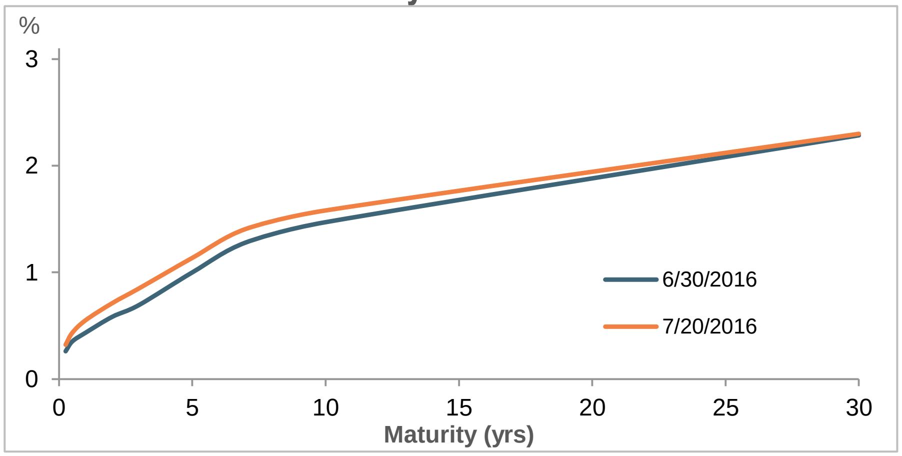
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
July 15 – 21, 2016

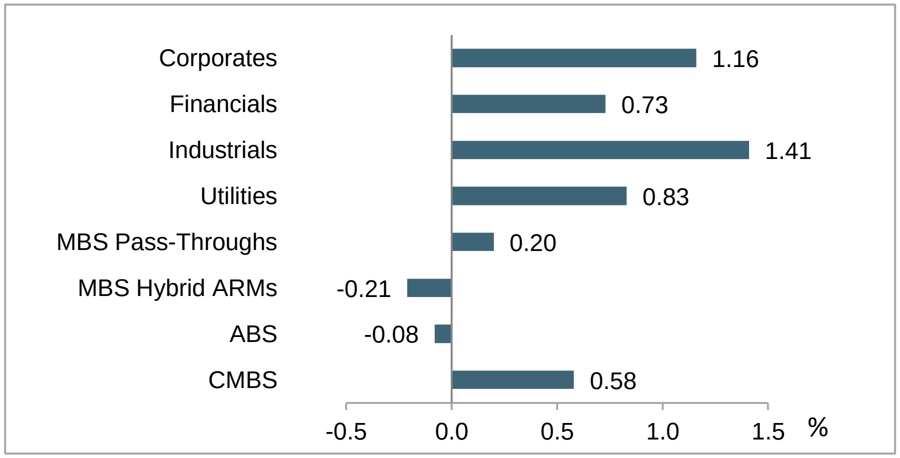
- US Treasury yields rose across the curve week-over-week, as reduced market volatility drove a risk-on trade[1]
    - The 10-year Treasury rate increased 11bps to 1.58%, and the 30-year Treasury rate increased 13bps to 2.30%
- In the US, a series of encouraging housing, retail sales, and industrial production reports suggested that the domestic economy is healthy and improving
- Positive indicators from the US economy may push the Federal Reserve (Fed) to consider hiking rates faster than the market was initially expecting post-Brexit
    - Market pricing suggests a 50% chance of a rate hike before year-end, a significant increase compared to last week's projections[1]
- Corporate spreads moved marginally tighter despite a moderate pick up in supply[2]
    - Investment-grade issuance totaled around $65 billion month-to-date, bringing year-to-date supply to $725 billion[3]
- Second quarter earnings season is underway and, while profit forecasts for the S&P 500 are negative, a majority of results so far have beaten estimates
- Mortgage-backed securities outperformed Treasuries as the selloff in rates reduced fears of a refinancing wave
- Activity in the municipal bond market slowed due to a number of factors including: limited issuance, unattractive municipal/Treasury ratios, and low nominal yields

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
7/20/2016	0.71	1.14	1.58	2.30
MTD Change	0.13	0.14	0.11	0.01

MTD Excess Returns[3*]



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.