IR+M
INCOME RESEARCH + MANAGEMENT

# IR+M CLIENT UPDATE
## May 2019

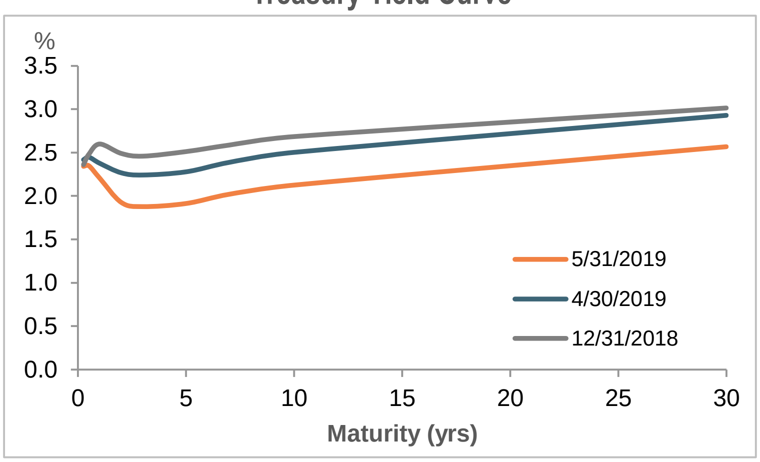
June 3, 2019

## MARKET NEWS

- Risk assets performed poorly amid heightened trade tensions across the globe, as President Trump escalated tariffs on Chinese goods following a deal stalemate and announced a 5% tariff on Mexican goods, which caught the market by surprise
  - In May, equities fell by over 6%, and corporate bonds posted negative excess returns across the quality spectrum
- Treasury yields fell sharply across the curve, and the 10-year yield fell 37bps to 2.13%, the lowest level in over 18 months
  - At 2.34%, the yield on 3-month Treasury Bills closed the month 22bps higher than the 10-year Treasury yield
- Investment-grade corporate supply came in at approximately $102 billion, below expectations of $120-130 billion
  - The two largest deals of the month were both issued to fund M&A activity; IBM (acquiring Red Hat) and Bristol-Meyers Squibb (acquiring Celgene) priced $20 billion and $19 billion, respectively, across multiple tranches
  - With nearly $500 billion issued by investment-grade firms year-to-date, we stand roughly 8% behind last year's pace
- A weaker market tone, coupled with the rally in Treasuries, led to corporate spread widening, and investment-grade corporate spreads widened by 17bps to close the month at 128bps; the 5-year average is 127bps
  - Within investment-grade corporates, the energy and basic industry sectors lagged, as commodities such as oil and copper experienced significant price declines amid concerns over slowing global growth
  - On the other hand, Financials outperformed, and banks and REITS led the way from a sector perspective, as investors sought more stable credits with less exposure to global trade
- Risk-market weakness weighed on high-yield corporate spreads, which widened by 75bps, from 358bps to 433bps
- Securitized sectors performed relatively well despite the soft tone, and asset-backed securities (ABS) managed to outperform Treasuries, supported by strong demand for short duration, high-quality assets
- Municipals lagged Treasuries during the month, as muni/Treasury ratios increased by 2% to 4% across the curve
  - During the month, the 10-year muni/Treasury ratio fell to an all-time low of 71.6% before bouncing back to end the month at 77.6%, as munis did not keep pace with the rally in Treasuries

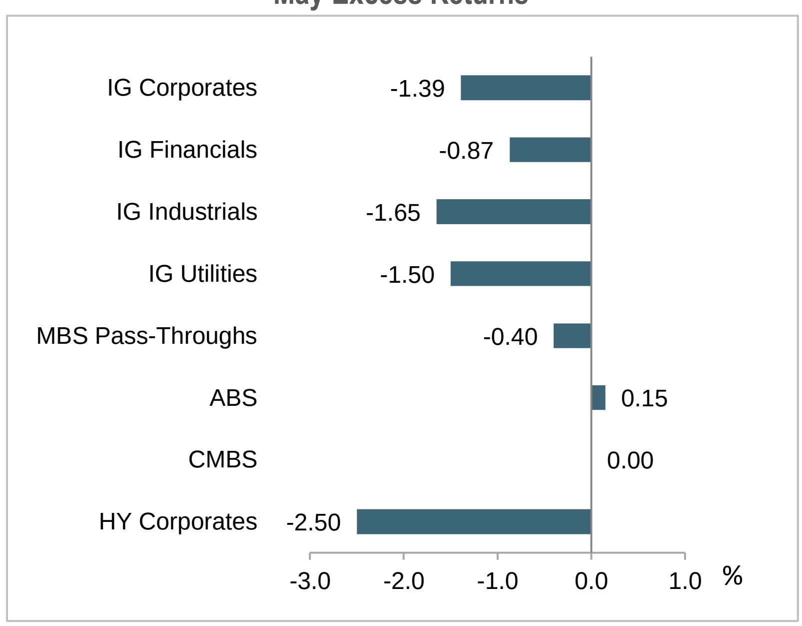
## MARKET STATISTICS

### Treasury Yield Curve




| Maturity | 2-year | 5-year | 10-year | 30-year |
|---|---|---|---|---|
| *5/31/2019* | 1.92 | 1.91 | 2.13 | 2.57 |
| *MTD Change* | -0.35 | -0.37 | -0.37 | -0.36 |

### May Excess Returns*




As of: 5/31/19. 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.