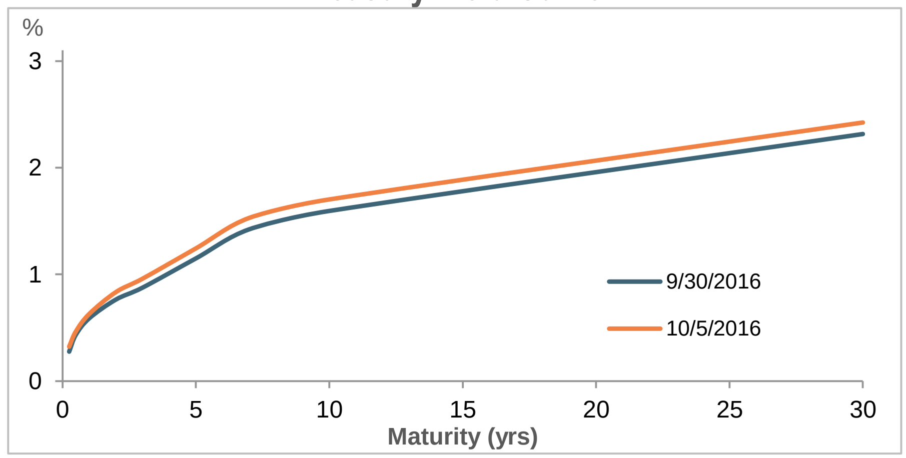
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

October 1 – 6, 2016

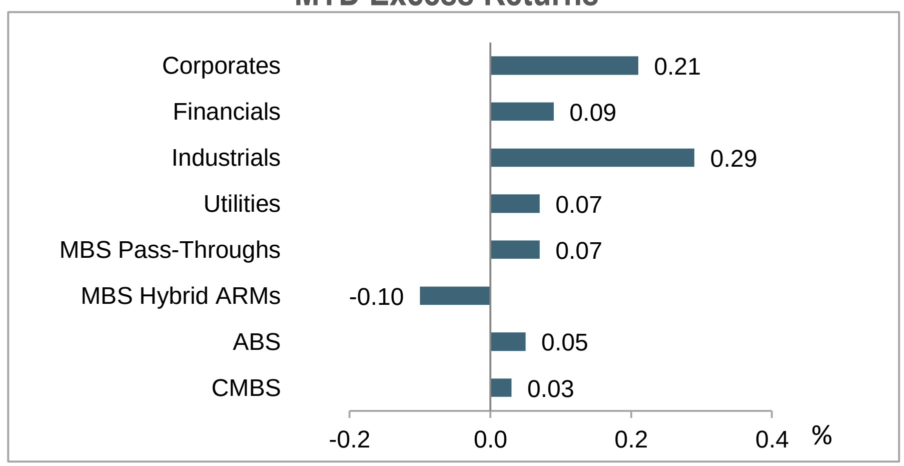
- US business activity data showed improvement, setting the stage for a positive jobs report on Friday[1]
    - Current consensus estimates 171,000 jobs added in September, which would be 20,000 more than last month
    - Economic data will become increasingly important as the Federal Reserve's (Fed) December meeting approaches – the market is currently pricing in a 64% chance of a rate hike by year-end
- Treasury rates rose across the curve with the 2-year yield rising 7bps to 0.83%, and the 30-year yield rising 11bps to 2.42%[1]
- Investment grade corporate supply underwhelmed the market, as issuers priced roughly $11 billion compared to September's weekly average of over $30 billion[2]
    - Most deals cleared with minimal or negative concessions, which has been a consistent theme for the past couple weeks
- Corporate sectors outperformed Treasuries, and spreads closed at 136bps, one basis point wider than year-to-date tights[1]
    - Corporates posted 21bps of excess returns, led by industrials, which outperformed Treasuries by 29bps
    - Positive headlines following the OPEC meeting drove a rally in oil prices, which spilled over into the bond market
- In the asset-backed securities (ABS) market, heightened demand from yield-driven investors supported the high-quality sector in the face of heavy supply[1]
- Robust new issuance weighed on the municipal market, and investors expect this headwind to continue through the rest of the month[1]

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
10/5/2016	0.83	1.24	1.70	2.42
MTD Change	0.07	0.09	0.11	0.11

MTD Excess Returns[1]*



Sources: 1. Bloomberg Barclays 2. Citigroup

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