IR+M INCOME RESEARCH + MANAGEMENT

# IR+M CLIENT UPDATE
## April 2020

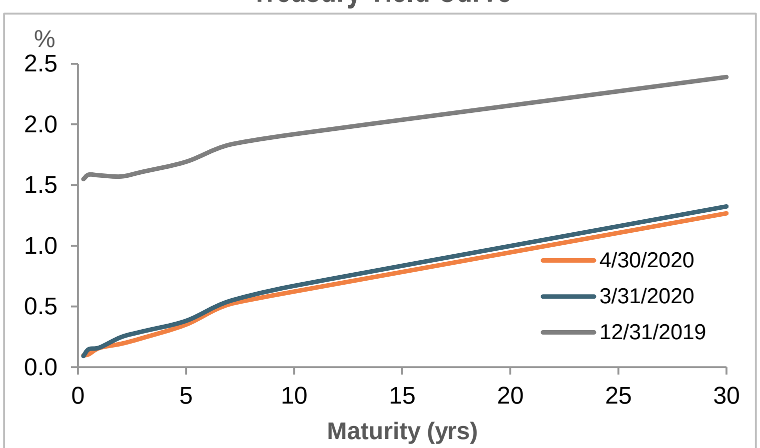
May 1, 2020

## MARKET NEWS

- After one of the worst month's of performance in history, risk assets rebounded in April and made progress toward a relatively normal state, despite continued negative headlines and economic reports
    - GDP fell by 4.8% in the first quarter, the worst quarterly contraction since 2008 – however, the first quarter's figure likely does not capture the total impact of layoffs and business closings; second quarter GDP may fall 30%
    - US jobless claims totaled 30 million and total COVID-19 cases surpassed 3.25 million worldwide
- Despite the expected negative economic data, investor sentiment improved after news of a possible coronavirus treatment, and further fiscal and monetary action – which included broadening existing programs and loans to households
    - The Fed also commented that they intend to keep the fed fund target range near zero, and provide support until the economy has recovered
- Investment-grade corporates reversed many of the trends from the previous month amid the risk-on tone; corporate spreads tightened 70bps to 202bps, lower-quality outperformed higher-quality, and long-duration outperformed shorter-duration
    - Corporate credit curves steepened as a result, with the difference between the long corporate spread and the short corporate spread increasing from 13bps to 80bps, but still behind the longer-term average of roughly 100bps
- However, the issuance trend did not falter, with over $285 billion pricing in April – the highest month of supply on record – as issuers continued to utilize the fixed income market, while the total amount of tapped revolvers leveled off
    - Boeing closed the month with a $25 billion deal across seven tenors, the largest deal of 2020 and sixth largest of all-time; books reached as high as $70 billion
- Asset-backed securities (ABS) issuance picked up after four weeks of no supply, and totaled almost $10 billion; year-to-date issuance of $60 billion is roughly 33% behind last year's pace of $89 billion
- Tax-exempt municipals underperformed Treasuries, and the 10-year muni/Treasury ratio increased from 215% to 226%; however, intra-month volatility was high, with the ratio reaching as high as 307% and as low as 150%

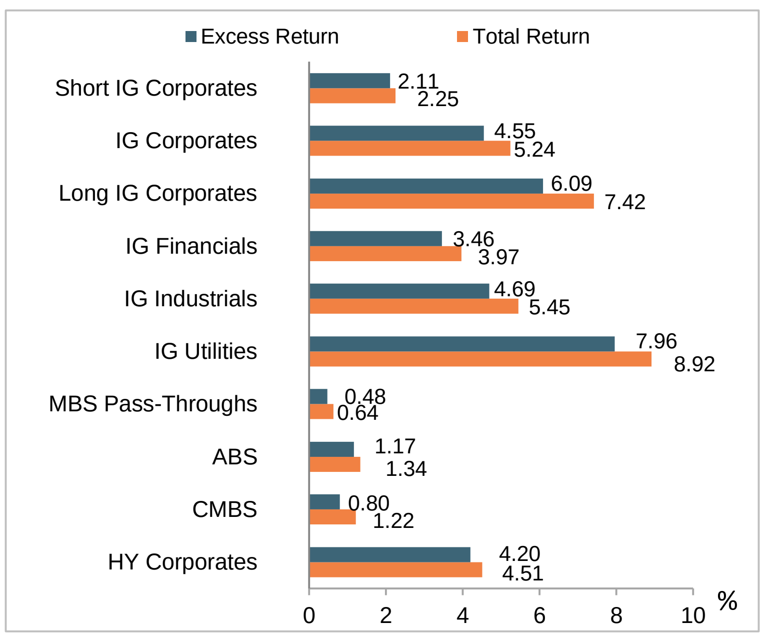
## MARKET STATISTICS

### Treasury Yield Curve




| Maturity | 2-year | 5-year | 10-year | 30-year |
|---|---|---|---|---|
| *4/30/2020* | 0.19 | 0.35 | 0.62 | 1.27 |
| *MTD Change* | -0.06 | -0.03 | -0.05 | -0.05 |
| *YTD Change* | -1.38 | -1.34 | -1.30 | -1.12 |

### MTD Returns




As of: 4/30/20. 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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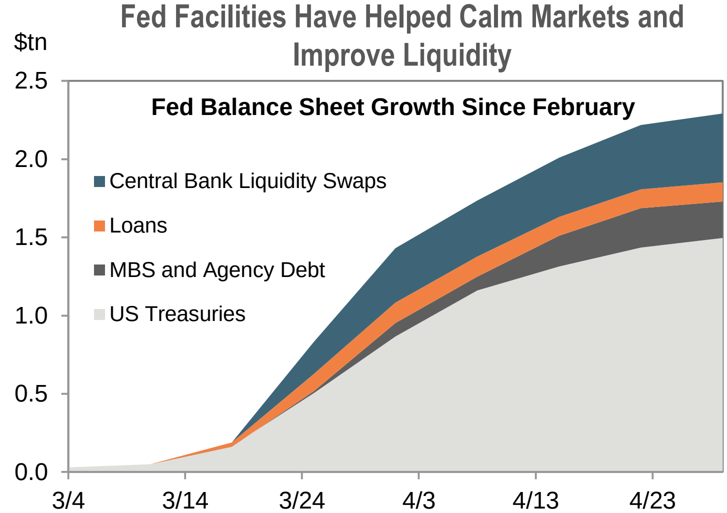
## MARKET THEMES

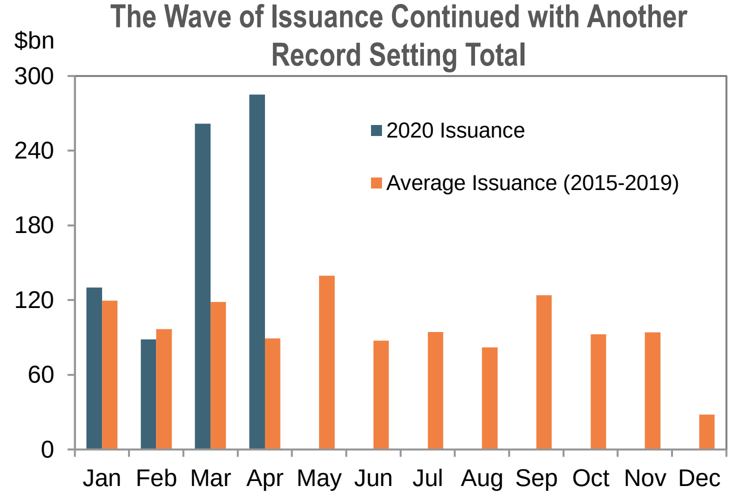
- Liquidity has markedly improved relative to March – with bid/ask spreads decreasing and investors more willing to trade lower-quality bonds, largely due to Fed actions
- The Fed introduced $2.3 trillion of additional measures to aid state/local governments, and expanded asset purchases of fallen angels, ETFs, CLOs, ABS and CMBS; The Senate passed the $484 billion to help small businesses, hospitals/healthcare providers, and COVID-19 testing
- Indices will also be impacted by Fed actions; the Treasury weighting of the Bloomberg Barclays Aggregate Index decreased by 2.5% compared to March, due to the Fed Treasury purchases
    - The corporate allocation increased by 2.0%, and securitized increased by 0.5%

**Fed Facilities Have Helped Calm Markets and Improve Liquidity**




- Issuance eclipsed $250 billion for the second consecutive month, as issuers continued to focus on shoring up liquidity
    - The year-to-date total of $765 billion is roughly 85% ahead of last year's pace
- Amid the risk-on tone and improving sentiment, lower-quality issuers were the primary borrowers in April, accounting for 52% – after only accounting for 28% in March
- Issuers had to pay up to borrow, with new issue concessions averaging 23bps, however, deals were met with solid demand and books were multiple times oversubscribed
- The pace of issuance is not anticipated to slow until the summer – expectations are for $150 to $250 billion of supply in May – with issuers typically exiting earnings blackout periods next month

**The Wave of Issuance Continued with Another Record Setting Total**




- After already experiencing over $135 billion of fallen angels in 2020, the market is expecting even more downgrades
    - Over 2%, or $146 billion, of the investment-grade corporate index is trading with a spread greater than the spread of the BB-rated high-yield corporate index
- Record issuance is pushing up leverage, earnings reports have been disappointing so far and oil recently reached record lows, all putting pressure on companies to maintain their investment-grade ratings
    - The May WTI contract fell below $0/barrel for the first time ever, and roughly 29% of earnings were below analyst estimates
- However, with the Fed's ability to purchase recent fallen angels, it may give investment-grade issuers less incentive to remain investment-grade in the short-term

**The Market Seems to be Pricing More Downgrades**