The Federal Open Market Committee (FOMC) raised their target for the federal funds rate for the first time in 10 years, marking the first step in normalizing monetary policy in the US.

- As most expected, the Federal Reserve (Fed) moved their target 0.25% higher to a range of 0.25% to 0.50%
- Along with the rate increase, the Fed also added the word “gradual” to their policy statement in describing the pace at which hikes would most likely occur going forward
- The Fed meets again at the end of January, and the market is placing very low odds on a second hike at this meeting

In the corporate market, downward pressure on oil weighed on energy bond spreads, which on average, moved 46bps wider month-to-date to 296bps²

- Due to changing industry conditions, Moody’s is reviewing 29 energy-sector issuers for possible ratings downgrades

In MBS, risk aversion increased in the past week amid concerns of weaker global growth and tighter monetary conditions

- The risk-off tone has slowed collateralized mortgage obligation (CMO) issuance by over 20% in the past two months

Prior to Puerto Rico’s General Obligation (GO) debt service payment on December 1st, hedge funds that invested in GO bonds warned the Government Development Bank that they would freeze the bank’s assets if they believed it was being run improperly

- The group has also demanded that the Commonwealth release its 2014 audited financial statements after statements from Governor Padilla that past administrations tried to hide information from investors

Sources: 1. Bloomberg  2. Barclays

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

The views contained in this report are those of IR+M and are based on information obtained by IR+M from sources that are believed to be reliable. This report is for informational purposes only and is not intended to provide specific advice, recommendations, or projected returns for any particular IR+M product. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission from Income Research & Management.