

NOVEMBER 2019 MARKET COMMENTARY

SUMMARY

- **U.S. Treasury Curve:** Treasury yields ended the month of November modestly higher across the curve compared to the prior month-end. During the month, the 10-year Treasury yield reached as high as 1.95 percent, but it ended the month at 1.78 percent, just 9 basis points (bps) above its October month-end level.
- **Tax-Exempt Municipal/Treasury Ratios:** Municipals outperformed Treasuries and ratios fell by six, five and nearly six ratios in 2-, 5- and 10-years. The ratio for the 30-year maturity was lower by almost two ratios.
- **Municipal Market Technicals:** New issue supply during November was \$45 billion, 54 percent higher than November 2018, The Bond Buyer reported. Year-to-date new issuance was \$377 billion by month-end, an 18 percent increase year-over-year. Taxable new issue supply continues to surge, but tax-exempt supply—which has increased but not to the degree of taxable supply—was easily absorbed.
- **Corporate Market Technicals:** According to Barclays, fixed-rate, gross investment grade (IG) supply for November was about \$102 billion as compared to about \$88 billion in the same period last year. IG fund inflows continue to be strong, with \$21 billion added during the month, per EPFR Global.
- **Securitized Trends:** MBS spreads remain close to year-to-date wides and remained attractive relative to other IG sectors.

MARKET REVIEW

Treasury yields ended the month of November modestly higher across the curve compared to the prior month-end. During the month, the 10-year Treasury yield reached as high as 1.95 percent, but it ended the month at 1.78 percent, 9bps above its October month-end level. Equity markets in the U.S. reached new highs in November. The largest yield shifts were in the 2- to 20-year sections of the curve. The bond and stock markets reacted to the serial shifts considering the potential for a near-term, partial settlement of the U.S.-China trade negotiations.

Released in November, minutes from the Fed's October meeting described the economy as resilient and policy as "well calibrated" barring a material change in the outlook. With the Fed on hold, the 2- to 10-year portion of the curve flattened. Consumer sentiment remains strong while weaker manufacturing readings have led to a slowdown in business investment which, in our view, likely will keep economic growth on trend.

MUNICIPAL MARKET REVIEW

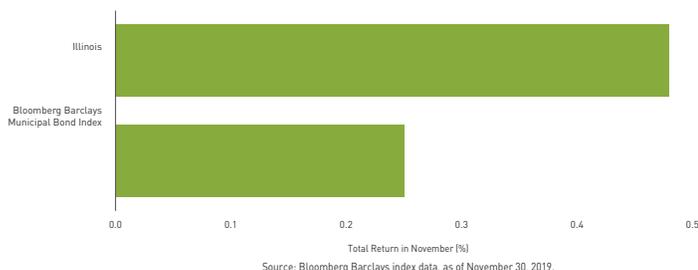
Municipal bond yields fell by a 1bp to 4bps on the front end of the curve from four years and shorter, and between one to two bps in the 9- to 10-year range. Yields were the same or just slightly higher for the month on the remainder of the curve. Municipals, represented by the Bloomberg Barclays Municipal Bond Index, outperformed Treasuries and ratios fell by six, five and nearly six ratios in 2-, 5- and 10-years, respectively. The ratio for the 30-year maturity was lower by almost two ratios.

The Bond Buyer reported that new-issue supply during November was \$45 billion, 54 percent higher than November 2018. Year-to-date new issuance was \$377 billion by month-end, an 18 percent increase year-over-year. Taxable new issue supply continued to surge, but tax-exempt supply—which has increased but not to the degree of taxable supply—was easily absorbed thanks to record-setting bond fund inflows for 47 consecutive weeks, according to Lipper. To illustrate the continued



demand for municipal issues, consider a state of Illinois debt issued early in the month of November. The issue sold competitively at tighter spreads than Illinois debt had been trading, reflecting both demand and the state’s improved political and fiscal conditions. The deal boosted total return for the Illinois portion (all new and previously issued bonds) of the Bloomberg Barclays Municipal Bond Index when compared with the entire index and with other states.

FIGURE 1: STATE OF ILLINOIS BONDS OUTPERFORMED THE BROAD MUNICIPAL BOND INDEX IN NOVEMBER



Long-term municipal bonds—maturities of 22 years and longer—delivered the highest returns for the month, while lower-quality municipal bonds resumed their outperformance after October’s brief reprise for higher-quality, according to Bloomberg Barclays indices.

Credit fundamentals are broadly stable heading into December. Seventy-six percent of city finance officers report that their cities are “better able” to meet fiscal needs than in 2018.¹ State and local tax revenue growth remains strong year-over-year despite a higher tax base in the second quarter of 2018, stemming from deferral of income recognition under the Tax Cut and Jobs Act of 2017.²

CORPORATE MARKET REVIEW

Corporate bonds, represented by the Bloomberg Barclays

Intermediate Corporate Bond Index, outperformed Treasuries in November. Spreads at 105bps approached the tightest levels since March 2018. Bonds rated BBB and longer-duration corporates outperformed as the corporate credit yield curve flattened, per Bloomberg Barclays indices. The best-performing sectors were Supermarkets, Tobacco, Health Insurance, Cable/Satellite and Wirelines. The worst performing sectors were Foreign Agencies, Supranationals, Midstream, Consumer Cyclical Services and Foreign Local Government.

Fixed-rate, gross IG supply for November was about \$102 billion as compared to about \$88 billion in the same period last year, Barclays reported. AbbVie Inc.’s 10-part \$30 billion November deal to fund an acquisition was the largest of the year and the fourth largest of all time. In December, \$20 billion to \$25 billion in new supply is expected, per Bloomberg. IG fund inflows continue to be strong, with \$21 billion added during the month, per EPFR Global.

Corporate earnings season wrapped up. Per FactSet, a majority of companies in the S&P 500 Index reported positive earnings-per-share (EPS) and revenue surprises against generally muted expectations. Reported EPS growth was 2 percent lower than the prior quarter while revenue growth was 3 percent higher.

SECURITIZED MARKET REVIEW

Within securitized sectors, agency mortgage-backed securities (agency MBS) outperformed relative to Treasuries with similar durations, as measured by the Bloomberg Barclays Asset-Backed Securities (ABS) Index, producing 19bps of excess returns. MBS spreads remain close to year-to-date wides and remained attractive relative to other IG sectors. Bloomberg Barclays indices indicated that ABS rated AAA had 7bps of excess returns while agency Commercial Mortgage-Backed Securities had 9bps of excess returns.

FOOTNOTES:

1. “City Fiscal Conditions 2019,” National League of Cities. October 28, 2019. <https://www.nlc.org/resource/city-fiscal-conditions-2019-report>.
2. Lucy Dadayan, “Fiscal 2019 Was A Strong Revenue Year For Most States But 2020 May Be Less Robust,” Tax Policy Center of the Urban Institute & Brookings Institution. October 14, 2019. <https://www.taxpolicycenter.org/taxvox/fiscal-2019-was-strong-revenue-year-most-states-2020-may-be-less-robust>.

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