



MARKET COMMENTARY

The Economy

September brought a slight improvement of the macroeconomic outlook as domestic economic data generally exceeded expectations and rumors of progress toward a resolution of the US/China trade war sparked optimism. Lagging indicators (retail sales, housing stats, personal income) showed strength, but leading indicators (ISM, Empire Manufacturing, U. of Michigan surveys) were notably weaker. While the Fed cut rates another 25 basis points (bps) at the September meeting as expected, rates out the curve rose with the risk-on sentiment. The Fed intervened in the repo market to control funding pressure by conducting open market operations, communicating a more permanent solution is forthcoming.

Structured Markets

The ABS primary market priced \$24.7bn in new deals through September. Autos had another strong month, with \$10bn of issuance followed by more esoteric ABS sectors with about \$7.3bn. Credit Card ABS had its strongest month of issuance since January, with \$4.6bn of deals pricing. Subordinated Credit Card and Auto ABS spreads held in better than spreads on their AAA peers. Excess returns on the lower quality ABS sectors were positive while AAA excess returns were modestly negative.

Corporate Credit Market

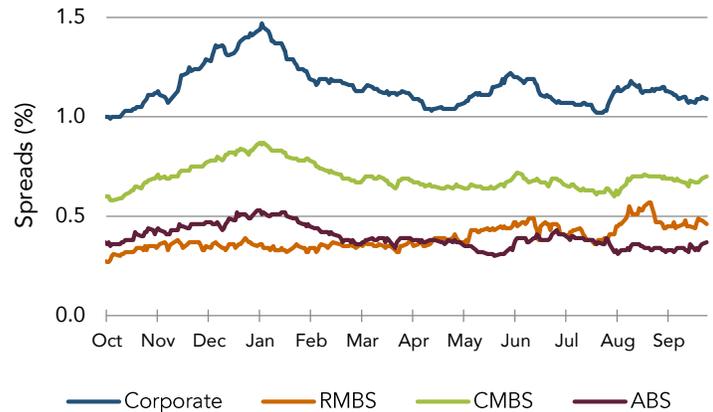
A domestic impeachment inquiry, Saudi Aramco oil attack, global growth slowdown concerns and money market funding stress barely dented the unflappable corporate sector's grind tighter in September. The Bloomberg Barclays Corporate Index tightened 6 bps to end the month at 115 bps. The resiliency of IG corporates was supportive of a robust primary market given the roughly \$165bn in new issues pricing at minimal concessions during the month. The pick-up in primary volume closed the YoY gross supply gap to roughly -3.5%.

Government Market

The 2-yr and 5-yr yields increased by 12 bps and 16 bps, respectively, for the month of September. In addition, the 10-yr and 30-yr yields increased by 17 bps and 15 bps, respectively, for the month.

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SPREADS TO TREASURIES



BLOOMBERG BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Yr Gov/Credit	-0.05%
Int. Gov/Credit	-0.36%
Aggregate	-0.53%
1-3 Yr US Tsy	-0.12%
3-5 Yr US Tsy	-0.45%
5-10 Yr US Tsy	-0.90%
10-20 Yr US Tsy	-1.67%
20+ Yr US Tsy	-2.56%

BLOOMBERG BARCLAYS AGGREGATE SECTOR DATA

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	-0.65%	0.42%	2.93%
Financials	-0.55%	0.24%	2.75%
Industrials	-0.62%	0.54%	3.01%
Utilities	-1.29%	0.21%	3.01%
RMBS	0.07%	0.24%	2.45%
CMBS	-0.68%	0.03%	2.33%
ABS	-0.15%	-0.02%	2.03%
Agencies	-0.24%	0.26%	2.21%

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