IR+M CLIENT UPDATE
June 2018

INCOME RESEARCH + MANAGEMENT

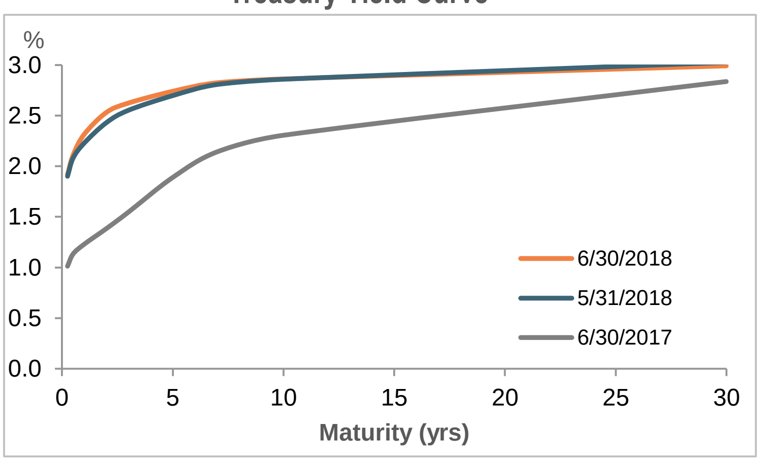
July 2, 2018

MARKET NEWS

- Trade tensions escalated this month, which overshadowed solid US economic data prints and led to risk market weakness[1]
    - Core Personal Consumption Expenditures (Core PCE), the Federal Reserve's (Fed) preferred measure of inflation, rose by 2.0% year-over-year, which met the Fed's 2.0% inflation target and modestly beat expectations for growth of 1.9%
- Short-term Treasury yields rose and longer-maturity yields fell as the Treasury curve continued to flatten[1]
    - 30-year yields fell back below 3% and 2-year yields climbed above 2.5%
    - The spread between 10-year yields and 2-year yields declined 10bps to a new post crisis low of 33bps
- June supply beat expectations of $85-95 billion, as issuers priced nearly $110 billion, which set a record for investment-grade issuance during the month of June; despite this, year-to-date supply remains approximately 3% behind last year's pace[2]
    - Over 50% of issuance this year has come from companies rated BBB+ or below, and less than 2% has come from the technology sector, which accounted for roughly 10% of total supply last year
- Heavy supply and a soft market tone weighed on investment-grade corporate spreads, which widened 8bps to close at 123bps, the widest level since late 2016[1]
    - High-yield corporate spreads benefited from light supply, widening only 1bp to close at 363bps
- Securitized sectors were insulated from trade tension-related weakness, and fared better than corporates during the month[1]
    - Mortgage-backed Securities (MBS) were the top performer among securitized sectors, as strong housing data and demand for high-quality bonds outweighed heavy supply in the space
- Municipals performed well during the month, outperforming corporates, as positive fund flows and light supply acted as tailwinds to municipal performance[1]
    - Within municipals, short and intermediate maturity bonds outperformed longer-maturity munis, and the 5-year muni/Treasury ratio declined by 2% to 73% while the 30-year muni/Treasury ratio increased by 3% to 100%

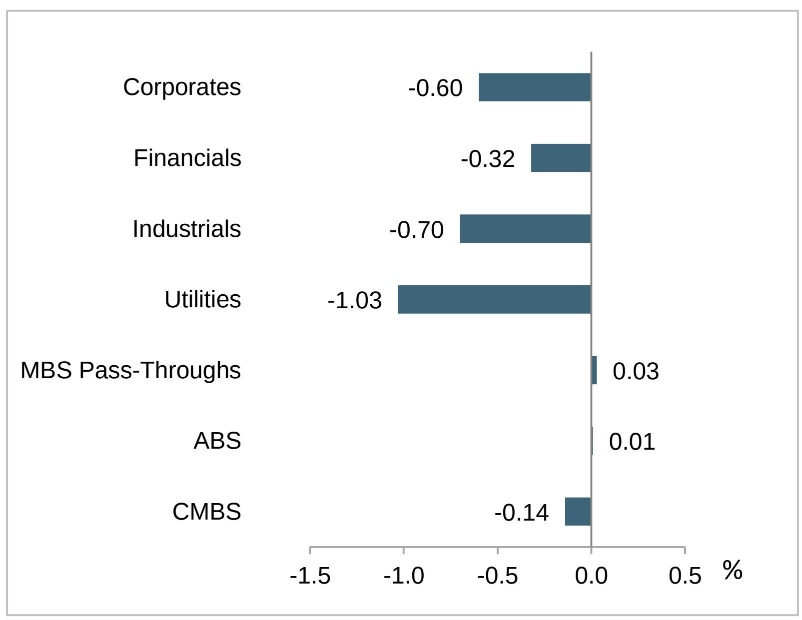
MARKET STATISTICS

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
6/30/2018	2.53	2.74	2.86	2.99
MTD Change	0.10	0.04	0.00	-0.04

June Excess Returns[1*]



As of: 6/30/18. 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.