INCOME RESEARCH + MANAGEMENT

# IR+M CLIENT UPDATE
## February 2019

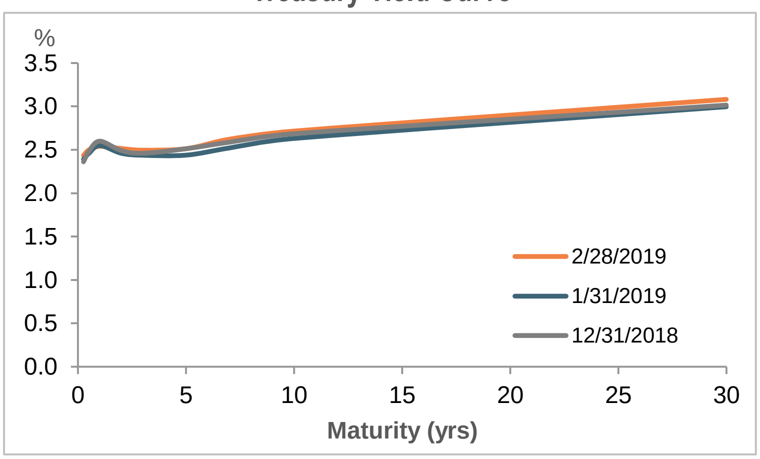
March 1, 2019

## MARKET NEWS

- Risk-market strength persisted during February, supported by dovish Federal Reserve (Fed) comments, reported progress on trade negotiations with China, and generally solid US economic data
    - Fourth quarter US GDP came in at an annualized rate of 2.6%, stronger than the expected 2.2%
    - Inflation remained healthy, as the Fed's preferred inflation gauge, Core PCE, grew at a 1.9% year-over-year rate in February, matching expectations
- Minutes from the Fed's January meeting revealed that members debated the prospect of a rate hike in 2019, but agreed that the balance sheet reduction plan could conclude prior to year end, ahead of market expectations
    - Market-implied probabilities continued to suggest that a rate cut is more likely than a rate hike during 2019
- Treasury yields increased by up to 9bps across the curve as investors still favored riskier assets
- A healthy appetite for risk supported the investment-grade corporate primary market, where new-issue deals were 3.6 times oversubscribed, on average
    - Issuers took advantage of flat-to-negative concessions by pricing nearly $100 billion, about 10% higher than February 2018, and ahead of estimates that called for up to $95 billion
    - Though February supply beat expectations, year-to-date supply remains roughly 2.5% behind last year's pace
- Strong demand met robust supply, and investment-grade corporate spreads tightened by 7bps to close the month at 121bps; spreads are now just 5bps inside of the 5-year average
    - Market technicals remain supportive, as investment-grade corporate funds saw inflows for a fifth week in a row
- High-yield spreads tightened by 44bps to 379bps, and are now approximately 60bps inside of the 5-year average
- Securitized sectors generally lagged corporates, although commercial-mortgage backed securities (CMBS) managed to outperform, driven by A-rated and BBB-rated CMBS, which posted excess returns of 1.47% and 1.42%, respectively
- Municipals outperformed Treasuries across the curve, and the 10-year muni/Treasury ratio fell by 4% to close at 79%, the lowest level in over ten years

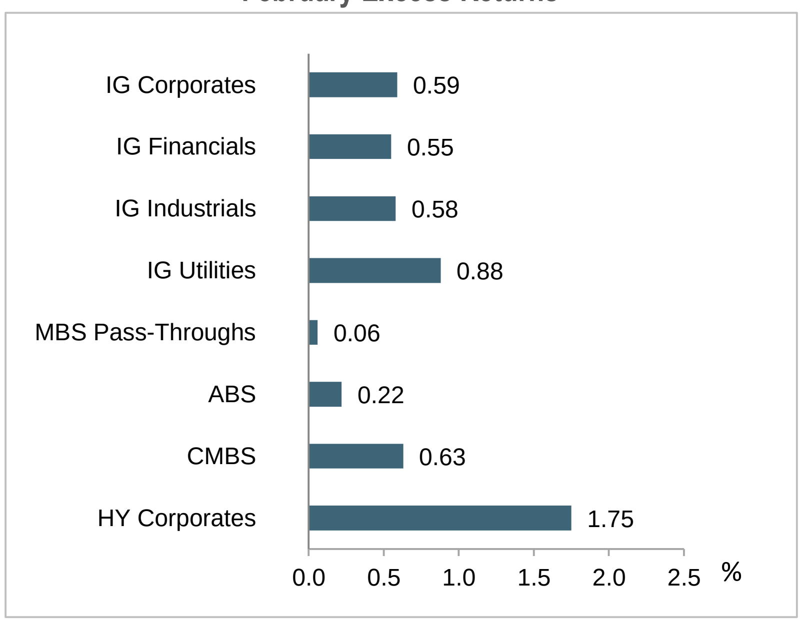
## MARKET STATISTICS

### Treasury Yield Curve




| Maturity | 2-year | 5-year | 10-year | 30-year |
|---|---|---|---|---|
| *2/28/2019* | 2.52 | 2.51 | 2.72 | 3.08 |
| *MTD Change* | 0.06 | 0.07 | 0.09 | 0.08 |

### February Excess Returns*




As of: 2/28/19. 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.