IR+M

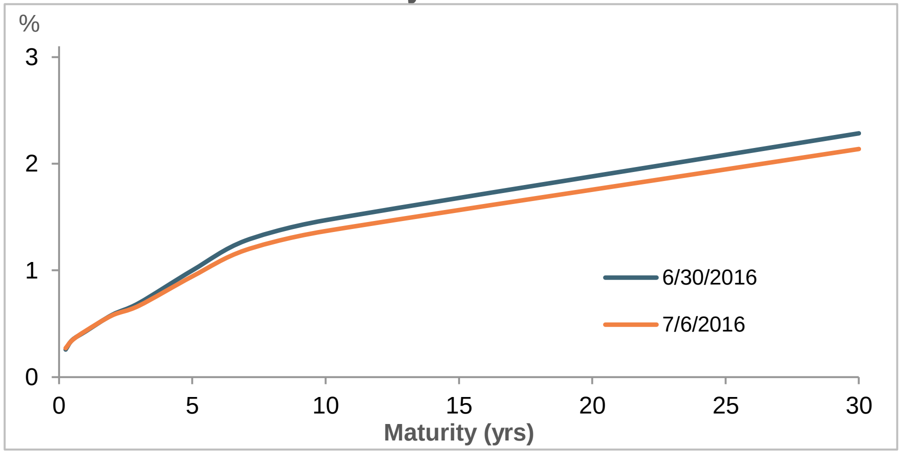
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

July 1 – 7, 2016

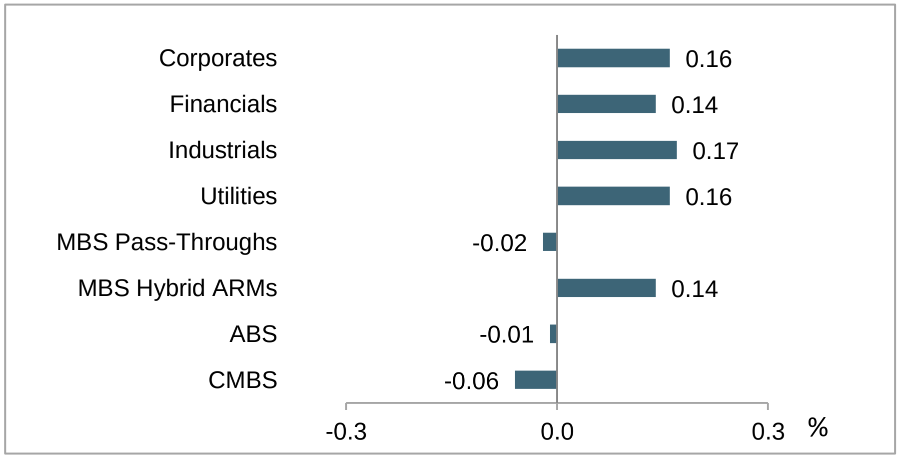
- Treasury rates rallied, particularly in the long-end, as the 10-year and 30-year rates touched record lows of 1.32% and 2.10%, respectively[1]
    - On the week, the 10-year fell 10bps to close at 1.37% and the 30-year fell 15bps to close at 2.14%
- The Federal Open Market Committee's June meeting minutes indicated that Federal Reserve officials are taking a wait-and-see approach to the rate hike decision, given mixed US economic data and global uncertainty[1]
    - Most notably, the committee discussed May's weak jobs report, disinflationary pressures, and the potential impact of Brexit
- Investment-grade corporate issuance for the holiday-shortened week came in as expected, with about $14 billion pricing[2]
    - Limited supply led to minimal spread movement as investment-grade spreads leaked just 1bp wider to 155bps[3]
- Mortgage prepayment speeds accelerated as rates tumbled to all-time lows, encouraging borrowers to refinance, and fixed-rate mortgage-backed securities (MBS) underperformed Treasuries
    - The Mortgage Bankers Association (MBA) Refinance Index revealed a 21% increase in applications week-over-week[4]
- Illinois governor, Bruce Rauner, and the Democratic legislature reached a stopgap budget, which ensures funding of the state's schools and essential services through the end of the year[1]
    - The agreement is only a temporary 6-month solution, and a more structurally balanced bill that addresses the pension issues will likely be negotiated later this year

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
7/6/2016	0.58	0.94	1.37	2.14
MTD Change	0.00	-0.06	-0.10	-0.15

MTD Excess Returns[3*]



Sources: 1. Bloomberg 2. Citigroup 3. Barclays 4. BofA Merrill Lynch

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