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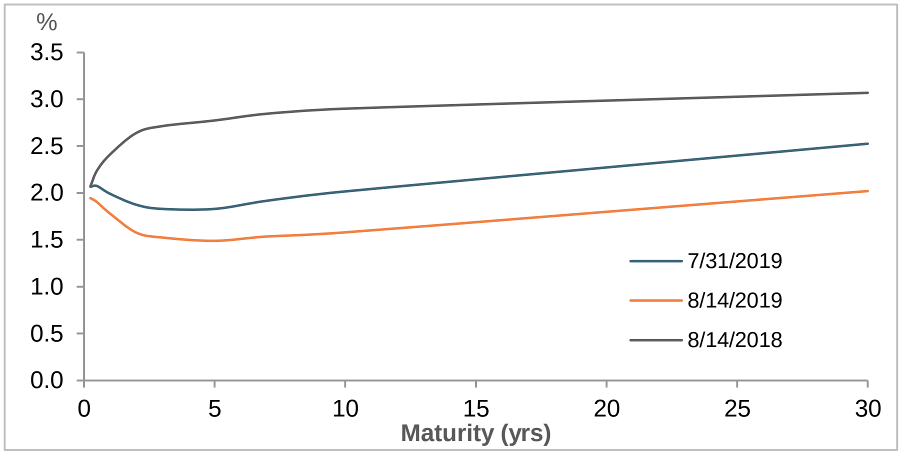
INCOME RESEARCH + MANAGEMENT

IR+M SPECIAL MARKET UPDATE

August 15, 2019

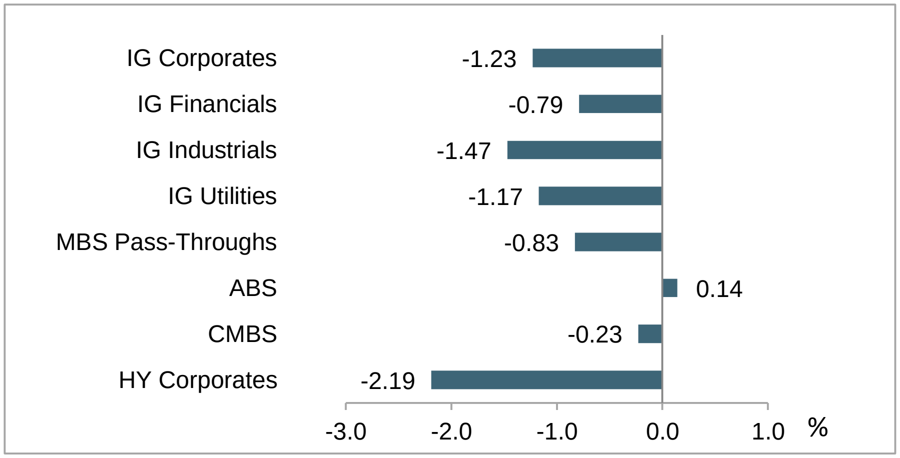
- Weakening economic data in Germany and China prompted a selloff in risk assets globally, and a rally in US Treasury rates led to the first yield-curve inversion of 2- and 10-year rates since 2007
    - German officials pointed to US-China trade tensions as the country's GDP contracted 0.1% in the second quarter
    - In China, the jobless rate ticked up to its highest reported level, and key figures on consumption and property investment declined
- As investors collectively moved into safe-haven Treasuries, the yield curve flattened, and the 10-year Treasury rate dipped below the 2-year rate before closing at 1.58%
    - US equity markets reacted swiftly as participants feared that a yield-curve inversion may be a precursor to a recession, and the S&P 500 dropped almost 3% on Wednesday
    - The 30-year Treasury yield closed at a record low of 2.02% on Wednesday, and fell further to 1.94% overnight before rebounding on a more constructive tone from China Thursday morning
    - The rally in US Treasury rates was exacerbated as numerous foreign government yields remain negative, attracting investment from abroad
- Low all-in yields produced a flurry of issuance, and investment-grade corporate issuers priced over $62 billion this month, on pace to surpass dealer estimates of $65 to $75 billion
    - ExxonMobil – one of the few AAA-rated corporate issuers – priced a 7-part deal, pricing $7 billion in 3-year to 30-year bonds
- Amid the volatility, corporate spreads were pushed wider by just 1bp week-over-week to close at 123bps; spreads remain tight to historical averages, as demand for US fixed-income continues to be strong
- Short duration, higher-quality asset-backed securities (ABS) outperformed other securitized sectors, and dealers struggled to find demand for mortgage-backed securities (MBS) amid heightened volatility

Treasury Yield Curve



Maturity	2-year	5-year	10-year	30-year
8/14/2019	1.58	1.49	1.58	2.02
MTD Change	-0.29	-0.34	-0.44	-0.51

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.