IR+M

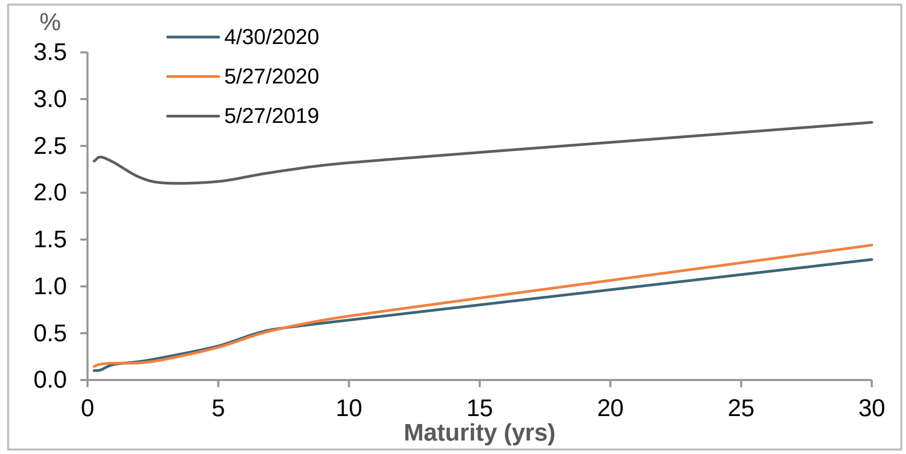
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

May 22 – May 28, 2020

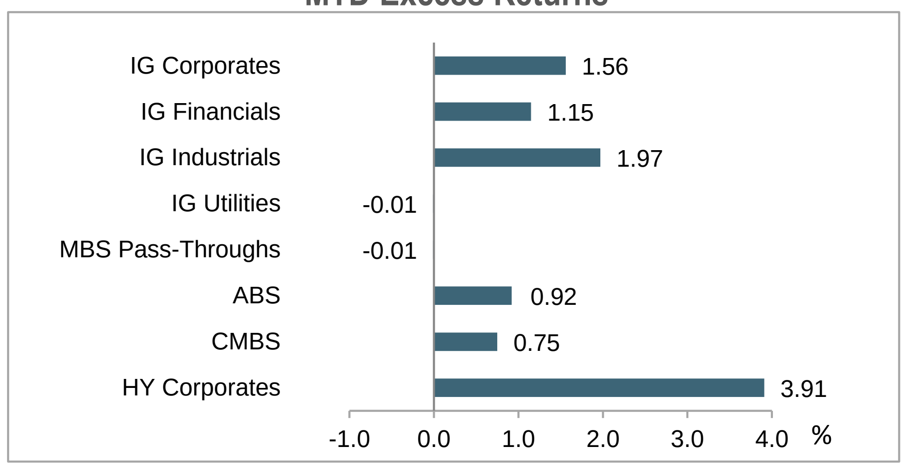
- Resumed economic activity buoyed investor optimism, setting a strong market tone, and Treasury yields continued to rise off the historic lows witnessed just a few months ago
- The Federal Reserve (Fed) reduced its Treasury buying to $20 billion this week, down from $30 billion last week, lifting some pressure off of the yield curve
    - The yield on the 30-year Treasury rose by 4bps week-over week, to close at 1.44%
- The European Commission proposed funding €750 billion ($822 billion) in grants and loans for its nations most devastated by the coronavirus pandemic via a common European bond – the first of its kind
    - The introduction of European-backed debt, yet to be approved, could improve the effectiveness of the Central Bank's policies, and initiated a rally in European sovereign yields
- Investment-grade corporate borrowers priced over $36 billion this week, meeting dealer expectations of $35 billion, and bringing annual issuance over $1 trillion at the fastest pace on record
    - Despite the heavy supply, demand for credit drove corporate spreads 9bps tighter, to close at 178bps
    - High-yield corporate spreads moved 48bps tighter – closing at 643bps – echoing the rally in equities
- Utilities lagged other corporate sectors month-to-date, as investors cycled out of the higher-quality sector amid the risk-on market tone
- Asset-backed securities (ABS) outperformed other securitized sectors, as supply in the sector has been relatively muted
- Muni/Treasury ratios sustained a steep decline from record levels, and the 10-year ratio fell 18% to close at 120%, as municipals outperformed Treasuries

Treasury Yield Curve



Maturity	2-year	5-year	10-year	30-year
05/27/2020	0.18	0.35	0.68	1.44
MTD Change	-0.01	0.00	0.06	0.17

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