized
  - MBS widened significantly during the week, but rallied after the Fed announcement today.
  - Asset-backed securities (ABS) were challenged, and bid/ask spreads widened from 2-3bps to 20-40bps over the past few days. The widening has largely been due to technical – and not fundamental – factors.
  - CMBS were similarly tested. Agency CMBS bid/ask has widened less than CMBS, and offered the most liquidity within securitized.
- Municipals
  - Heavy selling exerted pressure on the market, with an estimated $9-$10 billion sold via bid-wanted over a four day period. This was approximately four times the typical amount in a week.
  - There was a severe decoupling between munis and Treasuries, which was a recent and rare development for this market. Muni/Treasury ratios, which typically hover in the 70-80% range, ballooned to 200-250%.
  - Several high-quality new issuers stepped back from the market this week, representing an estimated 10% of this week's supply.
- Treasuries
  - Liquidity in both on-the-run (OTR) and off-the-run (OFTR) bonds was substantially worse. Bid/ask spreads for OTR widened by a factor of four, while OFTR increased by a factor of eight.
  - TIPS traded on an almost bond-by-bond basis, as there are fewer dealers that focus on the TIPS market.

YTD Spread Changes – Currently At or Near Wides

	12/31/2019 (bps)	3/11/2020 (bps)	YTD Change (bps)
IG Corporate	93	183	+90
Financials	99	167	+68
Industrials	80	195	+115
Utilities	97	159	+66
AAA	52	103	+51
AA	48	115	+67
A	70	145	+75
BBB	120	229	+109
Securitized	42	92	+50
MBS	39	91	+52
ABS	44	44	+0
CMBS	72	102	+30
HY Corporate	336	646	+310

Corporate OAS Spiked on Market Turmoil



As of: 3/12/20. Sources: Bloomberg, Bloomberg Barclays. *Excess returns are the curve-adjusted excess return of a given index relative to a term structure-matched position in Treasuries.