MARKET NEWS

- Long-end Treasury yields sold off in May, with the 10-year yield increasing 1bp to 0.65% and the 30-year yield increasing 12bps to 1.41%, as positive sentiment due to gradual re-openings overshadowed pressured US-China relations
  - The US plans to revoke Hong Kong’s semiautonomous status from China, although the measures were viewed as less harsh than expected
- Monetary and fiscal measures continued, as the Federal Reserve (Fed) began purchasing ETFs through the Secondary Market Corporate Credit Facility (SMCCF) and the Treasury announced a record $3 trillion of anticipated borrowing for Q2
  - The US Treasury issued $20 billion of a 20-year Treasury bond for the first time since 1986
- The record year of investment grade supply was unabated, as over $242 billion priced in May, and the year-to-date total surpassed $1 trillion at the fastest pace ever; high-yield issuance totaled $43 billion this month and $152 billion year-to-date
  - The summer months have historically been quieter for borrowers – over the last five years, investment-grade supply has averaged $87 billion in the month of June
- Despite the supply headwind, investment grade corporate spreads tightened 28bps to 174bps, and long corporate spreads tightened 15bps to 217bps, amid a risk-on tone; spreads are 199bps and 142bps tighter, respectively, since the March wides
  - Lower hedging costs drove foreign investors to US dollar denominated corporate bonds, particularly in the long-end, where the yield pickup reached multi-year highs – a potential tailwind for long corporates going forward
- Books for the $6 billion Tencent Holdings and $750 million Macquarie Bank deals reached $35 billion and $7.5 billion, respectively, with more than half of interest coming from overseas
- The Fed continued to taper mortgage purchases, resulting in $101 billion of buying in May, compared to $295 billion in April; reduced support and higher origination pressured mortgage-backed securities, which underperformed other spread sectors
- Municipals outperformed Treasuries, with the 10-year muni/Treasury ratio falling almost 100% from 225% to 126% – still well above the five year average of 93%

MARKET STATISTICS

<table>
<thead>
<tr>
<th>Maturity</th>
<th>2-year</th>
<th>5-year</th>
<th>10-year</th>
<th>30-year</th>
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<tbody>
<tr>
<td>5/31/2020</td>
<td>0.16</td>
<td>0.30</td>
<td>0.65</td>
<td>1.41</td>
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<tr>
<td>MTD Change</td>
<td>-0.03</td>
<td>-0.06</td>
<td>0.01</td>
<td>0.12</td>
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As of: 5/31/20. 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. The views contained in this report are those of IR+M and are based on information obtained by IR+M from sources that are believed to be reliable. This report is for informational purposes only and is not intended to provide specific advice, recommendations, or projected returns for any particular IR+M product. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission from Income Research + Management. BLOOMBERG© is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively “Bloomberg”). BARCLAYS® is a trademark and service mark of Barclays Bank Plc (collectively with its affiliates, “Barclays”), used under license. Bloomberg or Bloomberg’s licensors, including Barclays, own all proprietary rights in the Bloomberg Barclays Indices. Neither Bloomberg nor Barclays approves or endorses this material, or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith.