IR+M

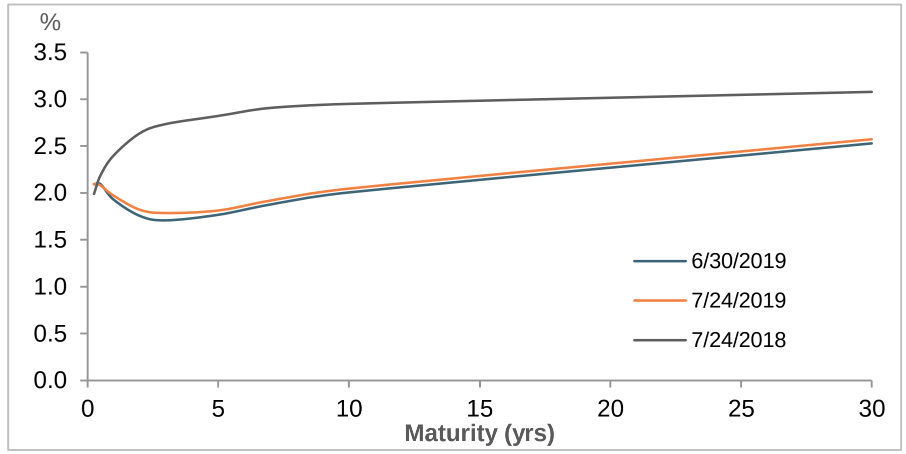
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

July 19 – July 25, 2019

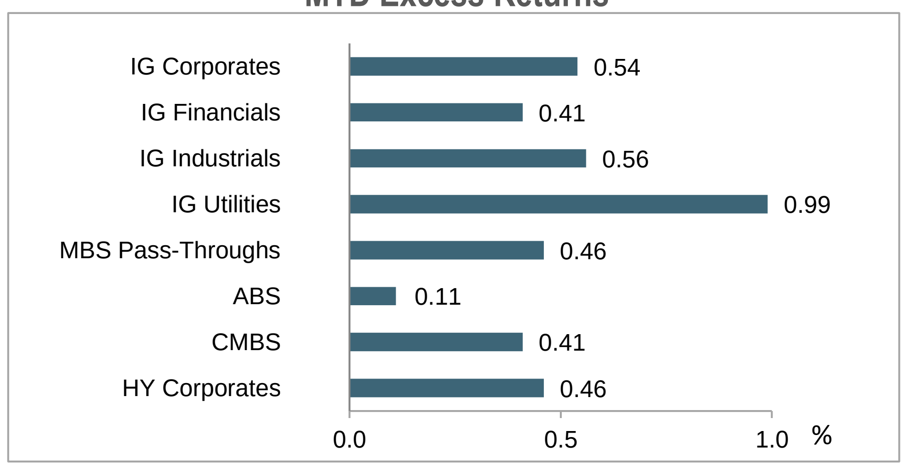
- Bond yields away from the US declined as the European Central Bank (ECB) amended its policy language, anticipating the need to lower interest rates due to signs of worsening economic conditions
    - ECB President Mario Draghi signaled that record low rates could be cut further, and also indicated the bank could restart its bond-buying program as early as September
    - The yield on the 10-year German Bund reached a new record low of -0.41% and $13.7 trillion of outstanding global debt is negative-yielding
- In the US, Treasury yields were higher across the curve Thursday morning, as investors reacted to the dovish rhetoric from the ECB, and shifted into risk assets
    - The Federal Reserve (Fed) is expected to cut interest rates by 25bps next week at its next meeting on July 31st
- New issue supply of investment-grade corporates totaled over $25 billion, exceeding dealer estimates of $15 to $20 billion for the week
    - Borrowers benefitted from solid demand, and new issue concessions of recent deals averaged less than 2bps
- Despite the increased supply, accommodative posturing by central banks pushed investment-grade corporate spreads tighter by 4bps week-over-week to close at 109bps, equaling the year-to-date tights
- Consecutive weeks of heavy issuance in asset-backed securities (ABS) – and over $15 billion priced in July – weighed on the sector's month-to-date excess returns
- Municipal bonds outperformed Treasuries as unrelenting demand and light supply continued to drive municipal yields lower

Treasury Yield Curve



Maturity	2-year	5-year	10-year	30-year
7/24/2019	1.82	1.81	2.05	2.57
MTD Change	0.06	0.04	0.04	0.04

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.