IR+M INCOME RESEARCH + MANAGEMENT

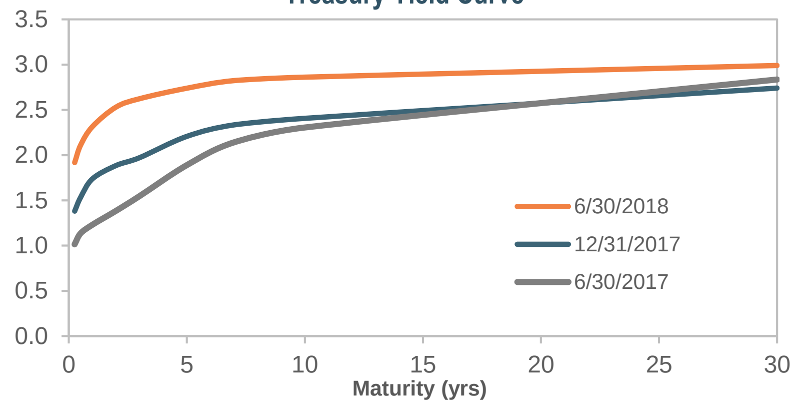
IR+M MARKET UPDATE
SECOND QUARTER REVIEW + OUTLOOK

July 16, 2018

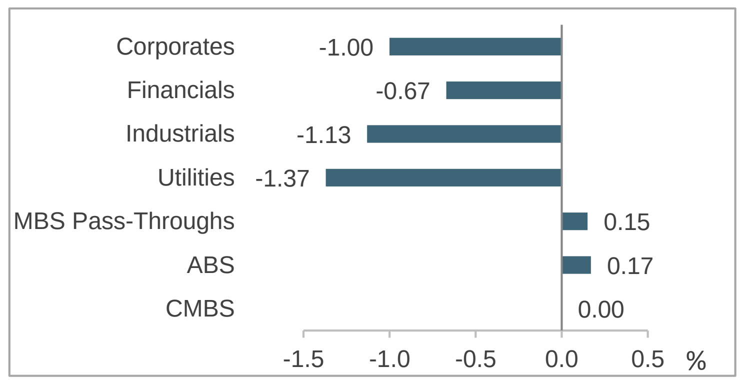
SECOND QUARTER RECAP

- Amid continued trade tensions, US economic growth remained robust in the second quarter, fueled by solid consumer spending and strong employment growth
- As expected, the Federal Reserve (Fed) voted in June to raise the federal funds target range to 1.75-2%, the second hike of 2018[1]
    - The Fed cited the continued strengthening of the labor market, as well as the solid – as opposed to moderate – rise of economic activity
- Treasury yields rose in response to the move, with the policy-sensitive 2-year yield reaching its highest level since 2008, and the 10-year yield closing at 2.98%[1]
- Investment-grade (IG) supply exceeded $326 billion, which was up 11.6% year-over-year[3]
- In the second quarter, investment-grade corporate spreads widened 14bps and closed at 123bps, the widest level since late 2016[2]
- The securitized sector generated positive excess returns relative to Treasuries, benefitting from its insulation from trade tension-related weakness

Treasury Yield Curve[1]



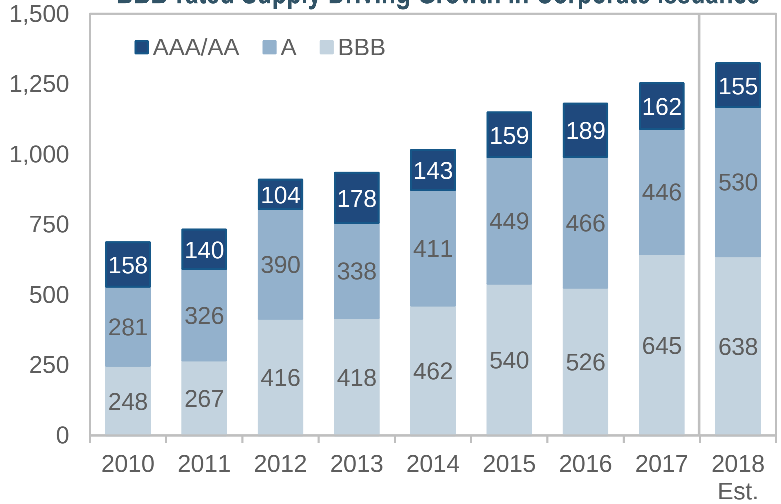
Second Quarter Excess Returns[2]



2018 GOING FORWARD

- The Fed continues to tighten monetary policy, and the consensus is that two additional rate hikes could occur in 2018[1]
    - Currently, the core inflation rate approximates the Fed's 2% inflation rate target
- A key risk remains the prospect of a global trade war, with the rhetoric on tariffs intensifying, particularly between the US and China
- M&A-related supply surged and is expected to account for roughly a third of total non-financial IG issuance in 2018[5]

BBB-rated Supply Driving Growth in Corporate Issuance[4]



Entering the third quarter, the US economic outlook is strong, with the unemployment rate at a 48-year low, consumer spending accelerating, and corporate earnings solid. That said, the Treasury yield curve is at its flattest level in more than 10 years, sparking discussion of an inverted yield curve. At IR+M, we continue to participate in the new issue market, while remaining mindful of adding material risk in the current environment.

As of: 6/30/18. Sources: 1. Bloomberg 2. Bloomberg Barclays 3. Citigroup; 4. JPMorgan and IR+M analytics. 2018 estimate is calculated by doubling actual supply through 6/30/18; 5. Wells Fargo as of 6/19/18; Excess returns are the curve-adjusted excess return of a given index relative to a term structure-matched position in Treasuries.