IR+M
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
July 2020

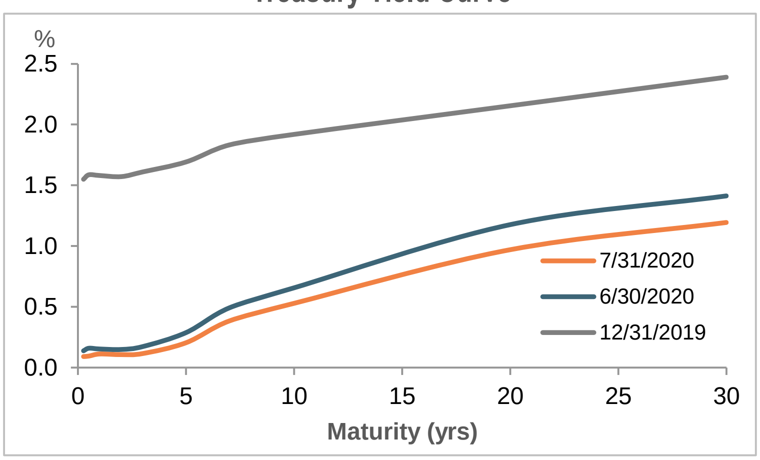
August 3, 2020

MARKET NEWS

- Optimism related to promising vaccine developments initially sparked a risk-on tone in July, however, mixed economic reports, an increase in COVID-19 cases, and negative US-China headlines took hold as the month progressed
  - 2Q GDP declined by 9.5%, while jobless claims rose for two straight weeks after falling for fifteen consecutive weeks
- The Federal Reserve (Fed) voted to keep rates unchanged at its July meeting, as expected, and expressed a willingness to extend current accommodations for as long as needed
  - The Fed also noted that optimism surrounding recent job gains and positive economic indicators should be tempered, as the future path of the virus will likely dictate the pace of economic recovery
- Treasury yields across the curve fell and the curve flattened, as the 10-year Treasury rate reached an all-time low of 0.53%
- Investment-grade corporate spreads tightened 17bps to 133bps – 240bps tighter from March wides but 40bps wider from 2019 – as lackluster supply, better-than-feared earnings, and unwavering demand outweighed any risk-off sentiment
  - High-yield spreads closed at 488bps – 138bps tighter month-over-month – amid light issuance and robust inflows
- Borrowers priced roughly $65 billion, despite estimates for as much as $100 billion of investment-grade issuance, as many issuers entered earnings blackout periods or had tapped markets earlier in the year
  - Deals that did come to market were multiple times oversubscribed, which enticed lower-rated issuers to make-up the majority of supply, accounting for over 55%
- The agency mortgage-backed securities (MBS) sector underperformed Treasuries for the second consecutive month, however, performance was bifurcated between low (2%, 2.5% and 3%) and high coupons (3.5% and higher)
  - Lower coupons, which the Fed is currently buying, experienced positive excess returns of over 20bps; the Fed will continue to buy at least $40 billion of lower coupon mortgages for at least the next few months
- Municipals outperformed Treasuries in July, supported by continued inflows from investors; the 10-year muni/Treasury ratio fell 12% month-over-month, from 130% to 118%

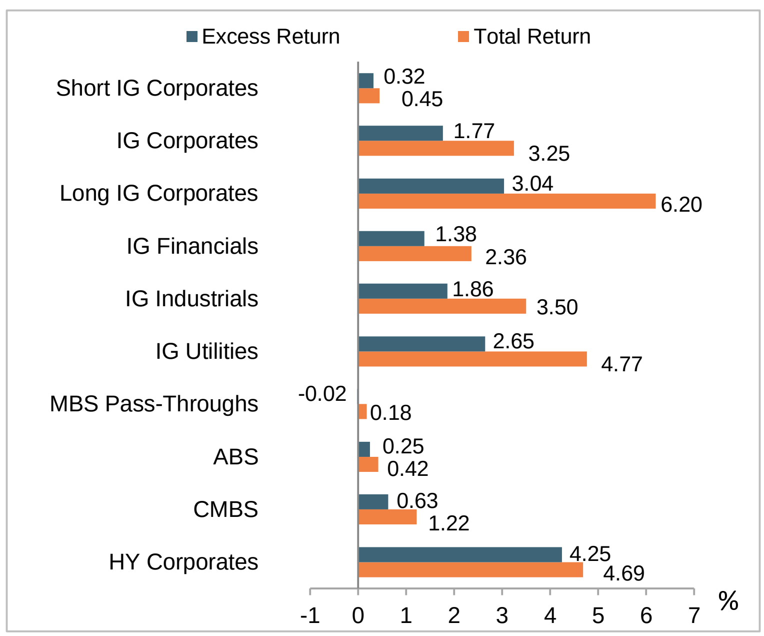
MARKET STATISTICS

Treasury Yield Curve



Maturity	2-year	5-year	10-year	20-year	30-year
7/31/2020	0.11	0.21	0.53	0.97	1.19
MTD Change	-0.04	-0.08	-0.13	-0.21	-0.22
YTD Change	-1.46	-1.48	-1.39	-	-1.20

MTD Returns



As of: 7/31/20. 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.