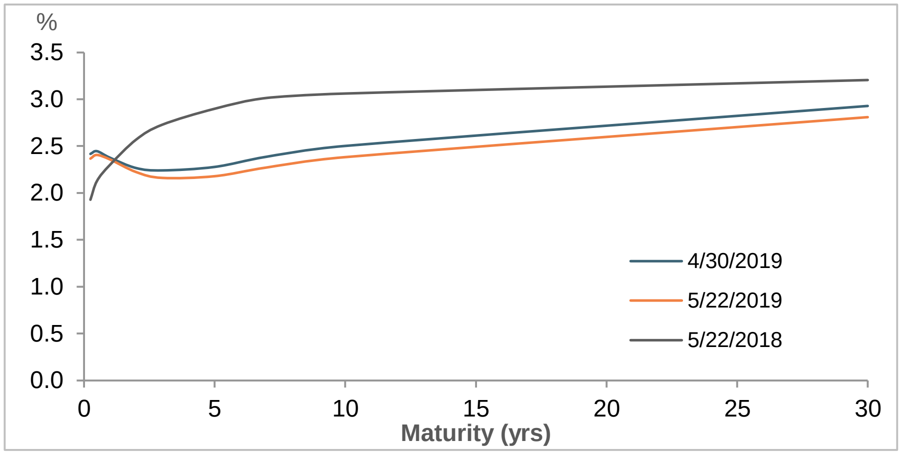
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
May 17 – May 23, 2019

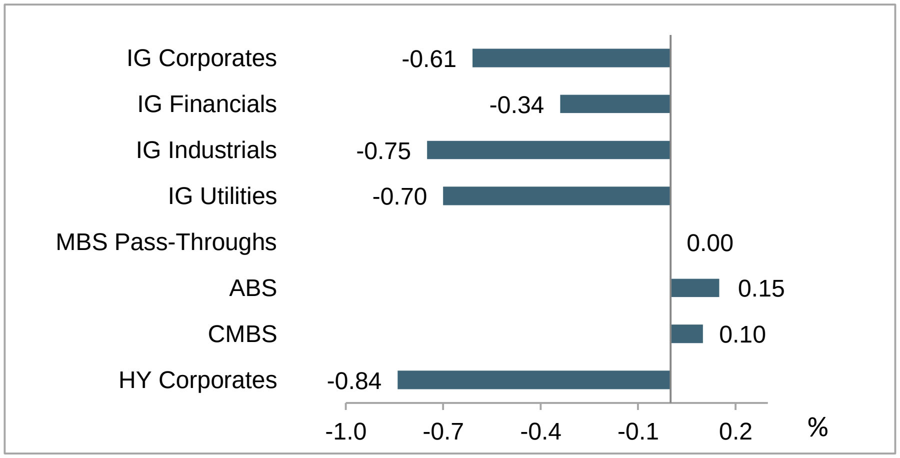
- The Federal Reserve (Fed) held rates steady, as expected, and reiterated its view that recent soft inflation data is likely 'transitory'
  - Treasury yields fell following the release of the minutes, and hit a new one-year low on the 23rd
  - Fed officials also signaled they would likely leave rates unchanged for the remainder of the year; however, the market-implied probability of a rate cut by year-end is currently 78%
- The cautious macroeconomic tone continued to drive market sentiment, and concerns over US-China trade talks lingered, which pushed corporate spreads 1bp wider to 119bps
- Investment-grade corporate supply was light ahead of the holiday weekend and totaled $14 billion, below expectations of $15-20 billion
  - Demand for newly-issued bonds was solid, with concessions averaging in the low single digits, and deals were roughly 3 times over-subscribed
- High-yield corporate issuers have been active, and supply reached the highest monthly total since March 2018, as issuers priced $25 billion month-to-date
  - Investors easily digested the heavy supply and high-yield spreads tightened 13bps to close at 388bps
- Commercial mortgage-backed securities (CMBS) outperformed Treasuries, and spreads remained unchanged week-over-week at 65bps
- Municipals underperformed Treasuries and muni/Treasury ratios rose; the 10-year muni/Treasury ratio increased to 73%, above the lowest level on record of 72%

Treasury Yield Curve



Maturity	2-year	5-year	10-year	30-year
5/22/2019	2.22	2.18	2.38	2.81
MTD Change	-0.05	-0.10	-0.12	-0.12

MTD Excess Returns



Sources: Bloomberg Barclays, Bloomberg, and Bloomberg Index Services Limited

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