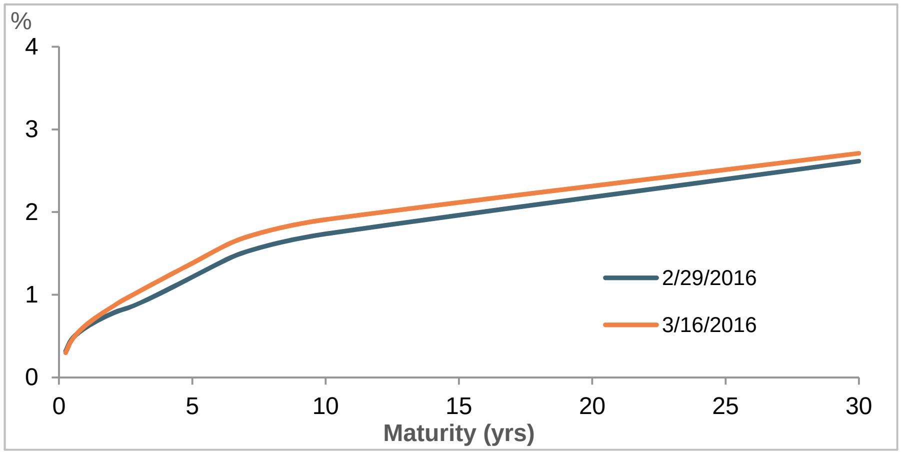
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

March 11 – 17, 2016

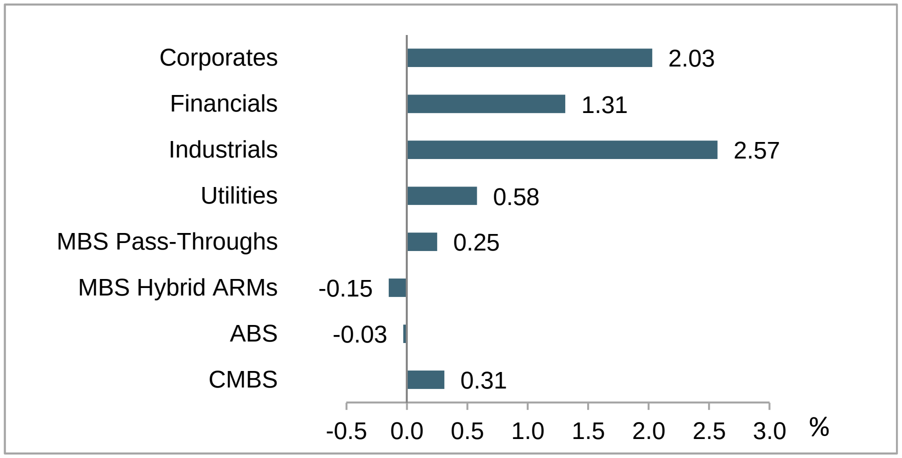
- After a two day meeting, the Federal Reserve (Fed) decided to leave interest rates unchanged, pointing to concerns around the state of the global economy
  - Treasury yields rallied across the curve as Fed Chair Janet Yellen's dovish comments spurred fears that macro instability could spill over into US markets
- On Wednesday, February's core consumer price index (CPI) print, (which excludes food and energy costs), was up 2.3% over the last twelve months, led by rising prices in medical care, automobiles, and apparel costs[1]
  - Rising prices are a positive sign for the US economy as the Fed targets 2% inflation on an annual basis
- The corporate bond market was quiet on the new issue front with only $12 billion in issuance prior to Yellen's statement[3]
  - Today, a few issuers jumped back into the market as both Apple and AIG looked to raise more than $1 billion in debt
- After starting the month at 190bps, corporate spreads rallied back to 170bps, a level comparable to where they started the year[2]
- The CMBS market is anticipating limited supply in 2016, driving a positive technical environment for the sector year-to-date
- Detroit's public school system is at risk of running out of funds as early as April, causing state officials to scramble, with fears that the entire school system could be shut down before the end of the school year
  - Bonds backed by the district have underperformed in response to the budget woes

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
3/16/2016	0.86	1.38	1.91	2.71
MTD Change	0.08	0.17	0.17	0.09

MTD Excess Returns[2*]



Sources: 1. Bloomberg 2. Barclays 3. Citigroup

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