INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
October 2019

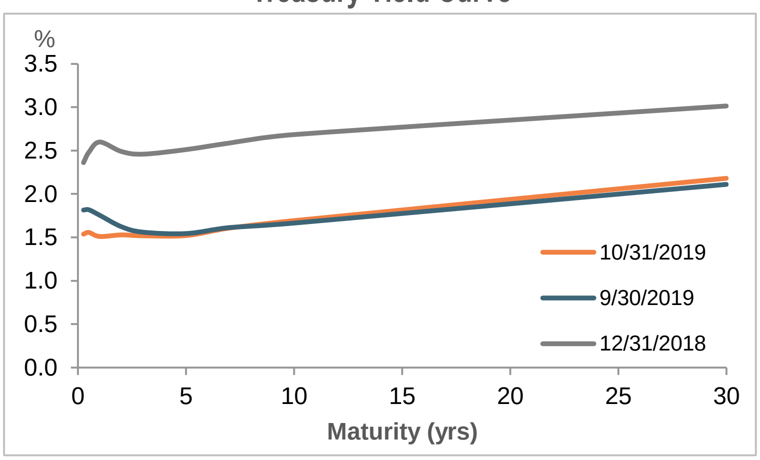
November 1, 2019

MARKET NEWS

- Investor appetite for risk softened earlier in the month with weaker economic headlines, but later rebounded as companies released solid third quarter earnings and economic data improved
  - The US Institute for Supply Management (ISM) manufacturing index fell below 48, the lowest level since June 2008
  - Third quarter GDP came in above estimates at 1.9%; it was headlined by consumer spending, which rose at a 2.9% pace
- The Federal Reserve (Fed) cut rates by 25bps for the third time this year, but indicated that it would pause future rate cuts unless there was a "material reassessment"
  - The FOMC removed language that the committee would "act as appropriate," which suggests that the Fed will no longer use rate cuts as insurance against risks to the US economy
  - The market-implied probability of another rate cut by the end of 2019 is 27%
- The Treasury curve steepened, and intermediate- and short-maturity yields fell, as investors priced in this month's rate cut
- Investment-grade issuers borrowed roughly $62 billion, well behind expectations of $85 billion; year-to-date supply of over $940 billion is trailing last year's pace by almost 7%
  - Expectations are for $95 billion of issuance next month, similar to last November's total of $94.5 billion
- Light issuance and better-than-expected third quarter earnings helped corporate spreads tighten 5bps to 110bp
  - Of the 40% of companies that have reported earnings, 80% have reported earnings above estimates
- Despite the risk-on tone, high-yield spreads widened by 19bps to 392bps, as investor reaction from the Fed's messaging more than reversed spread tightening from earlier in the month
- Heavy supply of asset-backed securities (ABS) continued to weigh on performance, as October's $33 billion in issuance was the highest monthly total in 2019
- Municipals outperformed Treasuries across the curve, and the 10-year muni/Treasury ratio fell slightly from 88.4% to 88.2%

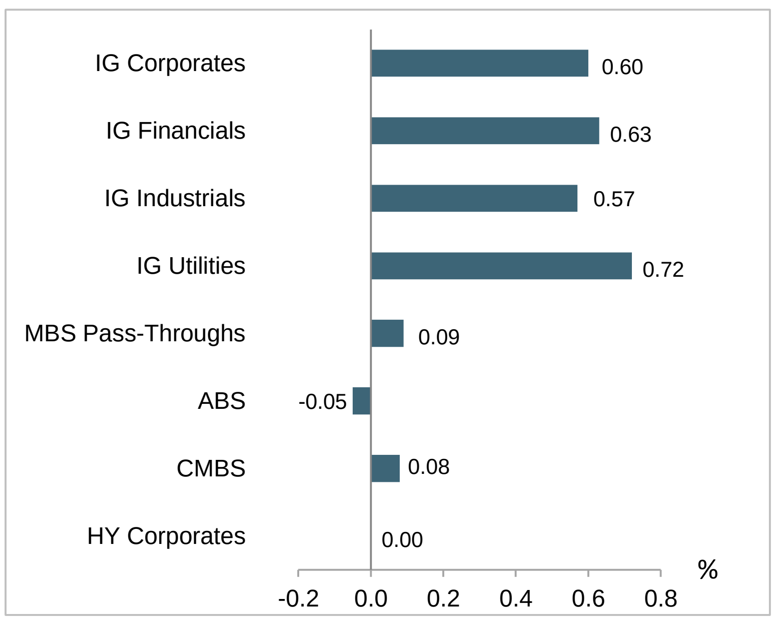
MARKET STATISTICS

Treasury Yield Curve



Maturity	2-year	5-year	10-year	30-year
10/31/2019	1.53	1.52	1.69	2.18
MTD Change	-0.09	-0.03	0.02	0.07

Excess Returns*



As of: 9/30/19. 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.

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