IR+M

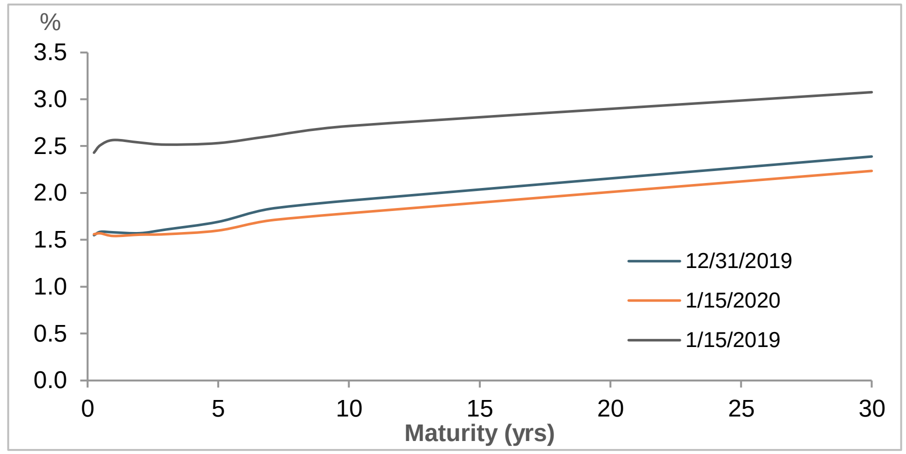
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

January 10 – January 16, 2020

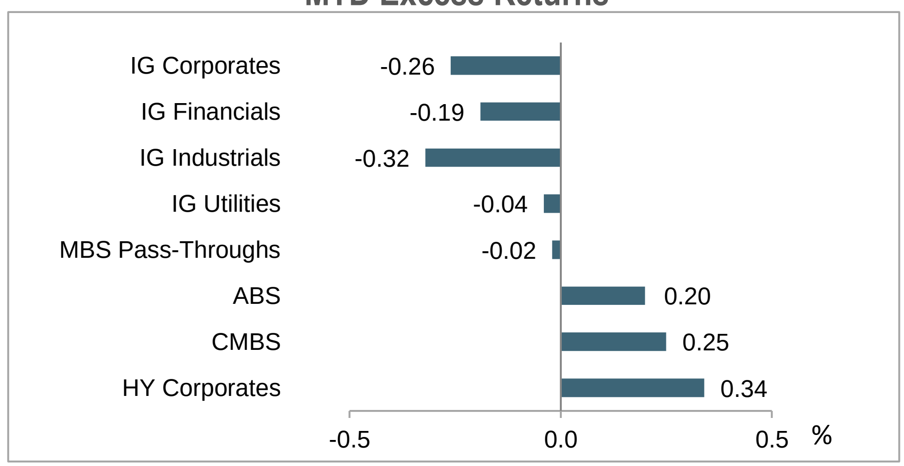
- The US and China completed phase one of a trade deal, which improved optimism across risk assets; however Treasury yields ticked lower on the heels of softer-than-expected inflation data
    - Business leaders in the US applauded the trade pact, but believe additional tariff reductions could stimulate more economic growth
    - The Consumer Price Index (CPI) report for December missed consensus estimates by 0.1% and the 10-year breakeven inflation rate fell modestly to 1.75%
    - In response, Treasuries rallied, and the 30-year yield closed 12bps lower to 2.24%, which flattened the curve
- The Federal Reserve (Fed) again used repo agreements to inject liquidity into financial markets; eligible banks drew less than the Fed was willing to provide, and the operation is expected to end in mid-February
- Investment-grade corporate issuance cooled in the second full week of the year, at just over $20 billion, which was short of dealer expectations of $30 billion
- Insatiable demand for yield, combined with light supply, drove corporate spreads 1bp tighter to close at 96bps
    - High-yield corporate spreads moved in lockstep with record-high equity markets, and closed 7bps tighter to 322bps – just 20bps above multi-year tights
- Commercial mortgage-backed securities (CMBS) outperformed other securitized sectors, with only one deal pricing so far in 2020; issuance is expected to rise in the second half of January
- In the municipal market, both taxable and tax-exempt issuance remained strong – Chicago issued over $1.3 billion in general obligation and sales-tax securitization deals this week, which were well received

Treasury Yield Curve



Maturity	2-year	5-year	10-year	30-year
1/15/2020	1.56	1.60	1.78	2.24
MTD Change	-0.01	-0.09	-0.14	-0.15

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.