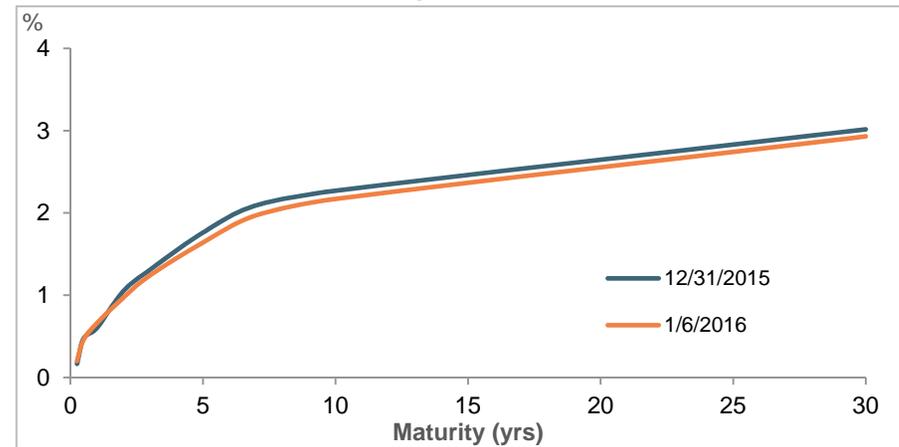




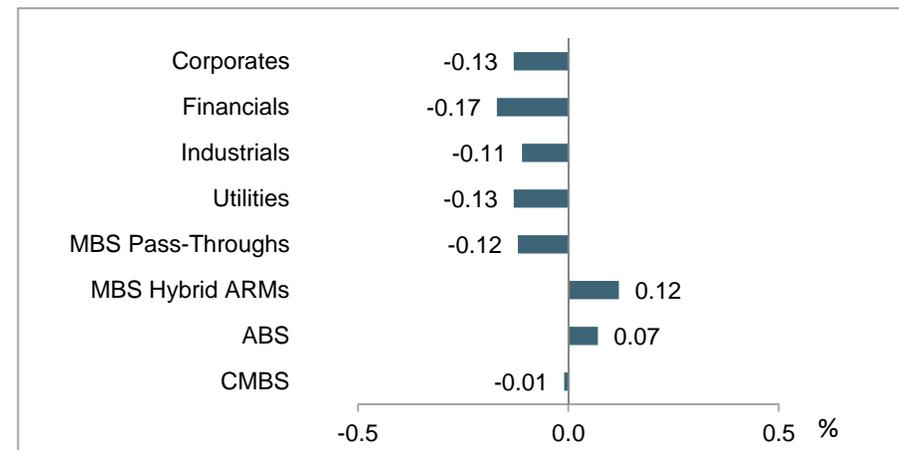
- Weakness in China, lower oil prices and news of North Korea's nuclear test inspired a flight-to-quality trade this week¹
- Given the risk-off tone, rates rallied over the course of the week especially in the belly of the curve¹
 - The 5-year yield dropped 12bps after starting the week at 1.76%
- On 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

Treasury Yield Curve¹



| Maturity | 2-year | 5-year | 10-year | 30-year |
|------------|--------|--------|---------|---------|
| 1/6/2016 | 0.97 | 1.64 | 2.17 | 2.93 |
| MTD Change | -0.08 | -0.12 | -0.10 | -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.

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