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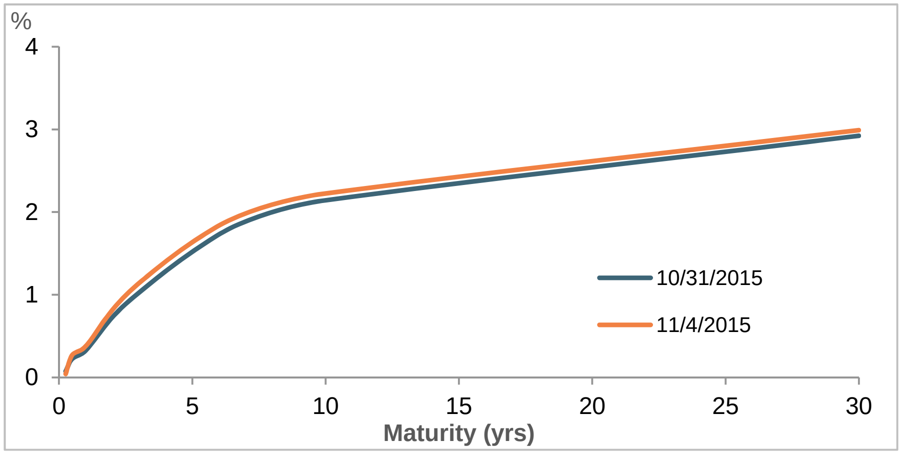
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

November 1 – 5, 2015

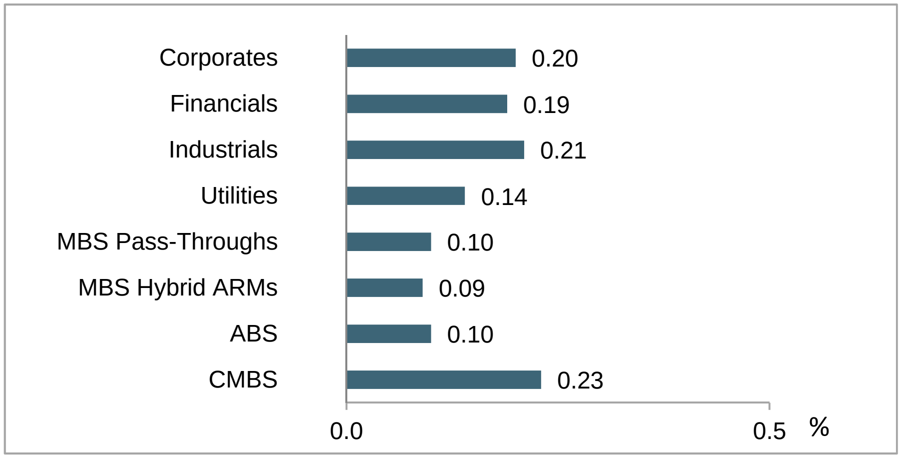
- Treasury rates increased to start the month, as market participants priced in a greater likelihood that the Federal Reserve (Fed) will end its zero interest-rate policy (ZIRP) in December[1]
    - Fed Chair Yellen testified before Congress this week, stating that a rate hike at the next Fed meeting is “a live possibility”
    - The 10-year Treasury yield jumped 8bps month-to-date to 2.23%, the highest level since mid-September
- Jobless claims increased 16,000 week-over-week to 276,000
    - However, economists generally consider levels below 300,000 to be consistent with a healthy labor market[1]
- With $7 billion in corporate issuance over the first few days in November, year-to-date issuance eclipsed $1 trillion as company consolidation and shareholder-friendly activity fueled supply[2]
- Investment-grade corporate spreads tightened 3bps to 156bps month-to-date, after hitting a post-crisis high of 171bps in early October[3]
    - Factors driving the strong bid for corporate bonds include: stabilization in commodity markets, better-than-expected third quarter earnings, and a slower pace of new issue
- Securitized bonds generally outperformed Treasuries, following the “risk-on” trade in the corporate market
- Municipal bond issuance totaled over $32 billion in October, bringing year-to-date supply to nearly $350 billion, a 30% increase versus the same period last year[1]
    - Despite heavy issuance, municipal bond returns remain positive year-to-date, benefitting from strong investor demand

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
11/4/2015	0.81	1.64	2.23	2.99
MTD Change	0.09	0.12	0.08	0.07

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.

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