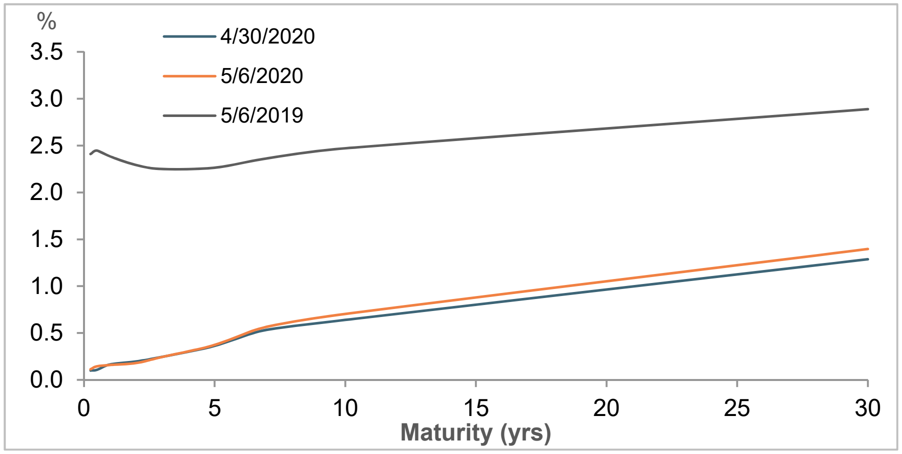
IR+M
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

May 1 – May 7, 2020

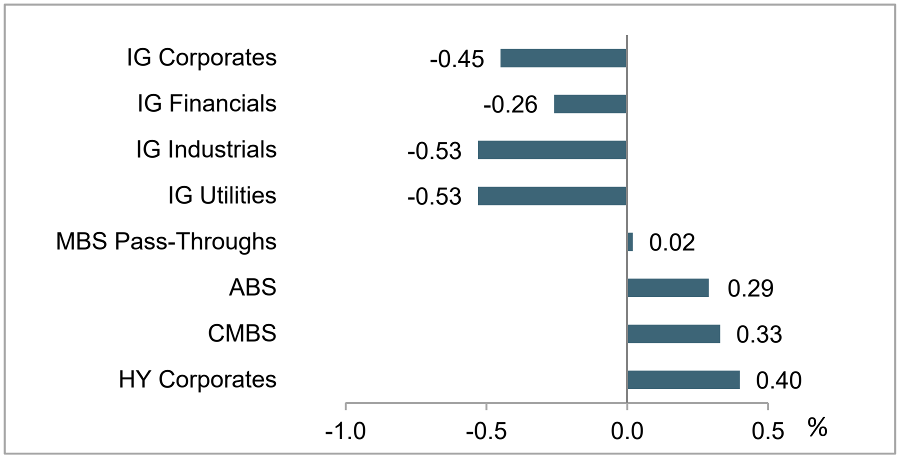
- Markets initially fell as mixed corporate earnings and soft economic data highlighted the toll of the coronavirus; however, a continued push to re-open the US economy drove a rebound in risk sentiment
    - Estimated earnings for the S&P 500 declined 13.7% in the first quarter, the largest year-over-year decline since 3Q 2009
    - Oil prices rose over 25% to $24/bbl, boosted by an expected recovery in demand as well as the impact of production cuts
- The US Treasury announced plans to borrow a record $3 trillion during the second quarter, via increased auction sizes and a new 20-year bond
    - Total fiscal year borrowing is anticipated to be $4.5 trillion, which is more than triple last year's total of $1.28 trillion
    - Treasury yields, which had climbed on supply expectations, fell today as fed fund futures contracts began pricing in a negative fed funds rate at the end of the year
- The onslaught of investment-grade corporate supply continued, as issuers priced more than $75 billion this week; year-to-date issuance of over $830 billion is 97% ahead of last year's pace
    - Investors showed fatigue from the heavy supply, weighing on corporate spreads, which widened 5bps to close at 207bps
    - High-yield issuers are expected to price over $10 billion this week; investors continue to allocate to the asset class and spreads tightened 8bps to 736bps
- Mortgage-backed securities (MBS) underperformed other securitized sectors; the April prepayment report showed conventional mortgage prepayment rates were up 26% month-over-month
- Municipals outperformed Treasuries as the recent expansion of the Federal Reserve's (Fed) Municipal Liquidity Facility supported the market; the 10-year muni/Treasury ratio fell from 225% to 180%

Treasury Yield Curve



Maturity	2-year	5-year	10-year	30-year
05/06/2020	0.18	0.37	0.70	1.40
MTD Change	(0.01)	0.02	0.08	0.13

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.