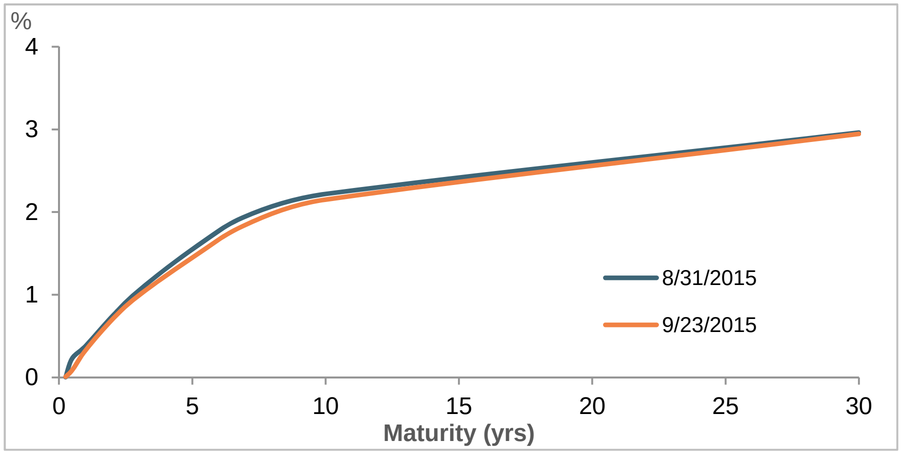
IR+M
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
September 18 – 24, 2015

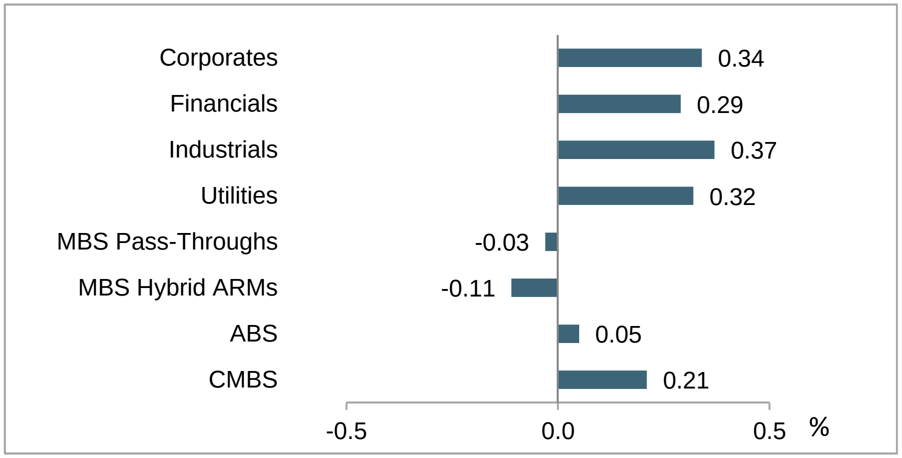
- Last week's Federal Reserve (Fed) decision to leave rates unchanged sparked a Treasury rally that extended into this week[1]
    - Market participants pushed expectations for the first rate increase out into 2016, with a rate hike probability of 61% in March
    - The 10-year Treasury rate rallied 14bps week-over-week to 2.15%, after hitting a 2-month high of 2.29% ahead of the Fed announcement
- Despite troubling macroeconomic developments abroad, US jobless claims signaled that the domestic labor market maintained strength[1]
    - Weekly claims came in at 267,000 this week and have not risen above 300,000 since February
    - Low claims signal that employers are retaining workers to accommodate consumer spending, the largest driver of US growth
- Corporate bonds strengthened relative to Treasuries month-to-date as issuance slowed leading up to the Fed announcement
    - Investment-grade issuers chose to delay deals amid the rate volatility, issuing just $8 billion last week versus expectations of over $25 billion[2]
    - Corporate spreads tightened 2bps to 161bps month-to-date, after hitting a post-crisis wide of 168bps in late August[3]
- Agency mortgage-backed securities performed well after the Fed news, as the decision not to hike suggested the committee will reinvest proceeds from maturing mortgage debt on its balance sheet well into 2016
- The municipal market also rallied following the Fed's decision, but was a little slower to react relative to the Treasury market[1]
    - The 10-year municipal/Treasury ratio initially jumped 8% to 107% following the announcement, but has since fallen back to 102%

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
9/23/2015	0.70	1.45	2.15	2.95
MTD Change	-0.04	-0.10	-0.07	-0.02

MTD Excess Returns[3*]



Sources: 1. Bloomberg 2. JPMorgan 3. Barclays

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