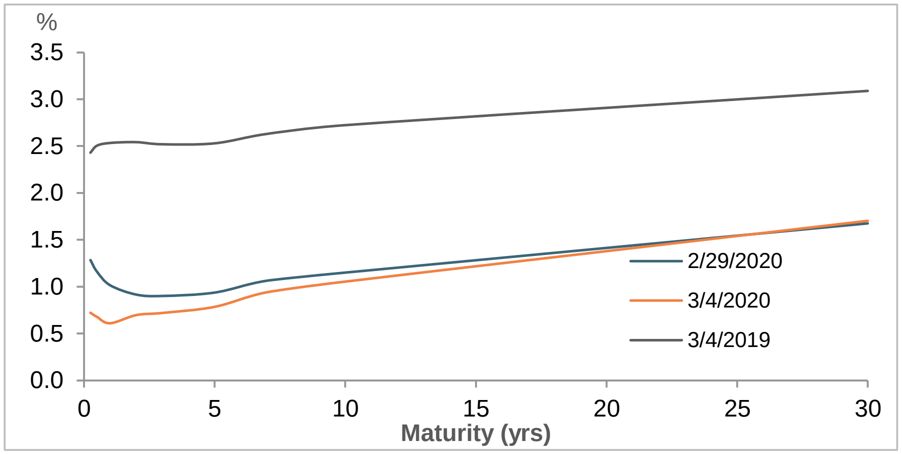
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
March 1 – March 5, 2020

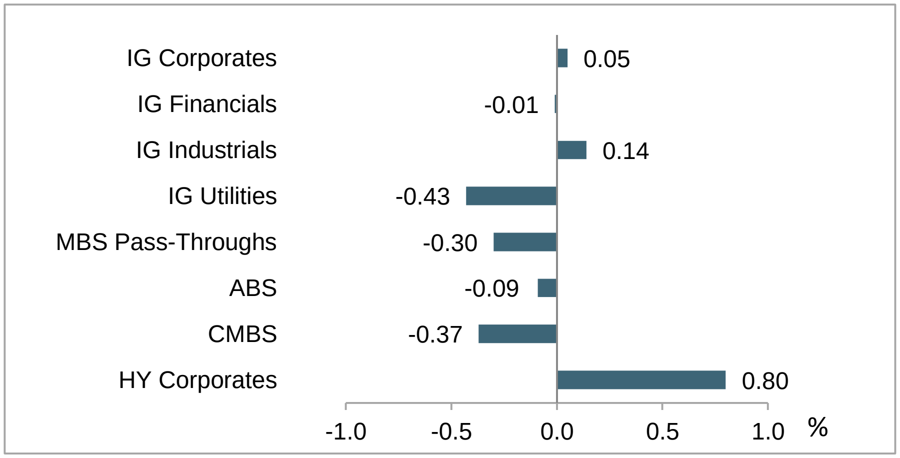
- The Federal Reserve (Fed) stepped in to lower the fed funds rate by 50bps on Tuesday, to a target range of 1.00–1.25%, in the first emergency rate cut since October 2008
    - Fed Chair Jerome Powell cited the potential for slowing global economic growth, and commented that lower borrowing rates are part of a “multi-faceted response” to subdue the economic impacts of the coronavirus outbreak
- Investors initially shook off the rate cut, piling into Treasuries, and the 10-year Treasury yield dipped below 1.00% for the first time before settling at 1.05% Wednesday
    - The market-implied probability of at least a 25bps rate cut at the March 18th meeting is currently 100%
- After a silent week to end February, investment-grade corporate issuers flooded the primary market and priced over $27 billion, with $15.7 billion issued on Wednesday, marking the second busiest day of the year
    - Borrowers paid an average new issue concession of 7bps this week, significantly higher than recent deals which had been averaging under 3bps
- Under pressure from heavy supply and headline risk, corporate spreads widened by 2bps month-to-date, and closed at 124bps
- In contrast, high-yield corporate spreads tightened by 36bps on the heels of the rebound in equity markets, and closed at 464bps
- Increased issuance of commercial mortgage-backed securities (CMBS) pressured spreads and caused the sector to underperform Treasuries as well as other securitized sectors
- Municipal yields did not keep up with the rally in Treasuries and the 10-year muni/Treasury ratio climbed by 11% to close at 96% - the highest level since the first half of 2017

Treasury Yield Curve



Maturity	2-year	5-year	10-year	30-year
3/4/2020	0.70	0.78	1.05	1.70
MTD Change	-0.22	-0.16	-0.10	0.02

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.

100 Federal Street, 30th Floor Boston, MA 02110 (617) 330-9333 www.incomeresearch.com