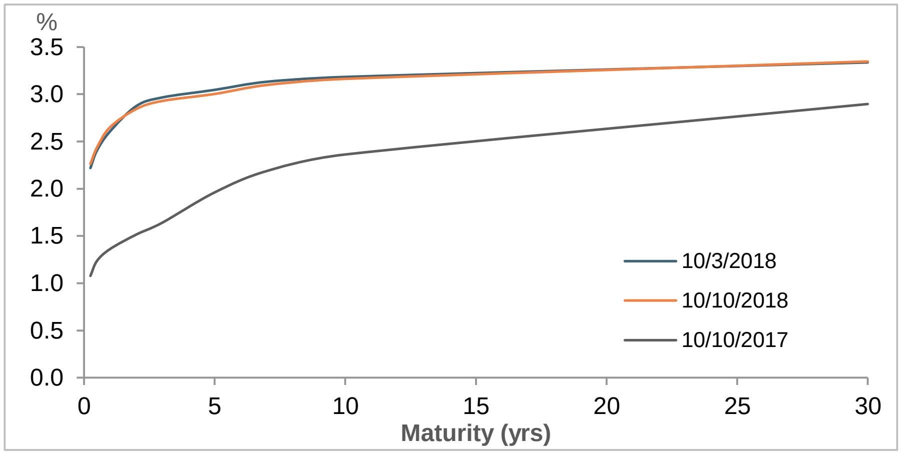
IR+M SPECIAL MARKET UPDATE
October 11, 2018

INCOME RESEARCH + MANAGEMENT

US and global equity markets severely corrected yesterday and overnight. The moves may have been a long overdue response to 2018's consistently higher US yields. In the midst of yesterday's selling, the US bond market rallied modestly with the yield on the 10-year Treasury falling from 3.20% to 3.16%; it now stands at 3.18%. The days when US bonds would rally hard in risk-off scenarios may be gone. We believe that we are in a new chapter of the monetary policy expansion/contraction story.[1]

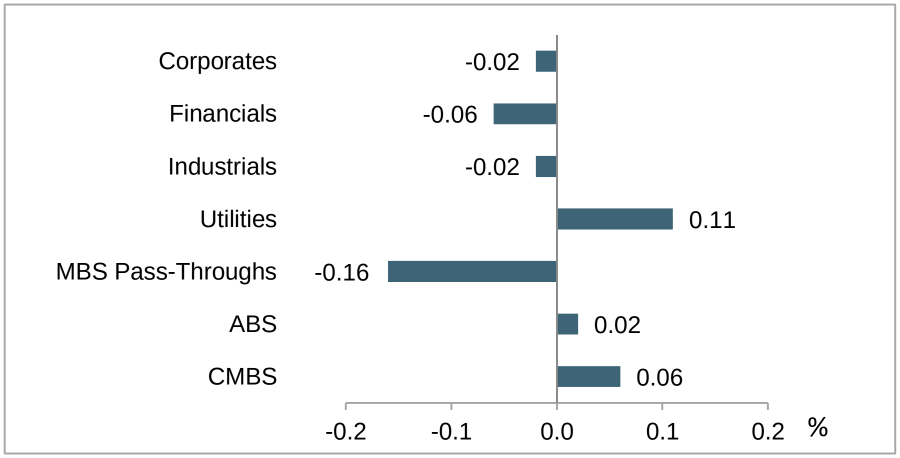
- US Treasury rates are stable or modestly higher from Wednesday's close.[1]
  - 2-year +1bp to 2.85%. 10-year +1bp to 3.17%. 30-year +1bp to 3.36%.
- "Safer" European sovereign debt is rallying. Germany, Netherlands, and Austria are approximately 3-4bp lower in yield.[1]
  - The German 10-year measured 0.51%. The US/Germany 10-year spread narrowed to +266bp, which is 4bp lower than the all-time high of +270bp that was reached on Monday, October 8th.
  - The divergence between the US and Europe narrowed modestly, but the separation remains large.
- The yield on the Italy 10-year increased +10bp to 3.60%.[1]
- US S&P 500 futures were down 0.50% overnight, which was off the lows. The market was down approximately 1% as of 5am EST.[1]
- Chinese, Korean, and Japanese equities were down an estimated 5%, 4.5%, and 4%, respectively, as of 6:30am EST.[1]
- European equities were broadly down 1-2%.[1]
- Credit spreads were weaker yesterday and remained weak overnight.[1]
  - Investment Grade (IG) 5-year CDX now measures 66/67 vs. 65.5/66 at close on Wednesday. On Wednesday, that market widened 4bp.
  - LQD (liquid IG corporates ETF) closed Wednesday at $112.83, which implies a 4.63% yield and a +146 spread to 10-year Treasuries. The spread vs. the 10-year was 6bp wider yesterday.
  - HYG (liquid high yield ETF) closed Wednesday at $84.63, which indicates a 6.72% yield and a +371 spread to 5-year Treasuries. The spread vs. the 5-year was 20bp wider yesterday.
  - The Bloomberg Barclays Corporate OAS was 1bp wider yesterday at +107 OAS.
  - The Bloomberg Barclays Long Corporate OAS was 1bp wider yesterday at +152 OAS.
  - US credit morning runs are starting to come out, with markets being quoted generically wider. For example:
    - CVS 2048s +3bp to 175/172.
    - JPM 2029s +1bp to 126/122.

Treasury Yield Curve[2]



Maturity	2-year	5-year	10-year	30-year
10/10/2018	2.84	3.00	3.16	3.35
MTD Change	0.02	0.05	0.10	0.14

MTD Excess Returns[2*]



Source: 1. Bloomberg 2. Bloomberg Barclays

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