**MARKET NEWS**

- Treasury rates fell through mid-October on weaker-than-anticipated economic data; however, a surprisingly hawkish Federal Reserve (Fed) statement last week drove rates higher through month-end
  - The 10-year Treasury rate traded in a 20bp range, bottoming at 1.97% mid-month before spiking to 2.17% the day after the Fed release¹
  - The Fed’s statement surprised many market participants by explicitly referencing the December meeting as a possible date for the first rate hike
    - Currently, the market is pricing in a 47% probability of a rate hike in December and above 50% odds for meetings in early 2016, assuming the Fed does not hike this year¹
  - The US Gross Domestic Product (GDP) report revealed that the economy grew 1.5% in the third quarter, following nearly 4% growth during the previous three months¹
    - Despite a slowdown in the headline number, the full report indicated that domestic consumer and business spending remained strong, while the weak global economy hurt exports
  - Mergers and Acquisitions (M&A) and shareholder-friendly activity continued to drive issuance in the corporate primary market, with over $100 billion in investment-grade supply during the month²
    - The market priced nearly $40 billion last week, highlighted by large transactions from Microsoft and insurance giant ACE Limited for share buybacks and acquisition financing, respectively
  - On the demand side, corporate new-issue deals generated strong interest from investors and corporate bonds outperformed Treasuries on the month
    - Investment-grade spreads reached a post-crisis high of 171bps in early October, before rallying 12bps to 159bps³
  - Asset-backed securities (ABS) underperformed the Treasury market given heavier-than-expected supply – ABS issuance totaled over $20 billion during the month and is expected to top $200 billion in 2015⁴
  - In the municipal market, Chicago’s City Council approved the Mayor’s $530 million property tax increase to help correct the city’s financial woes¹
    - Incremental reviews will be dedicated towards pension funding, and spread levels on the city’s outstanding general obligation bonds tightened following the announcement

**MARKET STATISTICS**

**Treasury Yield Curve¹**

<table>
<thead>
<tr>
<th>Maturity</th>
<th>2-year</th>
<th>5-year</th>
<th>10-year</th>
<th>30-year</th>
</tr>
</thead>
<tbody>
<tr>
<td>10/31/2015</td>
<td>0.73</td>
<td>1.52</td>
<td>2.14</td>
<td>2.92</td>
</tr>
<tr>
<td>MTD Change</td>
<td>0.10</td>
<td>0.16</td>
<td>0.11</td>
<td>0.07</td>
</tr>
</tbody>
</table>

**October Excess Returns²**

- Corporates: 0.85
- Financials: 0.68
- Industrials: 0.98
- Utilities: 0.63
- MBS Pass-Throughs: 0.37
- MBS Hybrid ARMs: -0.14
- ABS: -0.06
- CMBS: 0.25


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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