IR+M
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
October 2020

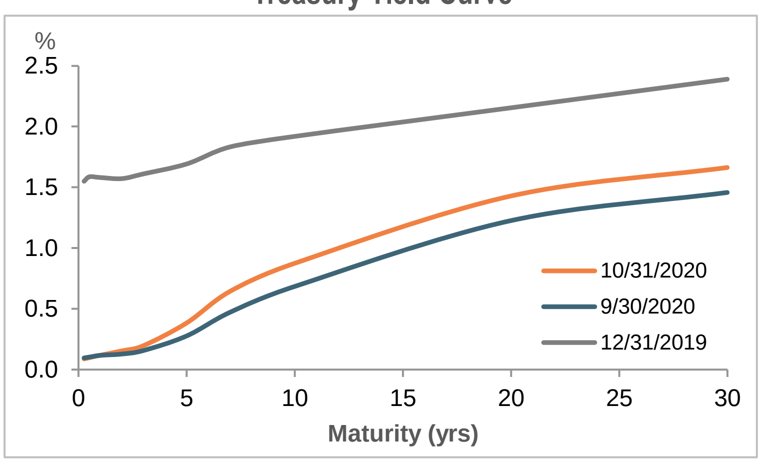
November 2, 2020

MARKET NEWS

- Risk assets initially outperformed with the probability of additional fiscal stimulus appearing high, however, market sentiment slowly faded as the odds dwindled, coronavirus cases increased, and the November election approached
    - There was a resurgence of coronavirus cases in October, which included infections to President Trump and several White House staff, as US confirmed cases hit a new daily record of roughly 99,000 by the end of the month
- Treasury yields increased across the curve and the 10-year Treasury rate rose by 19bps month-over-month to 0.88%, the highest level since early June; the difference between the 10- and 2-year Treasury yield increased to 72bps, the steepest since March 2018, and could signal expectations of further economic growth and renewed focus on inflation
- Investment-grade corporate supply totaled roughly $80 billion in October, above expectations of $75 billion, but less than half of last month's total; the initial estimates for November vary widely, from $30 billion to $100 billion, due to election uncertainty
    - Morgan Stanley and Citigroup each issued social bonds of $1 billion and $2.5 billion, respectively, to be used for affordable housing; similar ESG-related deals are pricing 7-10bps tighter than other outstanding debt
- Investment-grade corporate spreads tightened by 11bps, from 136bps to 125bps, and fixed income largely outperformed equities, as investor demand remained robust despite higher-than-expected supply and a softer market tone
- Positive inflows supported high-yield spreads, which tightened 8bps, from 517bps to 509bps, despite issuers pricing almost $35 billion, the highest total for the month of October since 2012
- Securitized sectors outperformed Treasuries but underperformed Corporates amid a resurgence in supply; issuance of asset-backed securities (ABS) and commercial mortgage-backed securities (CMBS) totaled $29 billion and $8 billion, respectively
    - The Fed bought $113 billion of mortgage-backed securities (MBS), primarily of 2% coupons, which outperformed Treasuries by 38bps; 2.5% coupons underperformed by 31bps due to expectations the Fed will taper purchases
- Municipal funds saw the 25th consecutive week of inflows and municipals outperformed Treasuries; the steady demand for municipals, and increase in Treasury yields, helped push intermediate- and longer-maturity muni/Treasury ratios down 7-18%

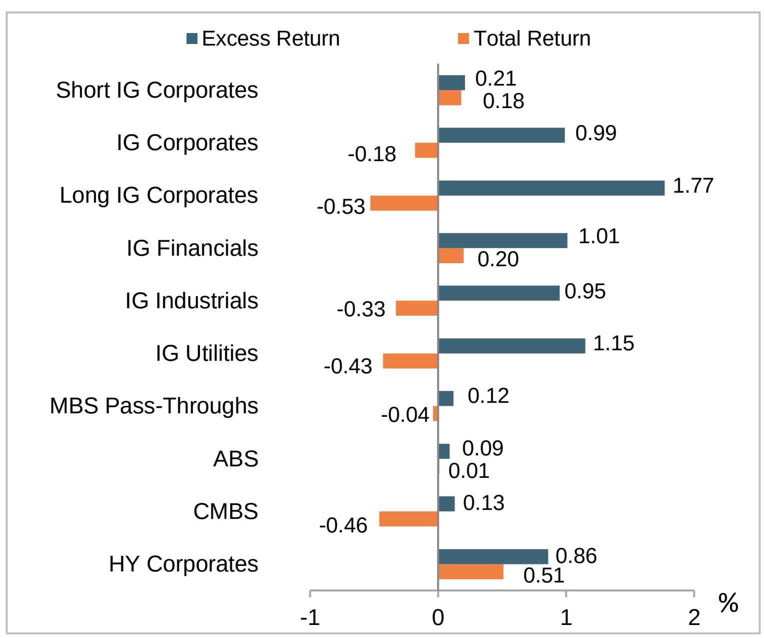
MARKET STATISTICS

Treasury Yield Curve



Maturity	2-year	5-year	10-year	20-year	30-year
10/31/2020	0.16	0.39	0.88	1.43	1.66
MTD Change	0.03	0.11	0.19	0.20	0.20
YTD Change	-1.41	-1.30	-1.04	-	-0.73

MTD Returns



As of: 10/31/20. 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.