Despite positive developments for a coronavirus vaccine setting a strong market tone for risk assets, Treasury yields were lower week-over-week, as investors piled into the safe-haven bonds

- Details released on the first human study of a coronavirus vaccine lifted investors’ spirits, sustaining the rally in stocks
- Conversely, Treasury yields declined — signaling uncertainty — before reversing slightly on the positive vaccine developments; the yield on the 30-year Treasury fell by 7bps, closing at 1.33%

The Federal Reserve’s (Fed) Beige Book for July 15th noted that economic activity had increased, led by an uptick in consumer spending – namely in vehicle sales, food and beverage, and home improvement

- The Fed’s release reiterated the difficulty for businesses to retain, or rehire, their staff, as safety standards and access to childcare remain top concerns for workers

Corporate borrowers priced just shy of $12 billion of investment-grade debt, lower than dealers’ expectations of $15 to $20 billion, and on pace to become the slowest week in over four months

- Light supply, combined with the risk-on market tone, drove corporate spreads tighter by 4bps week-over-week, to close at 138bps
- Echoing the strength in equities, high-yield corporate spreads tightened by 26bps – closing at 563bps

In spite of the Fed purchasing mortgage-backed securities (MBS) to the tune of $20+ billion per week, elevated MBS origination due to refinancing activity weighed on spreads, leading to underperformance against other securitized sectors

- Municipals outperformed Treasuries over the week, as fund inflows drove muni yields lower, and the 10-year muni/Treasury ratio fell by 5%, closing at 123%

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. 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.