IR+M

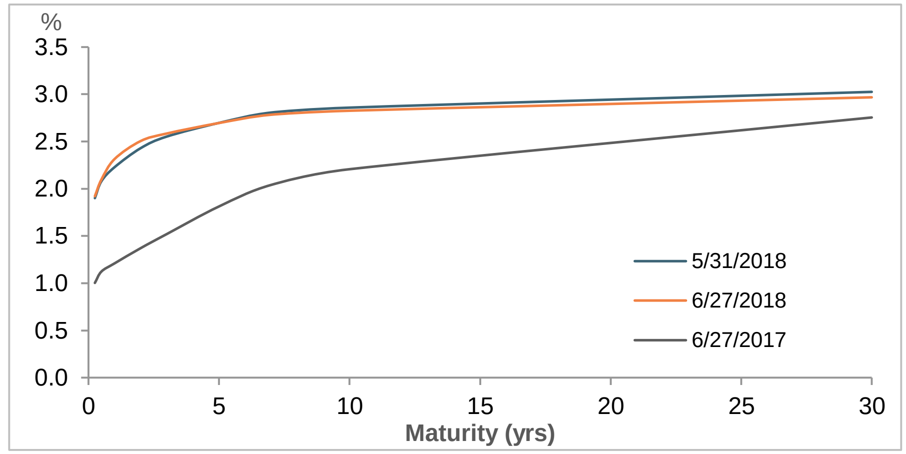
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

June 22 – June 28, 2018

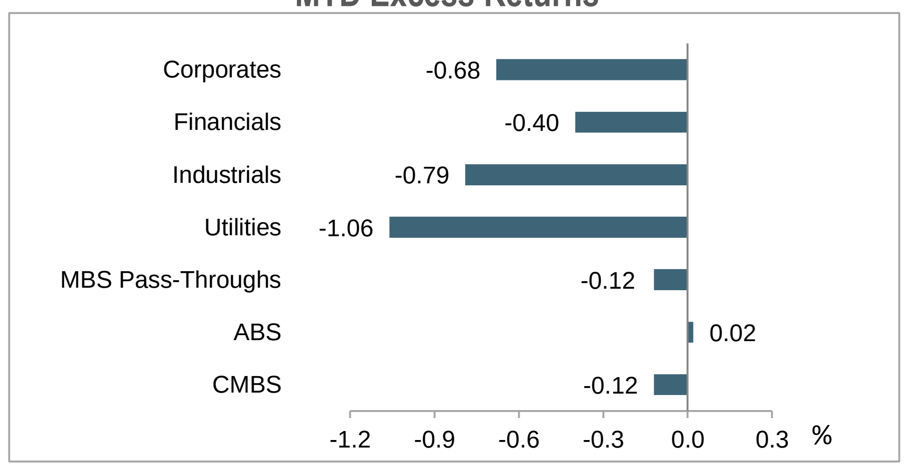
- US first-quarter GDP growth was revised down to 2%, due to lower consumer spending and business inventories; a rebound in the second quarter is expected with an estimated growth rate of over 3%[1]
- Exports in May surged 2.1% to decrease the trade balance deficit from $67.3 billion in April to $64.8 billion[1]
- Sales of new homes were above expectations at 689,000 for the month of May, a 14.1% growth rate year-over-year[1]
    - The median new home price fell 3.3% from last year to $313,000
- Consumer confidence slightly softened as investors continue to focus on news of a potential trade war and tariff increases[1]
- The Treasury curve flattened and yields fell this week, as investors demanded higher-quality assets[1]
    - The 2-year yield decreased 6bps to 2.51% and the 30-year yield fell 11bps to 2.97%
- Investment-grade corporate supply slowed, as issuers priced just $900 million, much lower than forecasts of $17 billion[2]
    - Risk-off sentiment and a defensive stance kept companies on the sidelines, however, total issuance in May of $107 billion is still above estimates of $85 to $95 billion
- Demand for corporates waned and spreads leaked 1bp wider to 124bps, despite light new issuance[1]
- The general risk-off tone and heavy issuance ahead of the holiday week weighed on commercial mortgage-backed securities (CMBS), which underperformed treasuries[1]
- Asset-backed securities (ABS) exhibited strong performance benefiting from low supply[1]
- Municipals outperformed Treasuries as a modest new issue pipeline continued to provide a positive technical backdrop[1]

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
6/27/2018	2.51	2.70	2.83	2.97
MTD Change	0.08	0.00	-0.03	-0.06

MTD Excess Returns[1*]



Sources: 1. Bloomberg Barclays 2. Citigroup

*Excess returns are the curve-adjusted excess return of a given index relative to a term structure-matched position in Treasuries.