• Weakness in China, lower oil prices and news of North Korea’s nuclear test inspired a flight-to-quality trade this week¹

• Given the risk-off tone, rates rallied over the course of the week especially in the belly of the curve¹

  • The 5-year yield dropped 12bps after starting the week at 1.76%

• On Wednesday, minutes from December’s Federal Reserve (Fed) meeting revealed that the decision to raise rates, while unanimous, was a “close call”¹

  • The Fed voiced concern with US inflation, which has remained below the Fed’s 2% target for more than three years

• Private payrolls increased by 257,000 jobs in December, versus a consensus estimate of 195,000, driving positive expectations for Friday’s employment report¹

• After a few quiet weeks during the holiday season, corporate issuance returned to the market with over $19 billion in supply³

  • For 2016, economists are expecting corporate issuance to exceed $1.1 trillion, which would be in-line with 2015’s supply

• Investment-grade corporate bonds underperformed Treasuries amid the risk-off environment and spreads widened by 2bps to 167bps²

• Agency mortgage-backed securities (MBS) underperformed as rates rallied, encouraging an increase in refinancing activity¹

• Puerto Rico defaulted on $37 million of debt payments this week¹

  • Some investors suggested that the default signaled to politicians that the territory is in need of fiscal support from the US


¹Excess 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.