



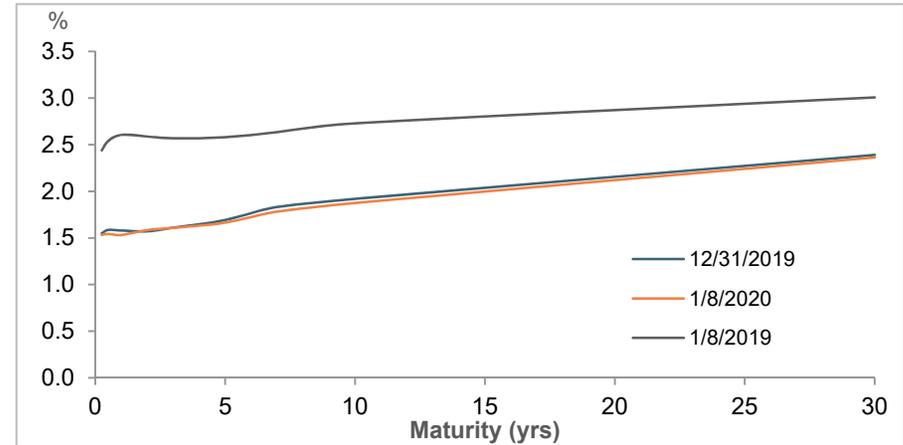
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

January 1 – January 9, 2020

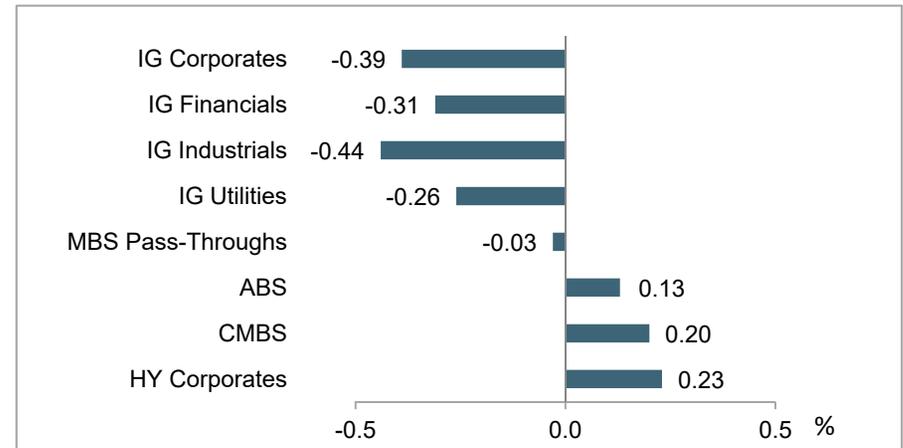
- Treasury yields were generally down over the week, as tensions flared in the Middle East between the US and Iran; concerns over the possibility of further conflict initially drove oil prices higher and equity markets lower
 - The 10-year yield dropped as much as 18bps, but then retraced as both sides called for de-escalation; oil prices and equity markets similarly gave back their respective gains and losses
- US economic data continued to show a healthy consumer, as early estimates of December retail sales were up 3.4% over the prior year; the nonfarm private sector also added 202,000 jobs, topping expectations
 - This was offset by manufacturing weakness, as the ISM Manufacturing PMI registered at 47.2 for December, the fifth month of contraction and the lowest level since June 2009
- The first week of the year was highlighted by heavy supply, as investment-grade issuers priced over \$47 billion in new issue, surpassing initial estimates of \$30 - \$35 billion
 - The surge in supply was caused by issuers taking advantage of low rates, as credit spreads neared post-crisis tight
- Despite the heavy supply, demand remained strong, and corporate spreads widened just 4bps to close at 97bps
 - High-yield corporate spreads narrowed 7bps to 329bps, posting 23bps of positive excess return on equity market strength
- Mortgage-backed securities (MBS) underperformed other securitized sectors, as interest rate volatility drove investor concern of elevated prepayment speeds
- Municipal supply is expected to increase in January given low interest rates and higher taxable issuance; demand remains strong, and the 10 year muni/Treasury ratio fell 4% to 73%

Treasury Yield Curve



Maturity	2-year	5-year	10-year	30-year
1/8/2020	1.58	1.66	1.88	2.36
MTD Change	0.01	-0.03	-0.04	-0.03

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.

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