



## Market Commentary

### THE ECONOMY

- Macroeconomic outlooks weakened in May as tension between the US and its largest trade partners reached a fever pitch. Tensions between China and the US escalated as the Executive Order impeding China state-owned Huawei's ability to conduct business with essential technology partners in the US has highlighted the risk of a 'technology cold war'. May also ended with a new front for the burgeoning trade war, Mexico, which Trump aims to use as leverage in enacting immigration goals. While US data is modestly weaker, it is difficult to quantify impacts on confidence that have markets concerned about domestic growth. Economic data abroad continues to show signs of modest slowdown but has yet to exhibit concerning levels of degradation. To the extent that the Executive Branch continues to escalate the trade war, the probability of a recession rises. However, in our opinion that probability seems overestimated by the market.

### STRUCTURED MARKETS

- CMBS issuance picked up in May with \$15bn of non-agency issuance, an improvement from just \$4bn in April. Traditional conduit and Agency volumes are down ~10% year-over-year as loan demand has been weakening. Only the CLO subsector of CMBS issuance has seen growth this year but remains low at \$9bn YTD. Low supply with fundamentals that are isolated from direct effects of the trade war have kept spreads range bound near the tight end of the range. In fact, since the financial crisis, CMBS (together with ABS) has been seen as relatively defensive. Ongoing disruption in the retail sector continues to be of more paramount concern as 'death by a thousand cuts' continues while other retailers continue to thrive.

### CORPORATE CREDIT MARKET

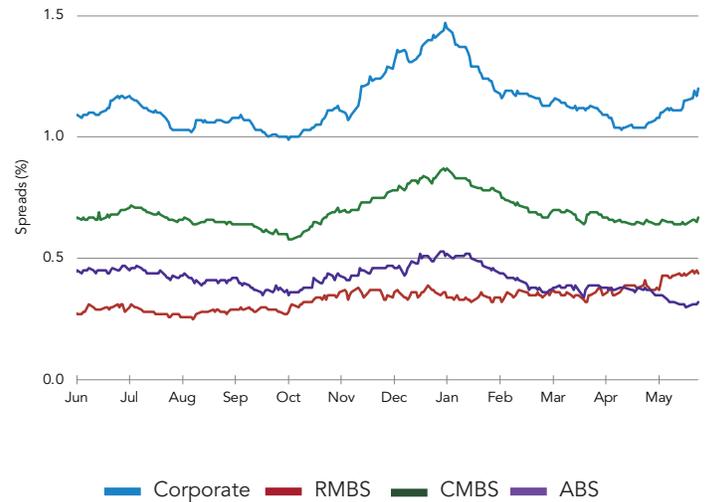
- Ongoing trade war rhetoric coupled with resurfacing macro concerns drove corporate spread weakness in May. Corporates widened 18 basis points (bps) to end at 128 bps with Basics, TMT and Energy most impacted during the month. Primary supply priced roughly \$101bn with gross supply down by approximately 10% year-over-year. Yankee bank issuance has been noticeably light during the first half of the year but will likely pick up again later in 2019 once bail-in rules are finalized. Looking ahead, street expectations for primary supply of \$85-90bn is likely to be lower than the historical three-year average of \$96bn.

### GOVERNMENT MARKET

- The 2-yr and 5-yr yields decreased by 34 bps and 37 bps, respectively, for the month of May. In addition, the 10-yr and 30-yr yields decreased by 38 bps and 36 bps, respectively, for the month of May.

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### SPREADS TO TREASURIES



### BLOOMBERG BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Gov/Credit	0.69%
Int. Gov/Credit	1.31%
Aggregate	1.78%
1-3 Yr US Treasury	0.74%
3-5 Yr US Treasury	1.48%
5-10 Yr US Treasury	2.50%
10-20 Yr US Treasury	4.50%
20+ Yr US Treasury	6.70%

### SECTOR DATA FROM BLOOMBERG BARCLAYS AGGREGATE

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	1.43%	-1.39%	3.44%
Financials	1.32%	-0.87%	3.25%
Industrials	1.39%	-1.65%	3.54%
Utilities	2.31%	-1.50%	3.50%
RMBS	1.29%	-0.40%	2.86%
CMBS	2.04%	0.00%	2.68%
ABS	0.97%	0.15%	2.33%
Agencies	1.33%	-0.32%	2.63%

\*Month-to-date performance of spread bearing bonds versus duration-matched Treasuries