IR+M

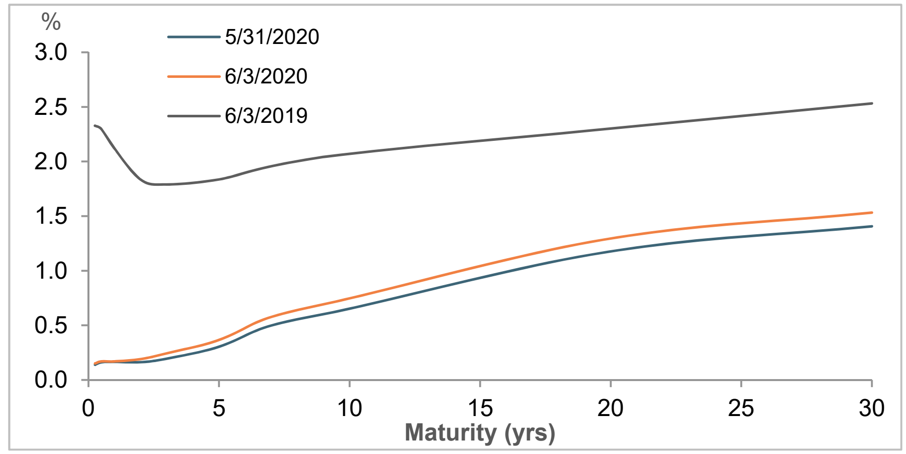
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

June 1 – June 4, 2020

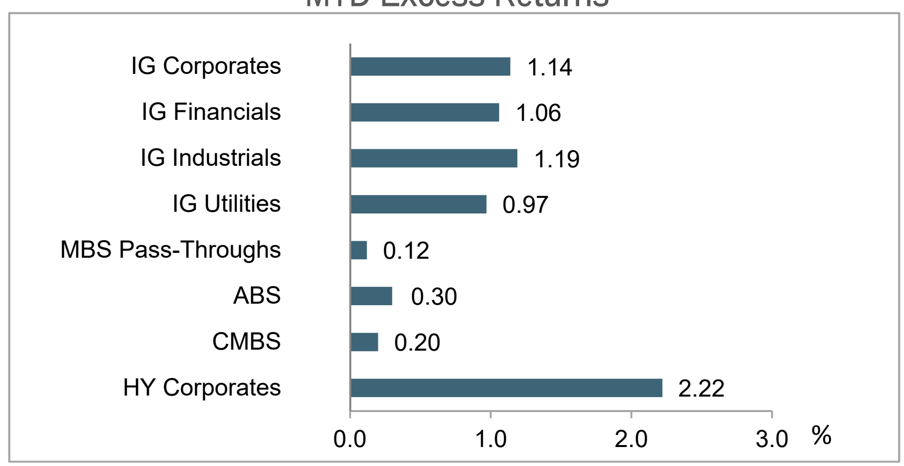
- Investors focused on improving economic indicators over domestic civil unrest and growing trade tensions, pinning hopes that the worst of the economic impact of COVID-19 is over; risk assets rallied and Treasury yields climbed higher
    - ISM PMI releases for May showed improvement from April; the manufacturing PMI increased to 39.8 from 36.8, while the service PMI registered 37.5, up over 10 points from 26.7
    - US jobless claims eased to 1.9 million and continuing claims held relatively steady at 21.5 million, indicating a gradual return to work as states emerge from lockdowns
- The Federal Reserve (Fed) expanded the Municipal Liquidity Facility to include smaller borrowers that did not meet the original requirements
    - The program, originally announced in April, will launch this week as Illinois is set to borrow $1.2 billion
- The European Central Bank added €600 billion to its stimulus program, nearly doubling the emergency bond-buying program to €1.35 trillion; sovereign yields in Europe fell on the announcement
- Investment-grade corporate issuers priced over $47 billion, surpassing initial estimates; average new issue concessions were negative on strong demand, and order books were heavily oversubscribed
    - Investment-grade corporate spreads continued their recovery, narrowing 14bps to close at 160bps; high yield spreads, in concert with equities, tightened 76bps to 562bps
- Asset-backed securities (ABS) outperformed other securitized sectors on reduced supply; only $73 billion has priced year-to-date compared to $109 billion at this time last year
- The 10-year muni/Treasury ratio fell 17% to 108%, as municipal bonds outperformed Treasuries; yields could continue to rally over the summer, as debt payments received by investors are expected to exceed new bonds issued by $50 billion

Treasury Yield Curve



Maturity	2-year	5-year	10-year	20-year	30-year
06/03/2020	0.19	0.37	0.75	1.30	1.53
MTD Change	0.03	0.07	0.10	0.12	0.12

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.