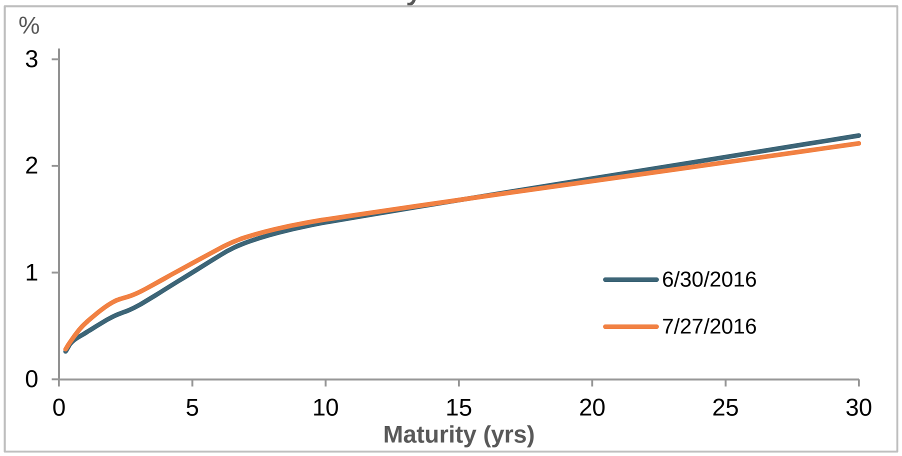
IR+M INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

July 22– 28, 2016

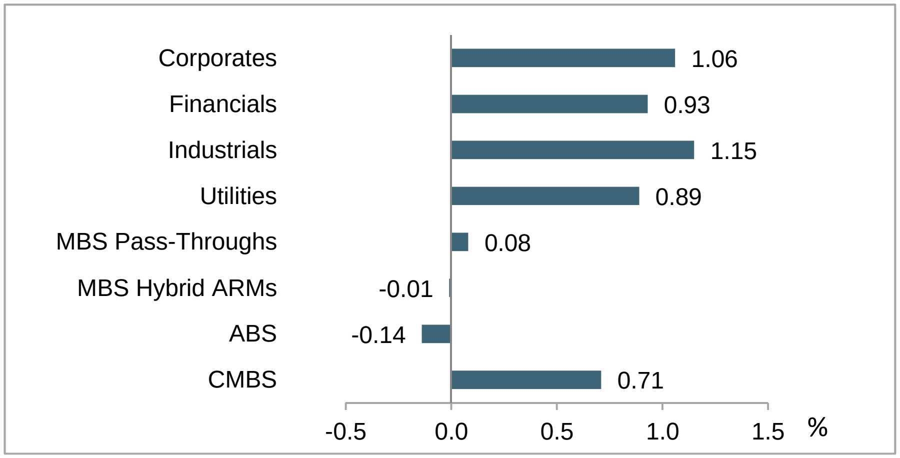
- The Treasury curve flattened month-to-date with the 2-year rising 14bps to 0.72% and the 30-year falling 7bps to 2.21%[1]
- As expected, following this week's meeting, the Federal Open Market Committee (FOMC) left the federal funds rate unchanged
    - Recent reports suggest that the US economy is strengthening; however, the FOMC remains concerned about inflation and prolonged global uncertainty
- Investment-grade corporate issuers priced over $20 billion this week, pushing month-to-date supply close to $100 billion[2]
- Corporate spreads leaked slightly wider to 143bps, as low oil prices drove weakness in the industrial sector[3]
    - Despite continued strong demand, excess oil supply is overwhelming the market, and prices are down over 10% year-to-date[1]
- Thus far, second quarter earnings results have largely beaten estimates, but organic growth remains low
- Mortgage refinancing slowed this week and prepayment concerns moderated, as rates have ticked up since reaching all-time lows in early July
- Municipals yields were relatively flat on the week, with the 10-year municipal/Treasury ratio hovering around 95%[1]
    - Light issuance coupled with strong economic data supported the market, despite a drop in trading activity that's typical for the summer months

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
7/27/2016	0.72	1.09	1.50	2.21
MTD Change	0.14	0.09	0.03	-0.07

MTD Excess Returns[3*]



Sources: 1. Bloomberg 2. Citigroup 3. Barclays

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