INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
August 2018

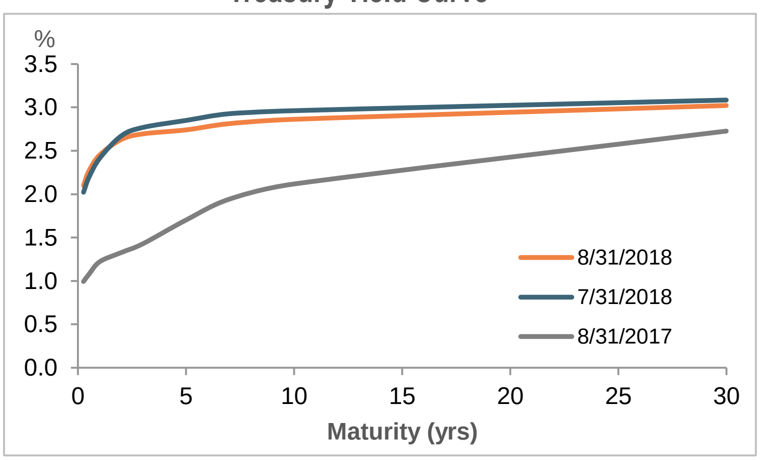
September 4, 2018

MARKET NEWS

- US economic data releases in August continued to either match or beat estimates; the unemployment rate fell to 3.9%, the US Core Consumer Price Index (CPI) ticked up to 2.4%, and second-quarter GDP was revised upward from 4.1% to 4.2%[1]
- Market-implied probabilities point towards a 25bps rate hike during the Federal Reserve's (Fed) September meeting[1]
  - The number of rate hikes for the remainder of 2018 is less certain with a 63% probability of at least two more
- Treasury yields declined across the curve, most notably in the belly of the curve, as geopolitical tensions fanned concerns regarding global growth[1]
  - 2-year yields decreased by 4bps to 2.63% while 10-year yields fell by 10bps to 2.86%; the difference between 10-year yields and 2-year yields briefly touched 19bps during the month, setting a new post-crisis low
- August supply was heavy at the beginning of the month until the pace slowed over the last two weeks, and investment-grade corporate issuers ultimately priced approximately $80 billion, which was above estimates of $65-75 billion[2]
  - Year-to-date supply stands at roughly 9% behind last year's pace, as issuers printed over $90 billion in August 2017
- Heavier-than-expected supply weighed on investment-grade corporate spreads, which widened by 5bps to close at 114bps[1]
  - Spreads traded within a 7bps range during the entire month of August, closing at the wide end of the range
  - High-yield spreads were more volatile, trading in a 28bp range before ending 2bps wider at 338bps
- Securitized sectors generally outperformed corporates, and both asset-backed securities (ABS) and commercial-backed securities (CMBS) outpaced Treasuries during the month[1]
  - ABS spreads benefited from a lighter month of supply following a near-record pace in July
- Municipals underperformed Treasuries for only the second month of 2018, and the 10-year municipal/Treasury ratio increased 2% to close at 86%, as heavy supply in early August pressured yields[1]

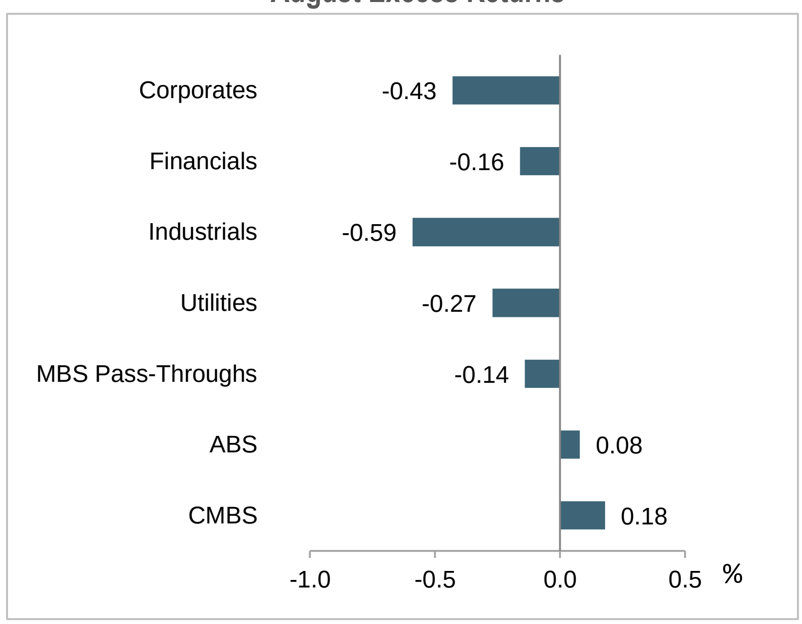
MARKET STATISTICS

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
8/31/2018	2.63	2.74	2.86	3.02
MTD Change	-0.04	-0.11	-0.10	-0.06

August Excess Returns[1*]



As of: 8/31/18. 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.

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