IR+M INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
August 2019

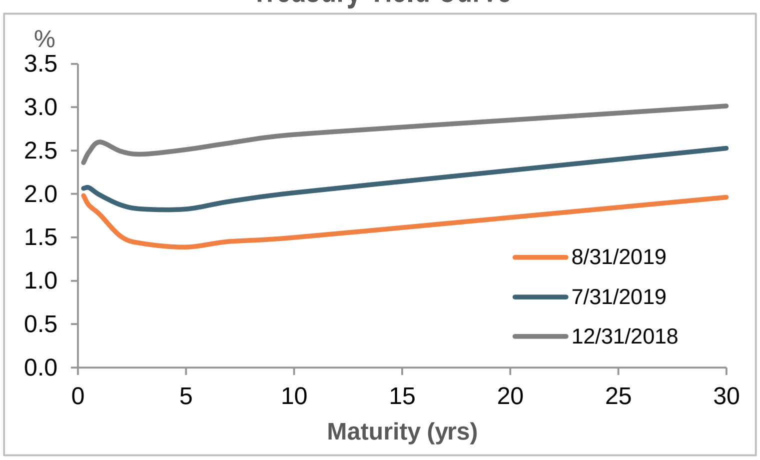
September 3, 2019

MARKET NEWS

- Global trade tensions and choppy economic data drove a persistent rally in Treasuries throughout the month, and the spread between the 2- and 10-year Treasury rates inverted, closing Friday at -1bps
    - The Chinese government devalued its currency, the Yuan, to its weakest level against the US Dollar in over a decade, and announced an end to US agriculture imports
    - In subsequent exchanges, increased tariffs were announced by both the US and China – however, the rhetoric softened in the final two trading days of the month and finished on a constructive tone
    - Business confidence in Germany, the world's fourth largest economy, dropped to a 7-year low; German officials pointed to trade tensions and warned that its economy is likely to enter a recession in the third quarter
- Minutes released from the Federal Reserve's (Fed) July policy meeting showed dissention on the 25bps rate cut announced on July 31st, with some officials pointing to labor-market strength and inflation near the Fed's 2% goal
    - Meanwhile, the market implied probability of a September rate cut stands at 100%, and the 30-year Treasury has rallied over 50bps throughout the month, taking out a record low and trading down to 1.90% before closing at 1.96%
- Investment-grade corporate issuers priced $75 billion in debt, which was on par with dealer estimates of $65 to $75 billion, but below the five-year monthly average of $81 billion
    - Supply was highlighted by Occidental Petroleum's $13 billion deal, the proceeds of which will be used to help fund its acquisition of Anadarko; strong demand enabled the deal to launch 35 to 50bps tighter than initial guidance
- The flight to quality pushed investment-grade corporate spreads wider by 12bps to close at 120bps; high-yield corporate spreads were 22bps wider and closed at 393bps
- Securitized sectors performed relatively well amid the flight to quality; mortgage-backed securities (MBS), however, underperformed, as MBS origination surged on the heels of a refinancing frenzy
- Municipals underperformed Treasuries amid heavy supply – issuers priced over $36 billion in August – and the 10-year muni/Treasury ratio climbed nearly ten points from 76% to 85%, closing in on the year-to-date high

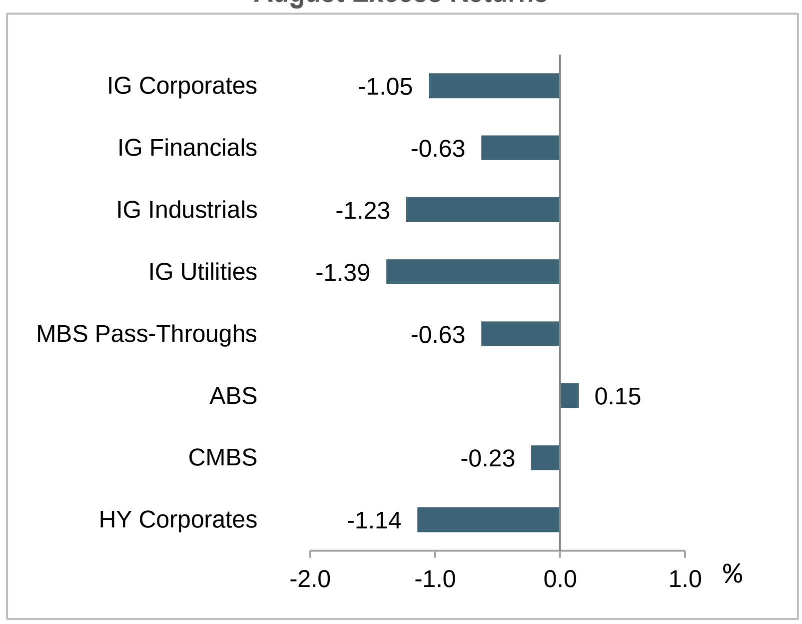
MARKET STATISTICS

Treasury Yield Curve



Maturity	2-year	5-year	10-year	30-year
8/31/2019	1.51	1.39	1.50	1.96
MTD Change	-0.36	-0.44	-0.52	-0.57

August Excess Returns*



As of: 8/31/19. 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.