MARKET NEWS

- Short-term Treasury rates closed higher in November as market participants braced for the Federal Reserve (Fed) to potentially hike rates for the first time in 7 years at this month’s policy meeting
  - Investors sold short-dated Treasuries in an effort to reduce the negative impact of higher rates, and the 5-year yield increased 0.13% to 1.65%¹
  - Longer-dated Treasuries remained more stable as expectations that the European Central Bank will continue to increase monetary stimulus drove foreign demand for US debt out the curve
    - US yields remained attractive relative to other high-quality global rates; for instance, the 30-year Treasury yield closed at 2.97% versus 1.33% for the 30-year German bund⁴
  - The US economy grew at a faster pace than initially reported in the third quarter as businesses invested in more inventory than was first estimated – US Gross Domestic Product (GDP) grew 2.1% versus a preliminary estimate of 1.5%¹
  - Minutes from October’s Fed meeting revealed that committee members discussed raising rates in December as long as labor market conditions remained stable
    - The monthly employment report beat economist expectations, and the futures market is now pricing in a nearly 80% probability of a rate hike at this month’s meeting¹
  - The corporate primary market experienced another month of strong supply, with nearly $90 billion printing ahead of the Thanksgiving Holiday²
    - Despite strong demand for new deals, investors also illustrated greater selectivity – the telecommunication firm Vodafone was forced to pull a deal from the market as investors called for higher spread and stronger provisions
  - The consistent theme of corporate consolidation activity in 2015 continued as pharmaceutical companies Pfizer and Allergen announced plans to merge
    - The deal would be the largest pharmaceutical transaction ever with a combined enterprise value of $160 billion¹
  - Agency mortgage-backed securities outperformed Treasuries as economic reports indicated strength in the housing market – new home sales rose 11% to a 495,000 annual rate in October¹
  - The municipal market posted positive results on the month, drawing strong demand given attractive yields relative to Treasury equivalents – the 30-year municipal/Treasury ratio closed the month at 105%⁴

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>11/30/2015</td>
<td>0.93</td>
<td>1.65</td>
<td>2.21</td>
<td>2.97</td>
</tr>
<tr>
<td>MTD Change</td>
<td>0.21</td>
<td>0.13</td>
<td>0.06</td>
<td>0.05</td>
</tr>
</tbody>
</table>

### November Excess Returns²*

- Corporates: 0.22
- Financials: 0.49
- Industrials: 0.09
- Utilities: 0.12
- MBS Pass-Throughs: 0.15
- MBS Hybrid ARMs: 0.17
- ABS: 0.10
- CMBS: 0.15

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

¹As Of: 11/30/15. Sources: 1. Bloomberg 2. Citigroup

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