IR+M SPECIAL MARKET UPDATE

March 20 – March 26, 2020

INCOME RESEARCH + MANAGEMENT

THE ECONOMY

- Markets continued to digest the increasing financial toll of the coronavirus outbreak; the impact of temporary business closures and other quarantine-related measures began to trickle into economic data.
- US jobless claims surged to almost 3.3 million, far-surpassing the highest level of 665,000 in the financial crisis, and up from 282,000 the prior week.
- The Markit Flash US Composite Purchasing Manager Index (PMI), which covers private sector manufacturing and services, contracted sharply; March's estimate of 40.5 was down from February's 49.6.

MONETARY POLICY

- The Federal Reserve (Fed) expanded its initiatives to include unlimited buying of Treasury and mortgage-backed securities, and purchasing of select corporate bonds in the primary and secondary markets.
- The Fed balance sheet increased by $1.1 trillion since the start of the month, hitting a record high of $5.2 trillion.

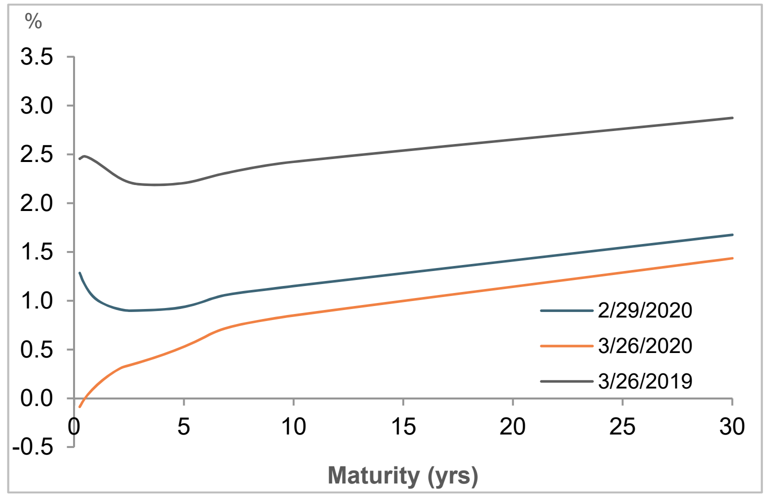
FISCAL POLICY

- The US Senate passed a $2 trillion stimulus package to blunt the impact from the outbreak and provide liquidity to households, businesses, and state and local governments; this dwarfs the $800 billion that was provided during the financial crisis.
- The bill also includes new authorization for the Fed to buy municipal securities in the secondary market to relieve liquidity issues.

MARKET NEWS

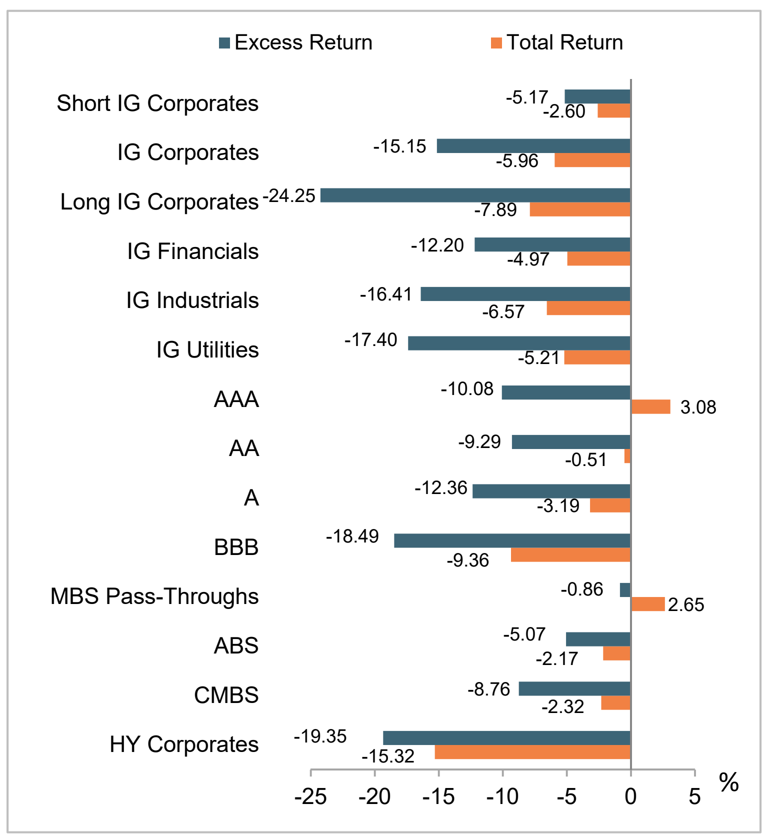
- Treasury yields fell and the curve flattened week-over-week, with the one- and three-month yields turning negative for the first time in almost five years.
- Fixed income markets responded positively to the prospect of fiscal stimulus; investment-grade corporate spreads, which had widened to a 10-year high of 373bps, tightened 27bps to 302bps week-over-week.
- Although spreads are 180bps wider on the month, low rates drove investment-grade corporate issuers to price a record $98.9 billion in debt; month-to-date volume of $197.9 billion also set a new record.
- Mortgage-backed securities (MBS) outperformed other securitized sectors; MBS were supported by the Fed's purchasing program, while mortgage applications experienced the largest w/w drop in 11 years.
- After reaching their highs on March 20th, muni yields fell this week in the sharpest rally ever recorded in the muni market; the 10-year AAA municipal yield, which peaked at a six year high of 2.86%, closed the week at 1.49%.

Treasury Yields Fall on Fed Action



Maturity	2-year	5-year	10-year	30-year
3/26/2020	0.30	0.53	0.85	1.43
MTD Change	-0.62	-0.41	-0.30	-0.25
YTD Change	-1.27	-1.16	-1.07	-0.96

YTD Returns*



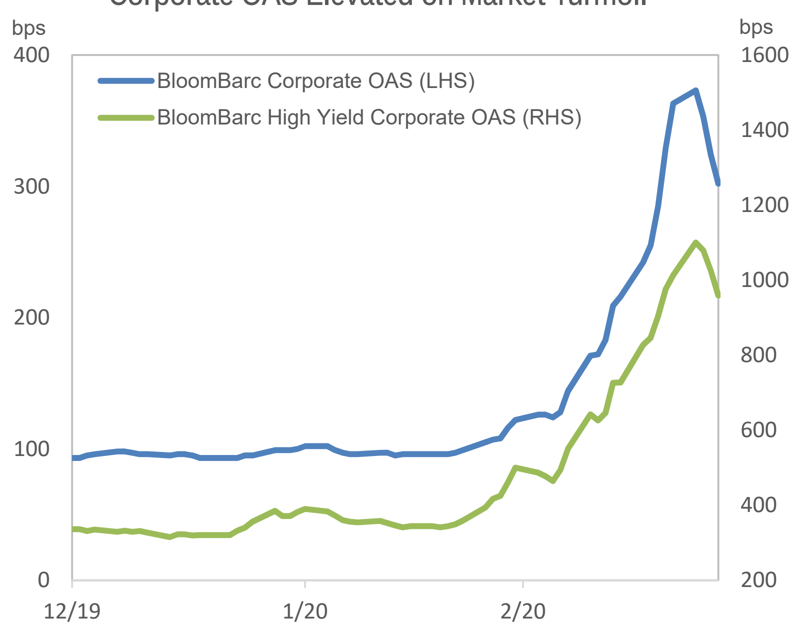
TRADING DESK OBSERVATIONS

- Corporates
  - Heavy issuance was met by strong demand. New issue concessions, which started the week at 50bps, declined to 3bps with the Fed in the background. Overseas buying also returned over the week, focused on higher quality issues.
  - Market tone generally improved, particularly in the front-end. LQD, an IG ETF flipped from trading at a 5% discount to NAV to a 5% premium. However, liquidity in off-the-run corporates remained challenged.
- Securitized
  - Asset-backed securities (ABS) volume was strong during the week, but liquidity improved significantly on the heels of Fed action (TALF).
  - CMBS spent most of the week trading softer relative to corporates, but 10-year CMBS spreads tightened from an estimated 385bps to just under 200bps.
  - RMBS experienced firmer bids and more market participation, particularly in Agency RMBS.
- Municipals
  - The new issue calendar reopened with several issues pricing this week, including Stanford University Health, Washington University in St. Louis, and Phoenix Civic Improvement.
  - AAA muni spreads, which widened 200bps in two weeks, tightened 130-135bps in just a few days.
  - Muni funds had another record week of outflows, totaling $13.7 billion.
- Treasuries
  - Liquidity continued to improve across the market, as spreads between on-the-run (OTR) and off-the-run (OFTR) bonds are tightening up.
  - Dealer participation in TIPS is getting better day-by-day, and bid/ask spreads are only slightly wider than normal times. Breakevens also rallied, as the 10yr B/E increased from 0.76% to 1.07%.

YTD Spread Changes

	12/31/19 (bps)	3/19/20 (bps)	3/26/20 (bps)	YTD Change (bps)
IG Corporate	93	329	302	+209
Financials	80	326	302	+222
Industrials	99	342	305	+206
Utilities	97	238	276	+179
AAA	52	189	134	+82
AA	48	233	188	+140
A	70	274	240	+170
BBB	120	396	385	+265
Short	43	328	306	+263
Long	136	335	295	+159
Securitized	42	135	72	+30
MBS	39	132	55	+16
ABS	44	185	325	+281
CMBS	72	154	244	+172
HY Corporate	336	976	959	+623

Corporate OAS Elevated on Market Turmoil



RECENT MAILERS

- Please see links below for recent mailers for additional information
  - [Long Corporate Bond Market]
  - [History In The Making]
  - [A Talk With Our Traders]
  - [Federal Reserve COVID-19 Stimulus Overview]

As of: 3/26/20. 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.