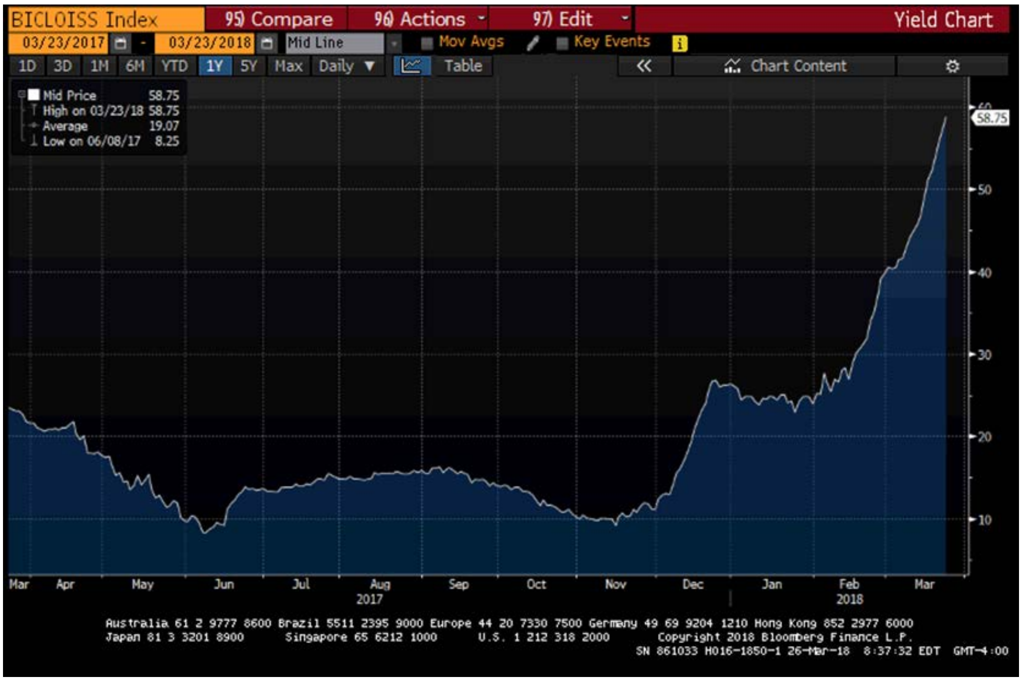
Volatility Returns

- High yield posted a second consecutive week of negative excess return, prompted mostly by Trump's Chinese tariff announcement. Spreads widened 19 basis points (bps) and excess return for last week through Thursday was -0.27%.

- Views on whether the Fed was hawkish or dovish were mixed, but the reduction in uncertainty seemed to be a positive in the credit markets, at least for a short while. While details of the Chinese tariffs have yet to be fleshed out and most people believe this is likely to be resolved with relatively low impact on economic fundamentals, in the near term the increased uncertainty is likely to be a headwind for the markets.

- Another topic garnering some interest last week was the rapid increase in the Libor-OIS spread, which has moved up from 10 bps in November to 57 bps. This metric proved to be a barometer of bank credit stress in the financial crisis, so the move wider is grabbing attention. This time around, most strategists seem to believe the widening is technical in nature and a by-product of repatriation-driven bond selling and the recent deluge of T-bill issuance, which has pushed Libor up faster than the OIS (overnight index swap).

Libor-OIS Spread



Source: Bloomberg

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