IR+M INCOME RESEARCH + MANAGEMENT

# IR+M CLIENT UPDATE
## May 2020

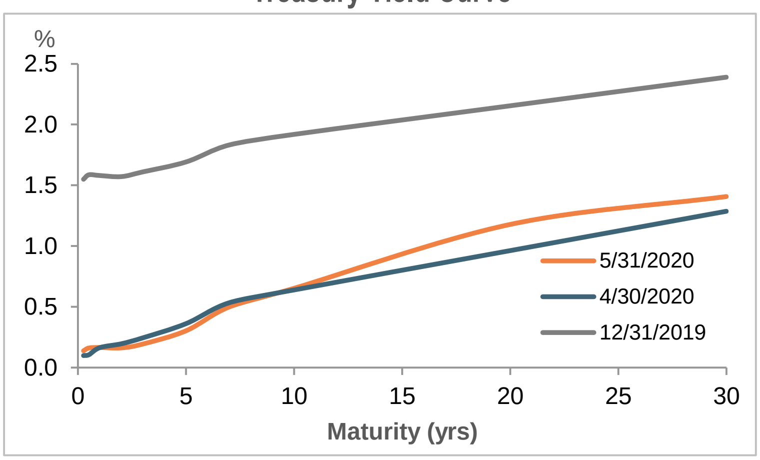
June 1, 2020

## 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%

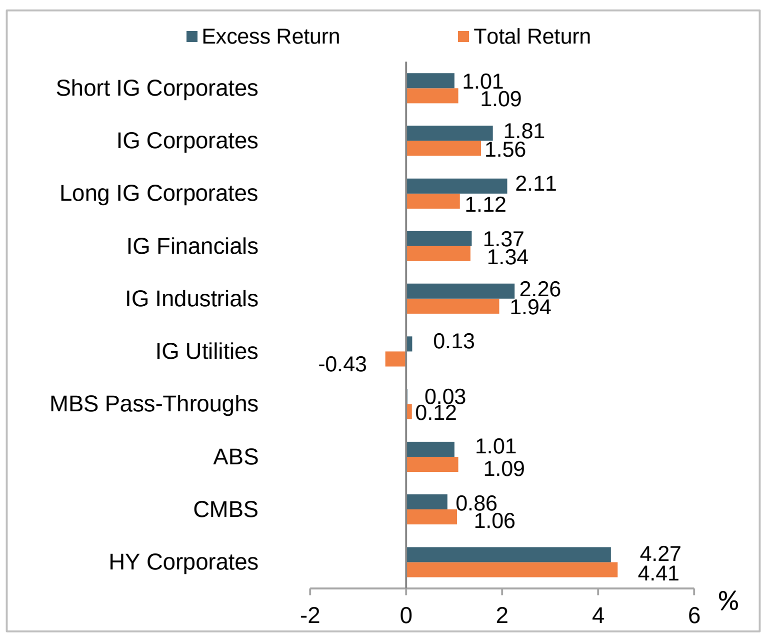
## MARKET STATISTICS

### Treasury Yield Curve




| Maturity | 2-year | 5-year | 10-year | 30-year |
|---|---|---|---|---|
| *5/31/2020* | 0.16 | 0.30 | 0.65 | 1.41 |
| *MTD Change* | -0.03 | -0.06 | 0.01 | 0.12 |
| *YTD Change* | -1.41 | -1.39 | -1.27 | -0.98 |

### MTD Returns




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.

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