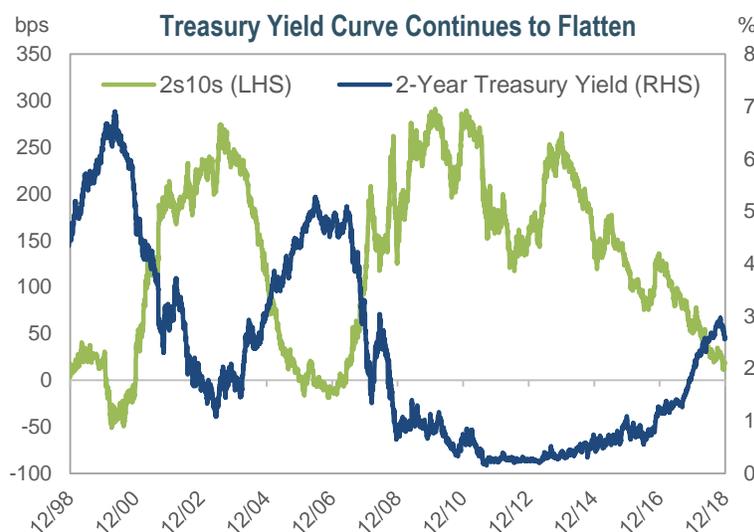
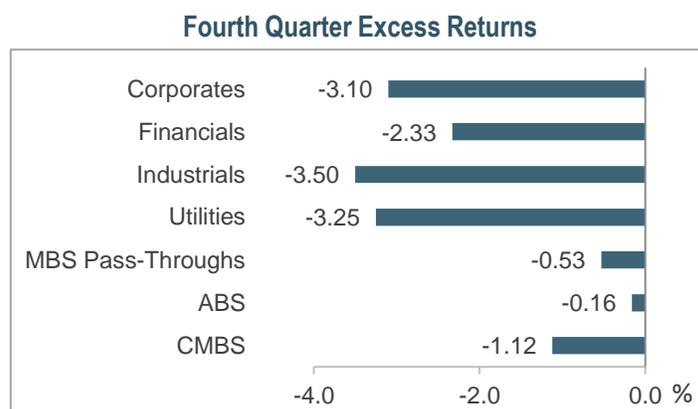
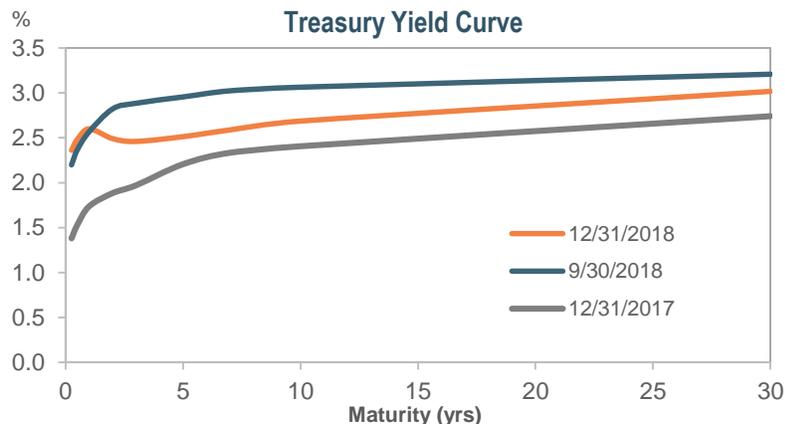


FOURTH QUARTER RECAP

- Economic data remained solid with fourth quarter GDP estimates around 2.7%, unemployment at 3.7% and inflation hovering above the 2% target.
- At the December meeting, the Federal Reserve (Fed), as expected, raised the federal funds target range by another 0.25% to 2.25-2.50%.
 - This marked the fourth rate increase in 2018 and ninth since December 2015.
- The Treasury curve flattened as the rate hike put upward pressure on shorter maturities.
 - The policy-sensitive 2-year yield reached as high as 2.97%, surpassing the 5-year yield for the first curve inversion of 2018.
- Weaker credit sentiment took over in the fourth quarter, and pushed investment-grade spreads wider by 48bps, from 105bps to 153bps.
- Supply totaled just \$187 billion, compared to \$254 billion over the same period in 2017.
 - December, specifically, was a light month with only \$8 billion issued, making it one of the slowest Decembers in over 23 years.
- Investors turned to high-quality, shorter duration bonds which broadly helped securitized sectors, particularly asset-backed securities (ABS), outperform corporates in the fourth quarter.

2019 GOING FORWARD

- Entering 2019, the spread between the 10-year Treasury yield and the 2-year Treasury yield is at one of its lowest levels since 2007.
- The Fed continues to tighten monetary policy, but lowered its forecast to two additional rate hikes in 2019.
- Current market expectations, however, are inconsistent with the Fed's estimate and, not only is the market pricing in zero rate hikes in 2019, but a rate cut in 2020.



The divergence in opinion between the Fed and market has created an environment of uncertainty for investors. At IR+M, we continue to believe that it is time to leverage our years of experience and security selection skills. Periods of uncertainty can lead to volatility, and we stand ready to opportunistically deploy our dry powder as volatility picks up.

As of: 12/31/18. Sources: Bloomberg Barclays, Bloomberg, Citigroup, JP Morgan. Excess returns are the curve-adjusted excess return of a given index relative to a term structure-matched position in Treasuries. The views contained in this report are those of IR+M and are based on information obtained by IR+M from sources that are believed to be reliable. This report is for informational purposes only and is not intended to provide specific advice, recommendations for, or projected returns of any particular IR+M product. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission from Income Research & Management.