

February 2019 | Fixed Income Markets Review

Executive Summary

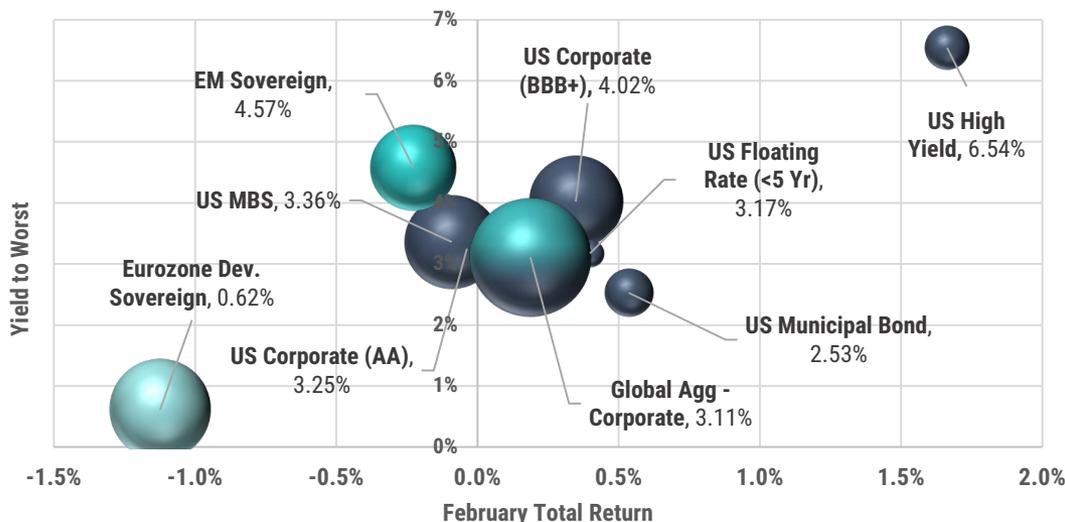
January's risk-on tide managed to lift all boats, but February saw bonds hew more closely to conventional market "wisdom," resulting in mixed/ largely negative results as equities continued to climb.

Yields rose for global aggregate issues (-0.58%), reflecting, primarily, diminished appetite for duration, concerns around European sovereigns, and global currencies giving back to the US dollar after it weakened slightly in January. Emerging markets debt performance spoke most pointedly to currency impacts. The US was negative overall but outperformed, with the aggregate bond index down just 6 basis points. Reflecting a mild sell-off in duration, the shorter-dated intermediate aggregate did better and gained around 4 basis points, while floating-rate put up 40 basis points. Corporate bonds outperformed across geographies, up 19 basis points globally. Markets overall were led by non-investment grade segments in the US, namely high yield and bank loans.

The bond market mood seemed suspicious of the US Fed's commitment to its professed "patient" (i.e., neutral/ accommodative) course of action given shifts in the markets and economic picture over the last couple of months. Such shifts include significant recovery in asset prices, a modest inflationary trend and a bounce-back in both economic data and consumer sentiment following the re-opening of the government and progress on trade talks. The US 10-year Treasury yield remains range-bound despite all of the activity in capital markets, and year to date it has moved up just 3 basis points – little more than the shorter end of an increasingly flat yield curve. The spread between the 10-year and 2-year continues to linger around 21 basis points, but relatively even results across segments of the curve may reflect decreasing investor attention towards the "2s10s" as a harbinger for recession or signal of possible Fed action.

Fixed Income Market by Comparative Size, Yield-to-Worst & February Total Return

Labels Indicate Category & YTW as of February 28, 2019



Source: FactSet for all index and market data, with all index returns shown in US dollars in table as of February 28, 2019 (with the exception of CPI, shown as of January 31, 2019). For index and key indicators definitions, please see notes & disclosures.

Index Total Returns (%)	1 Mo.	YTD	1 Yr.
BBg Barc Global Aggregate	-0.58	0.94	-0.56
BBg Barc Global Aggregate ex-US	-1.04	0.80	-3.44
BBg Barc US Aggregate	-0.06	1.00	3.16
BBg Barc US Intermediate Aggregate	0.04	0.88	3.35
S&P Global Dev. Sovereign ex-US Bond Index	-0.09	0.59	1.88
S&P Eurozone Dev. Sovereign Bond	-1.12	0.27	-5.13
S&P Pan-Europe Dev. Sovereign Bond	-0.83	1.09	-4.33
ICE BofAML Emerging Markets Sovereign Bond	-0.23	2.46	-0.27
S&P U.S. Current 10-Year Treasury Bond Index	-0.57	0.11	3.95
BBg Barc US Floating Rate Notes (<5 Yr)	0.40	1.10	2.56
S&P US Treasury TIPS	-0.12	1.27	1.89
BBg Barc Municipal Bond Index	0.54	1.30	4.11
BBg Barc Global Aggregate - Corporate	0.19	2.49	0.09
BBg Barc US Corporate (AA)	-0.04	1.66	3.43
BBg Barc US Corporate High Yield	1.66	6.26	4.30
S&P/LSTA Leveraged Loan	2.01	5.63	3.79
BBg Barc Global Agg Securitized - US MBS	-0.09	0.70	3.57
BBg Barc Global Agg Securitized - US ABS	0.28	0.76	3.11

Key Rates (%/ bps)	Current	1 Mo. Change	YTD Change	1 Yr. Change
US 3 Month	2.44	+4	-1	+79
US 2 Year	2.50	+5	+0	+25
US 5 Year	2.50	+7	-1	-15
US 10 Year	2.71	+8	+3	-16
US 30 Year	3.09	+8	+7	-4
1 Month USD LIBOR	2.49	-2	-1	+82
3 Month USD LIBOR	2.62	-12	-19	+60
6 Month USD LIBOR	2.69	-11	-19	+46
12 Month USD LIBOR	2.86	-12	-14	+36
Credit Spreads (bps)	Current	1 Mo. Change	YTD Change	1 Yr. Change
US Corporate OAS	59	-4	-24	+4
US Corporate High Yield OAS	379	-44	-147	+43

Key Indicators	Current	1 Mo. Change	YTD Change	1 Yr. Change
10 Yr-2-Yr Treasury Spread (bps)	21	+3	+2	-41
WTI (\$/ bb)	\$57.22	+\$3.38	+\$12.07	-\$4.21
Core CPI	261	+6	+1	+5
Breakeven Inflation: 5 Yr %/ bps	1.84%	+14	+33	-21
Breakeven Inflation: 10 Yr %/ bps	1.95%	+10	+24	-18

Index Returns – all shown in US dollars

All returns shown trailing 2/28/2019 for the period indicated. "YTD" refers to the total return as of prior-year end, while the other returns are annualized. 3-month and annualized returns are shown for:

- The Barclay's US Aggregate Index, a broad based unmanaged bond index that is generally considered to be representative of the performance of the investment grade, US dollar-denominated, fixed-rate taxable bond market.
- The ICE BofAML Emerging Markets Sovereign Bond Index is a subset of The BofA Merrill Lynch World Sovereign Bond Index excluding all securities with a country of risk that is a member of the FX G10, all Western European countries, and territories of the U.S. and Western European countries. The FX G10 includes all Euro members, the U.S., Japan, the U.K., Canada, Australia, New Zealand, Switzerland, Norway, and Sweden.
- The Bloomberg Barclays Global Aggregate Index, which measures global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.
- The S&P Global Developed Sovereign Bond index includes local-currency denominated debt publicly issued by governments in their domestic markets.
- S&P Eurozone Developed Sovereign Bond - seeks to measure the performance of Eurozone government bonds.
- The S&P Pan-Europe Developed Sovereign Bond Index is a comprehensive, market-value-weighted index designed to track the performance of local currency-denominated securities publicly issued by Denmark, Norway, Sweden, Switzerland, the U.K. and developed countries in the Eurozone for their domestic markets.
- ICE BofAML Emerging Markets Sovereign Bond - tracks the performance of US dollar (USD) and Euro denominated emerging markets non-sovereign debt publicly issued within the major domestic and Eurobond markets.
- The Bloomberg Barclay's US Corporate Bond Index (AA), which measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.
- The Bloomberg Barclay's US Corporate High Yield Index, which covers the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market.
- Bloomberg Barclay's Global Aggregate Securitized- US Mortgage-Backed Securities, which is a component of the Bloomberg Barclay's US Aggregate Index and measures investment grade mortgage backed pass-through securities of GNMA, FNMA, and FHLMC.
- Bloomberg Barclay's Global Aggregate Securitized- US Asset-Backed Securities, which is a component of the Bloomberg Barclay's US Aggregate Index and includes the pass-throughs, bullets, and controlled amortization structures of only the senior class of ABS issues.
- The Bloomberg Barclay's US Floating Rate Notes (<5 Yr) Index, measures the performance of U.S dollar-dominated, investment grade floating rate notes with maturities less than 5 years.
- The Bloomberg Barclay's Municipal Bond Index, which measures investment grade, tax-exempt bonds with a maturity of at least one year.
- The S&P/ LSTA Leveraged Loan Index is designed to reflect the performance of the largest facilities in the leveraged loan market.

Key Rates

Key Rates are shown for US Treasuries and London Interbank Offered Rate (LIBOR), the interest rate at which banks offer to lend funds (wholesale money) to one another in the international interbank market. LIBOR is a key benchmark rate that reflects how much it costs banks to borrow from each other. "Current" refers to the percentage rate as of 6/30/2018, while the rates of change are stated in basis points.

Credit Spreads

Credit Spreads shown comprise the Option-Adjusted Spread of the indices indicated, versus the US 10-Year Treasury Yield. "Current" refers to the spread as of 6/30/2018, while the rates of change are stated in basis points.

Key Indicators

Key Indicators correspond to various macro-economic and rate-related data points that we consider impactful to fixed income markets.

- 2s10s (bps)/ 10 Yr vs 2 Yr Treasury Spread, which measures the difference between yields on 10-Year Treasury Constant Maturity Securities and 2-Year Treasury Constant Maturity Securities.
- West Texas Intermediate, which is an oil benchmark and the underlying asset in the New York Mercantile Exchange's oil futures contract.
- Core Consumer Price Index, which measures the consumer price index excluding food and energy prices. Shown as of the prior month-end.
- Breakeven Inflation: 5 Yr %/ bps, which uses 5-Year Treasury Constant Maturity Securities and 5-Year Treasury Inflation-Indexed Constant Maturity Securities to derive expected inflation.
- Breakeven Inflation: 10 Yr %/ bps, which uses 10-Year Treasury Constant Maturity Securities and 10-Year Treasury Inflation-Indexed Constant Maturity Securities to derive expected inflation.

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