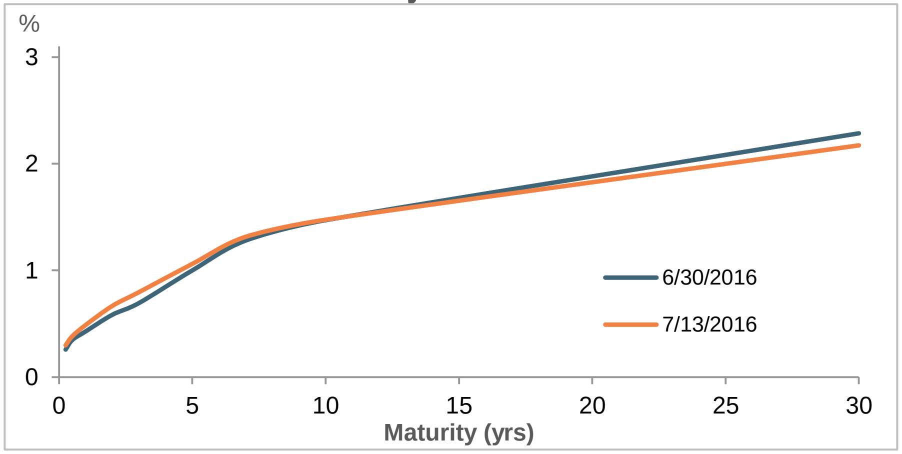
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

July 8 – 14, 2016

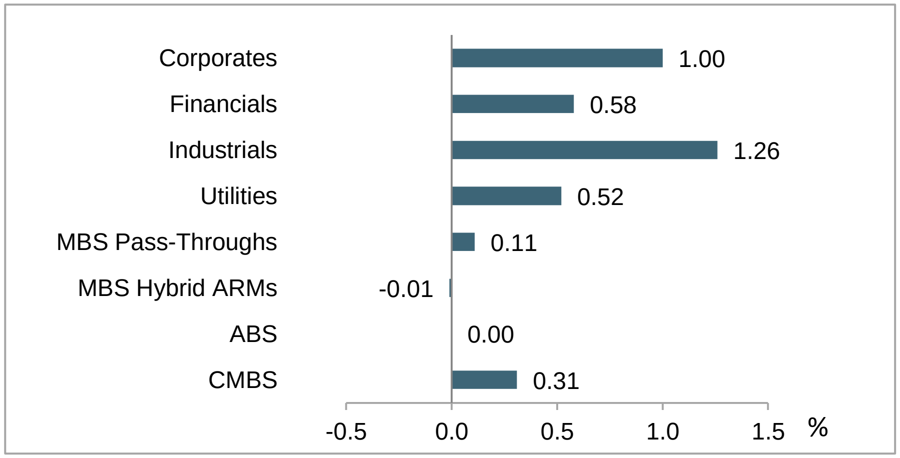
- The Treasury curve flattened month-to-date, with the 2-year rising 8bps to 0.67% and the 30-year falling 11bps to 2.17%[1]
- Non-farm payrolls added a more-than-anticipated 287,000 jobs in June, suggesting that May's weak data was an anomaly and not indicative of a slowdown in the US[1]
    - Despite some positive domestic economic reports, the Federal Reserve (Fed) will likely maintain its cautious approach to tightening monetary policy given the uncertainty around Brexit and other global headlines
    - The market is now pricing in a slight chance for a rate hike by the end of the year
- The corporate bond market was quieter than expected on the new issue front with only about $15 billion pricing[2]
    - Low primary volumes and strong demand for investment-grade credit drove a positive technical environment
- Investment-grade corporate spreads rallied, led by the industrial sector, which held up well in spite of continued weakness in oil prices
    - Corporate spreads reached 145bps – 11bps tighter on the month and 14bps tighter since the post-Brexit wides[3]
- Light issuance and yield-driven buying supported the commercial mortgage-backed security (CMBS) market and led to spread tightening[4]
- The municipal bond market struggled to keep pace with Treasuries month-to-date as markets stabilized and demand for the safe-haven asset class moderated[4]

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
7/13/2016	0.67	1.06	1.48	2.17
MTD Change	0.08	0.06	0.00	-0.11

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.