INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
December 2015

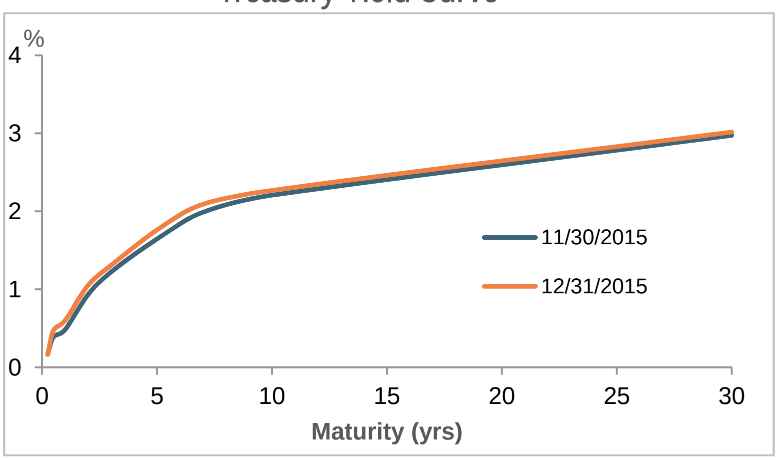
January 1, 2016

MARKET NEWS

- Over the course of 2015, the US economy showed signs of strength, while the Federal Reserve (Fed) indicated that tightening was on the horizon amid improving conditions
  - At the final committee meeting in December, the Fed raised its target for the federal funds rate off the zero-bound to a range of 0.25% to 0.50%[1]
  - The Fed will remain cautious as it continues normalizing policy in 2016, and the market is placing a low probability on a second hike following the meeting at the end of January
- On the heels of the rate-hike decision, short-term Treasury rates moved modestly higher during the month, extending the sell-off that started earlier in the fourth quarter
  - The 2-year Treasury closed the year at 1.05%, moving 43bps higher after the Fed surprised market participants in October by explicitly referencing a possible rate hike by year-end[1]
  - Longer-dated Treasuries were more stable over the same period; for instance, the 30-year yield moved just 17bps higher to 3.02%[1]
- Corporate primary market activity was muted during the month, as issuers chose to delay deals until after the Fed announcement and holiday season
  - Investment-grade issuance totaled less than $50 billion, compared to a monthly average of nearly $100 billion during 2015[2]
- Despite a quiet month in corporate issuance, investment-grade spreads neared year-to-date highs, widening 10bps to 165bps as oversupply of oil and natural gas drove weakness in industrial sectors[3]
- The agency mortgage-backed securities (MBS) market focused less on the actual rate hike, but rather on when the Fed will decide to halt reinvestments of principal payments from MBS debt
  - The Fed's comment that its reinvestment policy will remain intact "until normalization of the level of the federal funds rate is well under way" drove outperformance relative to Treasuries during the month[1]
- The Barclays Municipal Bond Index generated a sixth consecutive month of positive total returns, returning 0.70% in December, as light primary activity drove supportive trading in secondary markets[3]

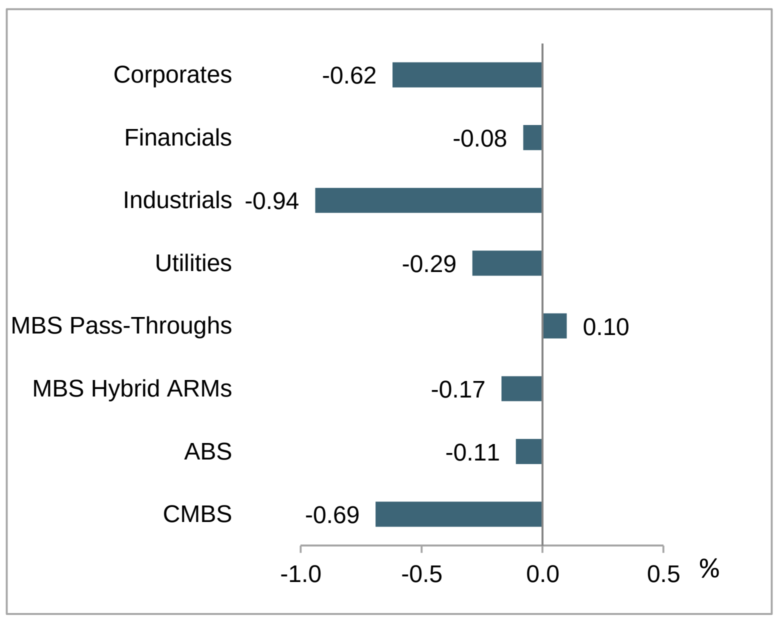
MARKET STATISTICS

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
12/31/2015	1.05	1.76	2.27	3.02
MTD Change	0.12	0.12	0.06	0.04

December Excess Returns[2*]



As Of: 12/31/15. 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.

100 Federal Street, 30th Floor Boston, MA 02110 (617) 330-9333 www.incomeresearch.com