IR+M INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
December 2018

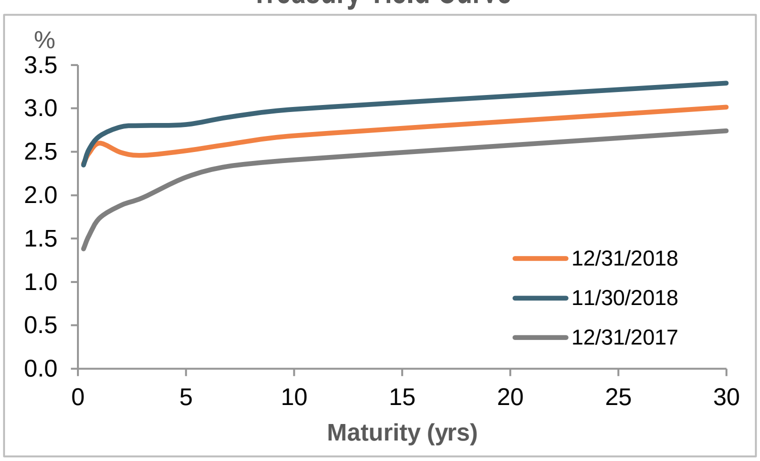
January 2, 2019

MARKET NEWS

- Risk assets sold off during the month as market volatility remained elevated, and investors flocked to safe-haven assets, such as US Treasuries
    - The S&P 500 Index fell over 9%, marking the worst month for US stocks since February 2009
- Market participants spurned healthy US economic data, as unemployment and inflation data was solid and met expectations
    - US unemployment remained below 4%, while the US Consumer Price Index (CPI) held above 2%
- Treasury yields declined significantly across the curve as rates dropped by up to 30bps, and the curve ended the month inverted between the 1-year and 7-year maturities
    - The 1-year yield decreased by only 8bps to close at 2.60%, 9bps higher than the 5-year and 1bp above the 7-year
- Supply was notably quiet across both investment-grade and high-yield corporate bond markets, as many issuers stayed on the sidelines due to various considerations, including trade tensions and market volatility
    - Only $8 billion was issued in the investment-grade market, well short of estimates that called for $20 to $30 billion
    - 2018 investment-grade issuance was $1.1 trillion, about 12% lower than 2017 and below expectations, which called for $1.2 trillion on the low end
    - There was no supply in the high-yield market for the first December in over ten years
- Appetite for risk waned under volatile market conditions, and corporate spreads weakened as buyers were largely absent
    - Investment-grade spreads widened by 16bps to close at 153bps, the widest level since July 2016
    - High-yield spreads blew out by 110bps to close at 526bps, underperforming Treasuries by 3.66% during the month
- Securitized sectors proved resilient amid risk-market volatility, outperforming corporates but lagging Treasuries
    - Asset-backed securities (ABS) fared especially well, performing roughly in line with Treasuries during the month
- Municipals performed well relative to other spread sectors, but struggled to keep pace with the rally in Treasuries
    - The 10-year muni/Treasury ratio increased by 1% to close the month at 86%

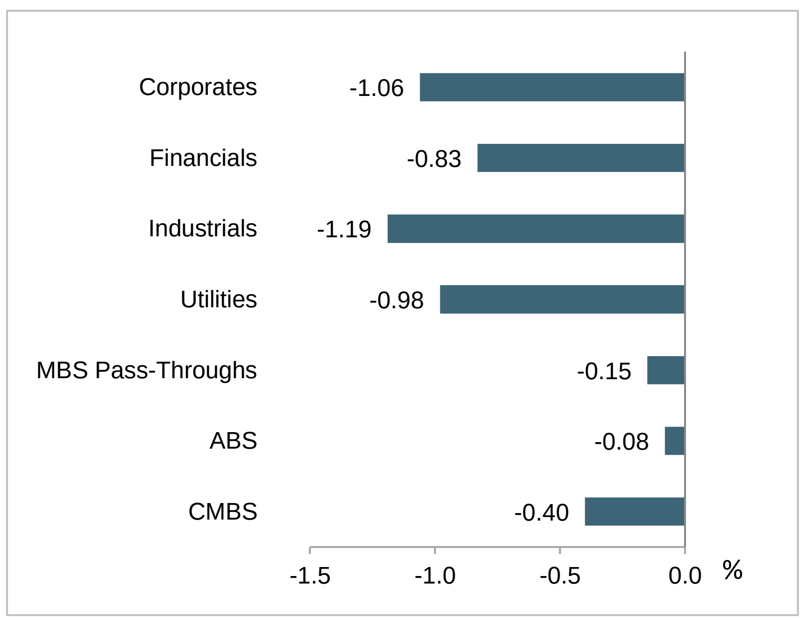
MARKET STATISTICS

Treasury Yield Curve



Maturity	2-year	5-year	10-year	30-year
12/31/2018	2.49	2.51	2.69	3.02
MTD Change	-0.30	-0.30	-0.30	-0.27

December Excess Returns*



As of: 12/31/18. Sources: Bloomberg, Bloomberg Barclays, Citigroup

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