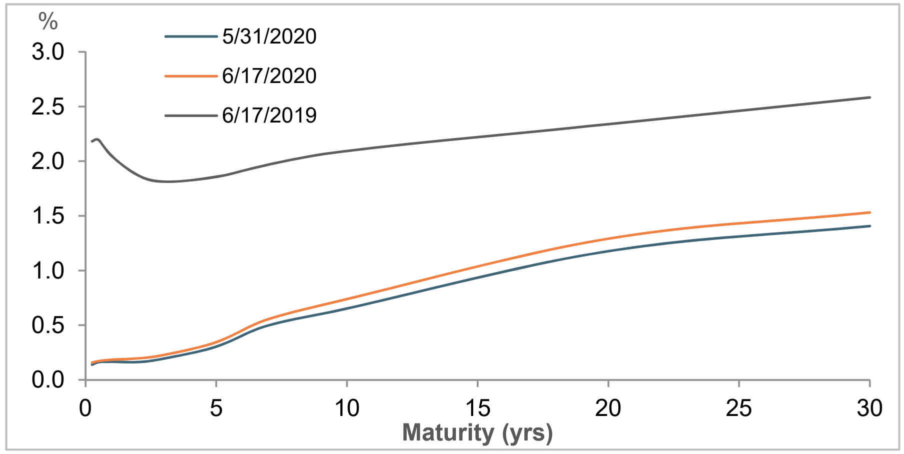
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

June 12 – June 18, 2020

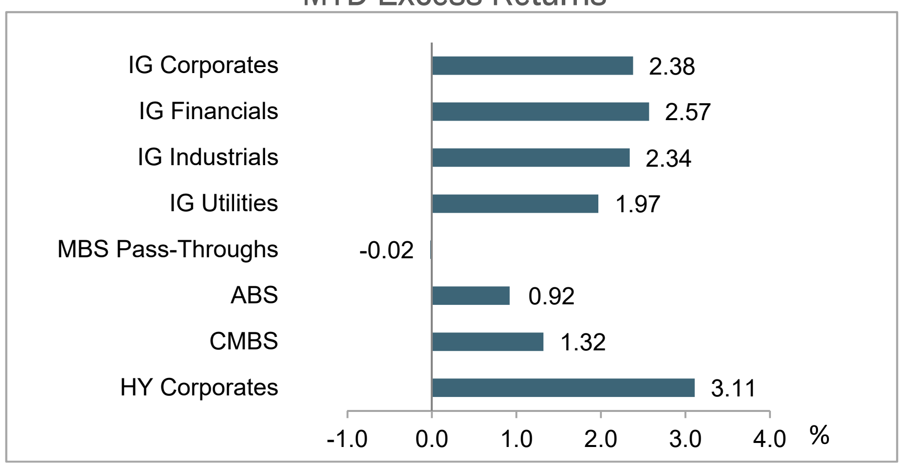
- A risk-on sentiment largely returned to the market, supported by US economic releases that, despite being at historically weak levels, showed improvement as the US economy continued its march toward reopening
    - US retail sales rebounded 17.7% in May, more than doubling consensus expectations; however, sales remained down 6.1% from the same period last year
    - Initial jobless claims edged slightly lower to 1.5 million - significantly higher than pre-pandemic levels, but down from a peak of almost 7 million in March
- As part of the Secondary Market Corporate Credit Facility (SMCCF), the Federal Reserve (Fed) launched a program to buy corporate bonds
    - The Fed has been purchasing corporate bonds via ETFs and will now start directly buying corporate bonds that meet its criteria
    - Chairman Powell noted in testimony to Congress that the program is precautionary and will help limit the severity of economic weakness
- Investment-grade corporate issuers priced over $55 billion of debt this week, surpassing dealer expectations of $40 billion; year-to-date supply of over $1.1 trillion eclipsed the total amount issued in 2019
    - Strong demand overwhelmed supply and investment-grade corporate spreads tightened 16bps week-over-week to 145bps
- High yield issuers were on track to price $22 billion, which would be the busiest week ever; despite heavy issuance, high yield spreads tightened 59bps to 561bps on equity market strength
- Mortgage-backed securities (MBS) underperformed other securitized sectors; refinance applications surged 10% over the week on low interest rates, increasing concern of higher pre-payment speeds
- Municipal bond mutual funds saw inflows of $3.5 billion, an increase from $2.3 billion the week prior; municipal bond ETFs also saw inflows of almost $900 million, the second-largest weekly inflow on record

Treasury Yield Curve



Maturity	2-year	5-year	10-year	20-year	30-year
6/17/2020	0.20	0.35	0.74	1.29	1.53
MTD Change	0.04	0.05	0.09	0.11	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.