IR+M

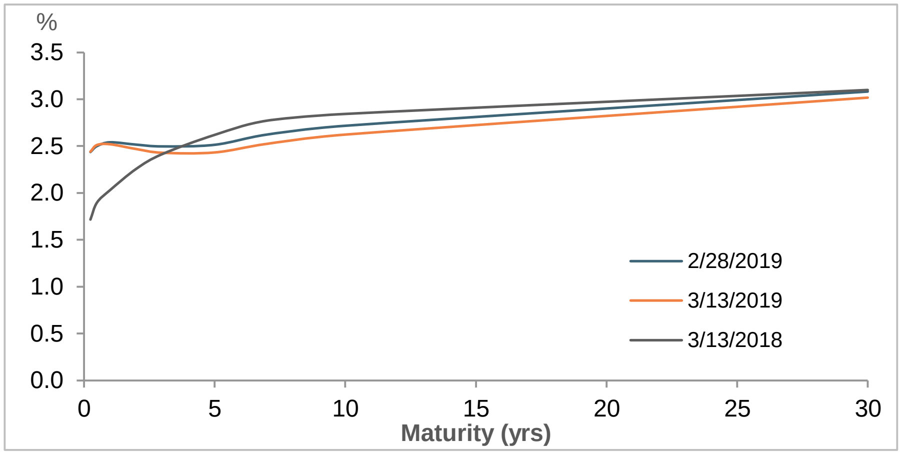
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

March 8 – March 14, 2019

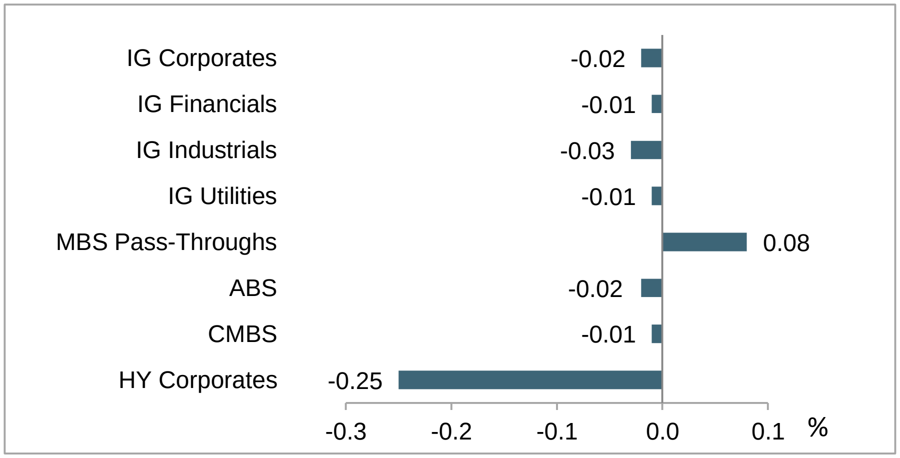
- Treasury yields fell across the curve as the US economy saw only modest job growth last month and muted inflation data, leading investors to price in a lower likelihood of the Federal Reserve increasing rates
    - The implied probability of a rate hike in 2019 fell to 0%, while the probability of a rate cut this year increased to over 25%
    - Both the core Consumer Price Index (CPI) and the Producer Price Index (PPI) came in below expectations in February, with core CPI and PPI up 0.1%, missing estimates of 0.2%
- Over $25 billion of corporates came to market, ahead of the $20 billion expected, as issuers took advantage of high subscription levels and below average concessions; however, primary market metrics have begun weakening and may suggest investor demand is falling
    - Despite investment-grade supply surpassing estimates for two consecutive weeks, year-to-date issuance dipped below last year's pace by over 5%
- Investment-grade corporates underperformed Treasuries, despite positive market sentiment and solid demand, amid a heavy wave of supply
    - Investment-grade corporate spreads were unchanged week-over-week at 121bps, 1bp off of the year-to-date tights
- Equity-market strength, low supply, and rising oil prices pushed high-yield corporate spreads 6bps tighter this week to close at 388bps
- Mortgage backed-securities (MBS) outperformed Treasuries and other spread product month-to-date, as rate volatility fell to year-to-date lows
- Heavy supply, which totaled over $11 billion this month, weighed on municipals, and the sector underperformed Treasuries month-to-date

Treasury Yield Curve



Maturity	2-year	5-year	10-year	30-year
3/13/2019	2.47	2.43	2.62	3.02
MTD Change	-0.05	-0.08	-0.10	-0.06

MTD Excess Returns



Sources: Bloomberg Barclays, Bloomberg and Citigroup

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