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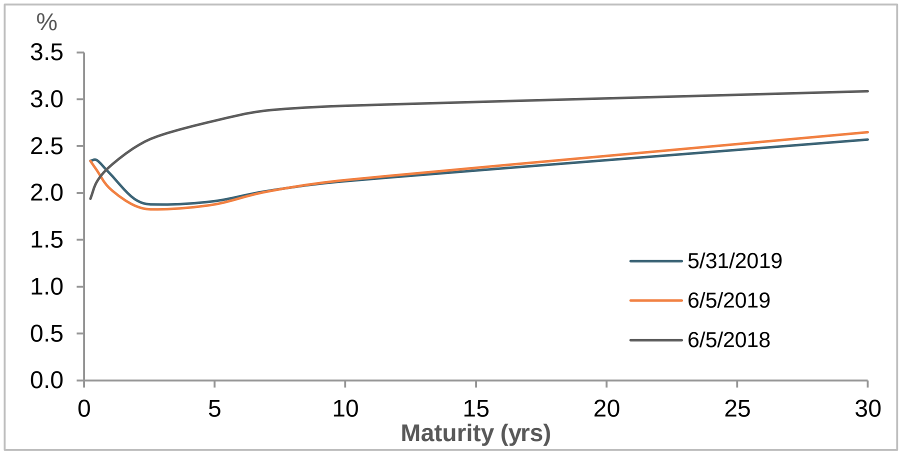
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

June 1 – June 6, 2019

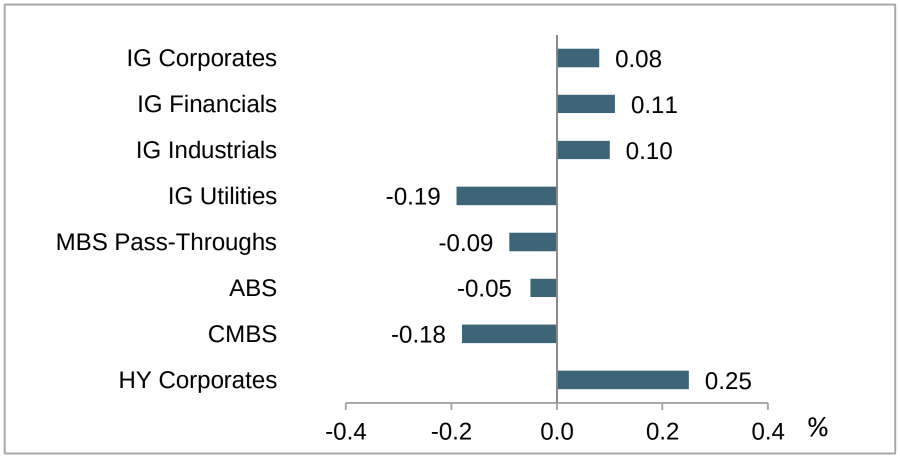
- Market sentiment rebounded this week, after the release of dovish Federal Reserve (Fed) comments and news of an extended window for US-Mexico trade negotiations
  - Fed Chair Jerome Powell noted that the Fed would "act as appropriate to sustain the expansion," leading to expectations of easing amid concerns surrounding slowing global growth
  - The market-implied probability of a rate cut by the end of the year increased to over 98%
- Front-end yields fell while longer yields increased, as investors priced in a higher likelihood of lower rates and a potential pickup in long-term inflation
  - The difference between the 2-year and the 10-year Treasury yields reached 28bps, the steepest level since 2018
- Investment-grade corporate issuance totaled over $22 billion and surpassed the higher end of estimates of $20 billion, with issuers taking advantage of improved investor demand
- Corporate spreads remained unchanged at 128bps, however, sector-level spread movements were bifurcated; Financial and Industrial spreads each tightened, while Utilities widened
  - Utilities struggled to participate in the recovering market tone, as corporate spreads stabilized and investors rotated into more riskier sectors following a volatile May
- Mortgage-backed securities (MBS) underperformed Corporates and Treasuries, as lower mortgage rates increased prepayment risk
- Longer-dated municipals outperformed Treasuries; however, heavy issuance may provide a headwind going forward; 30-day visible supply of $14 billion is the highest total since October

Treasury Yield Curve



Maturity	2-year	5-year	10-year	30-year
6/5/2019	1.86	1.88	2.14	2.65
MTD Change	-0.06	-0.03	0.01	0.08

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.

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