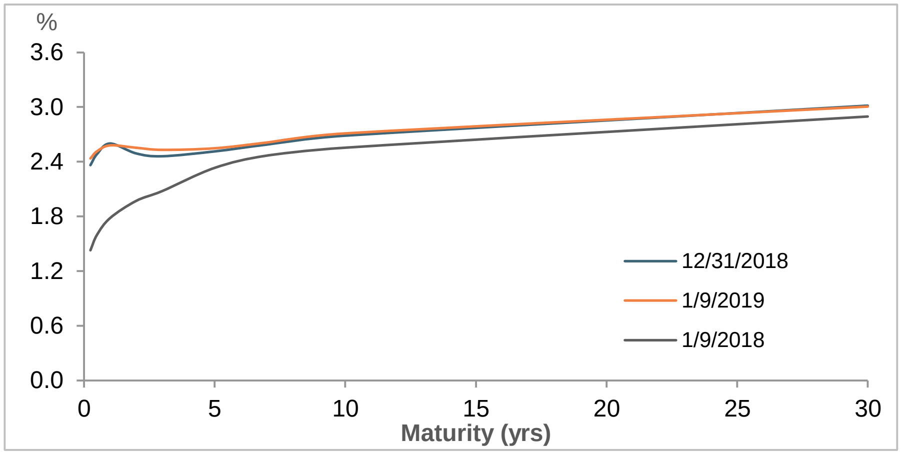
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

January 1 – January 10, 2019

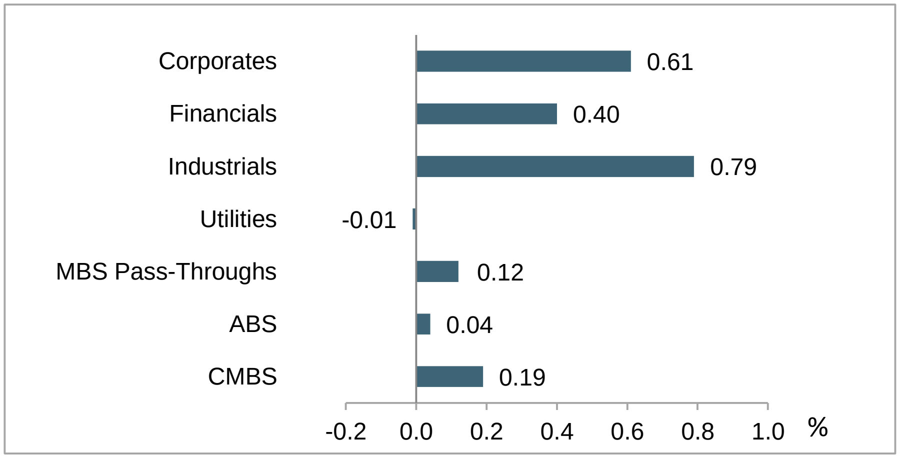
- The US Government has been shut down for 20 days, as political parties remain at an impasse over spending; if the shutdown lasts until Saturday, it will surpass the record for the longest ever
- Optimism over trade talks with China caused investors to favor riskier assets; Treasury yields in the front end increased by 2-8bps month-to-date, while the 30-year yield fell by 2bps
- Fed minutes were released this Wednesday and suggested that members may be open to slower policy tightening going forward amid subdued inflation and recent market volatility
    - Investors interpreted the comments as dovish and Treasury yields fell that day as a result by up to 4bps, most notably in shorter-maturities
- Positive market sentiment and trade talks supported investment-grade corporate spreads, which tightened 5bps to 148bps
- Momentum picked up in the primary market after a light December, and investment-grade issuers brought over $57 billion of supply
    - Issuance was skewed to companies with BBB ratings, which made up over 60% of the month-to-date total
- The strong rally in equity prices spilled over to high-yield corporates, which have yet to see any new issuance, and spreads tightened 81bps to close at 445bps
    - Companies rated below investment-grade have been absent from the new issue market for 41 days, the longest supply drought in over 20 years
- Lighter supply and solid demand helped securitized sectors outperform Treasuries month-to-date
- Municipal bonds broadly outperformed Treasuries month-to-date and muni/Treasury ratios fell by 1-4%; however, the 30-year muni/Treasury ratio rose by 1%

Treasury Yield Curve



Maturity	2-year	5-year	10-year	30-year
1/9/2019	2.55	2.55	2.71	3.00
MTD Change	0.06	0.04	0.02	-0.02

MTD Excess Returns



Sources: Bloomberg Barclays, Bloomberg and JP Morgan

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