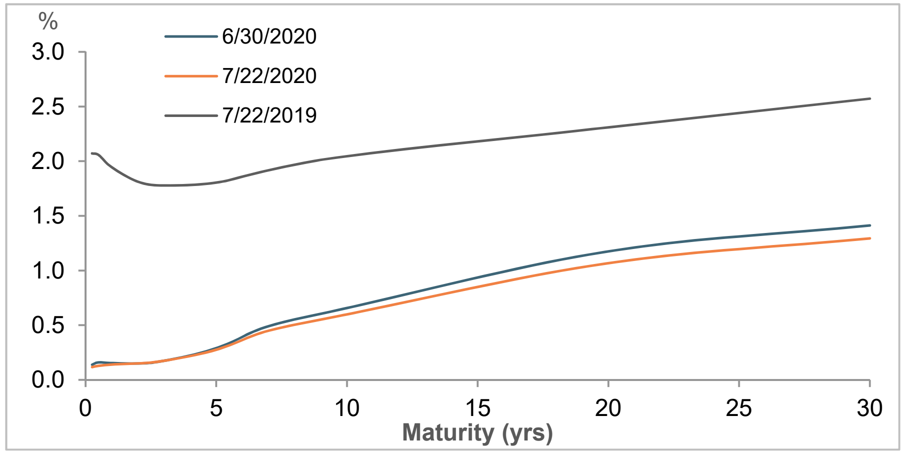
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

July 17 – July 23, 2020

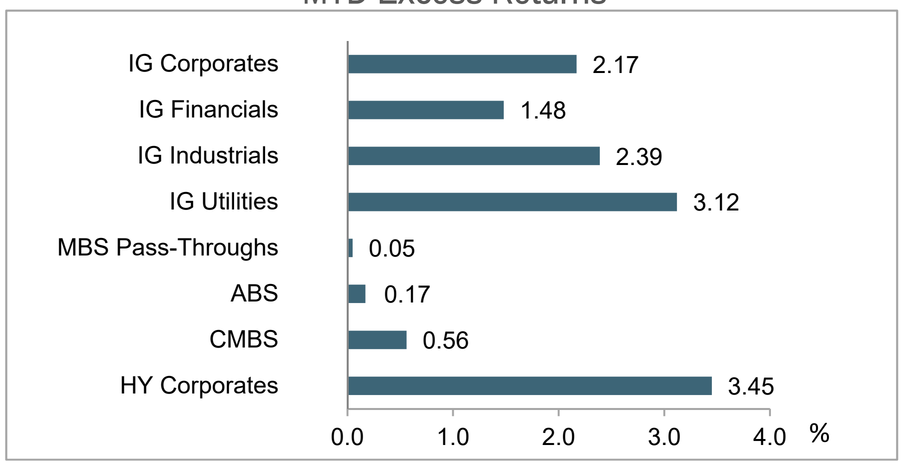
- Risk-on market sentiment drove US equities and corporate spreads to their highest and tightest levels in several months, respectively, despite Treasury yields moving lower, week-over-week, on mounting fundamental headwinds to the US economy
    - 2Q20 earnings for the S&P 500, although down 44%, were 6.3% above expectations, with most analysts projecting a return to earnings growth in 1Q21
    - Initial jobless claims rose to 1.4 million, the first increase in nearly four months, as some states rolled back re-openings amidst a surge in coronavirus cases
    - Data from Yelp showed that, of the over 132,000 US business closures since March, 55% are now permanent
- The 10-year Treasury's real yield closed at -0.88%, the lowest level since 2012, reflecting expectations that the relatively weak economy will likely require loose monetary policy for an extended period of time
- The pace of investment-grade corporate issuance slowed, as borrowers priced almost $7 billion of debt, well behind the $15 billion to $20 billion projected for the week
    - Corporate spreads tightened 9bps, week-over-week, on light supply, closing at 129bps - inside the 5-year trailing average of 131bps
    - High-yield corporate spreads tightened 58bps, week-over-week, from 558bps to 500bps, on equity market strength
- Mortgage-backed securities (MBS) continued to underperform other securitized sectors on heavy origination, as sales of previously-owned homes jumped 20.7% in June, fueled by low mortgage rates
- Municipals slightly outperformed Treasuries, as investors added $1.4 billion to municipal bonds mutual funds for the week ended July 15, the 11th consecutive week of inflows

Treasury Yield Curve



Maturity	2-year	5-year	10-year	20-year	30-year
7/22/2020	0.15	0.27	0.60	1.07	1.29
MTD Change	0.00	-0.02	-0.06	-0.11	-0.12

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.

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