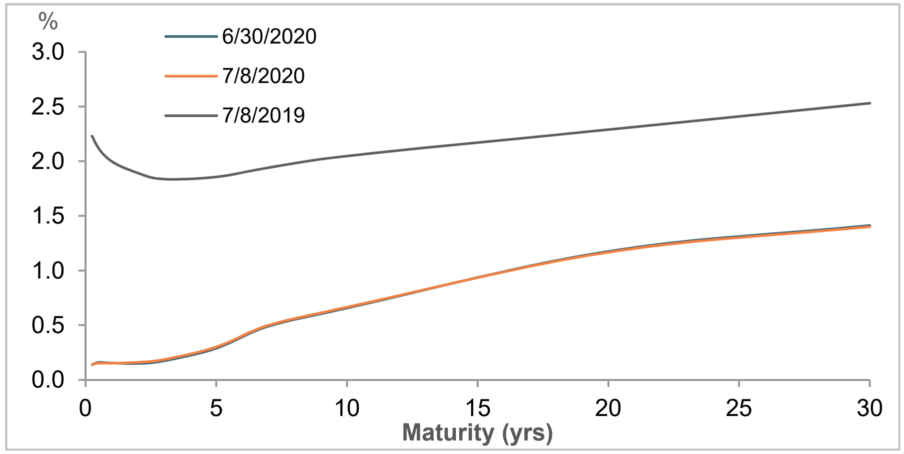
IR+M
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
July 1 – July 9, 2020

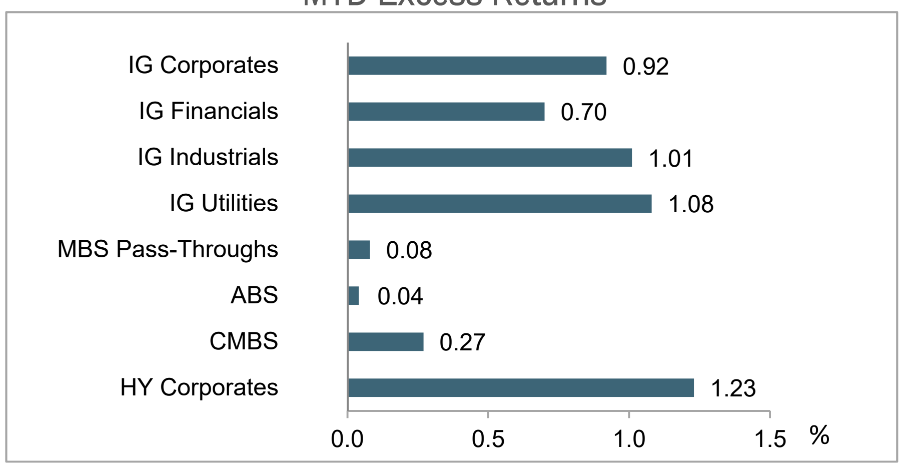
- The second half of the year opened with largely positive market sentiment, driven by improving labor market conditions and other economic indicators; however, uncertainty around the recovery's trajectory increased as the US set a new daily high for coronavirus cases
  - The unemployment rate for June fell more than expected to 11.1%; overall the US has regained 7.5 million of the 22 million jobs lost since March
  - The IHS Markit Service PMI rose from 37.5 in May to 47.9 in June, reflecting the reopening of service providers and gradual return of customer demand
- The Treasury auctioned $46 billion and $29 billion in 3-year and 10-year notes, respectively
  - The 10-year auction cleared at a record low yield of 0.65%, signaling strong demand despite heavy new issuance and rising US deficits
- The Federal Reserve (Fed) wound down its 10-month intervention in the repo markets as volume fell to zero this week, signaling funding markets have begun to normalize
- Investment-grade corporate issuers priced over $20 billion, which was slightly above expectations; dealers are calling for a slower pace of issuance in 2H20, with estimates ranging from $400 billion to $600 billion
  - Corporate spreads tightened 8bps to 142bps amid the risk-on tone; high-yield spreads also narrowed from 626bps to 589bps
- The risk-on sentiment extended to commercial mortgage-backed securities (CMBS), which outperformed other securitized sectors despite concerns of elevated delinquency rates
- Investors remained positive on municipals, adding $1.7 billion to municipal bond mutual funds, even though headlines warn of looming budget gaps

Treasury Yield Curve



Maturity	2-year	5-year	10-year	20-year	30-year
7/8/2020	0.16	0.30	0.66	1.17	1.40
MTD Change	0.01	0.01	0.00	-0.01	-0.01

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.

100 Federal Street, 30th Floor Boston, MA 02110 (617) 330-9333 www.incomeresearch.com