The Federal Reserve (Fed) decided today that short-term rates will remain unchanged given weak inflation data and volatility in financial markets¹

- Treasuries rallied across the curve following the announcement
- Fed Chair Janet Yellen emphasized that even if the committee raises rates this year, “the stance of monetary policy will remain highly accommodative for quite some time”

With the Fed expected to end its zero interest-rate policy sometime in 2015, Treasury yields increased modestly month-to-date in anticipation of today’s policy meeting¹

- The majority of market economists predicted the Fed would raise rates today, while market participants priced in only a 30% chance of a hike
- The 5-year Treasury rate traded in a 14bps range month-to-date given the uncertain outlook for monetary policy

- Corporate issuance surpassed $50 billion month-to-date, already topping the issuance total from August, as issuers looked to bring deals to market ahead of the Fed meeting²
  - Year-to-date issuance has totaled over $850 billion, on pace to exceed last year’s total of $1 trillion
- Investment-grade spreads tightened 3bps to 160bps month-to-date, as strong demand from investors neutralized heavy new issuance volume³
- Agency mortgage-backed securities (MBS) outperformed Treasuries as rates edged higher, reducing refinance incentive
- In the municipal market, new-issue supply slowed as a result of lower refunding activity, which supported valuations in the secondary market
  - Despite a recent slowdown, investors expect $400 billion in total municipal supply during 2015 versus $330 billion last year¹

Sources: 1. Bloomberg  2. JPMorgan 3. Barclays

¹Excess returns are the curve-adjusted excess return of a given index relative to a term structure-matched position in Treasuries.

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