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.

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 Treasurys. 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.