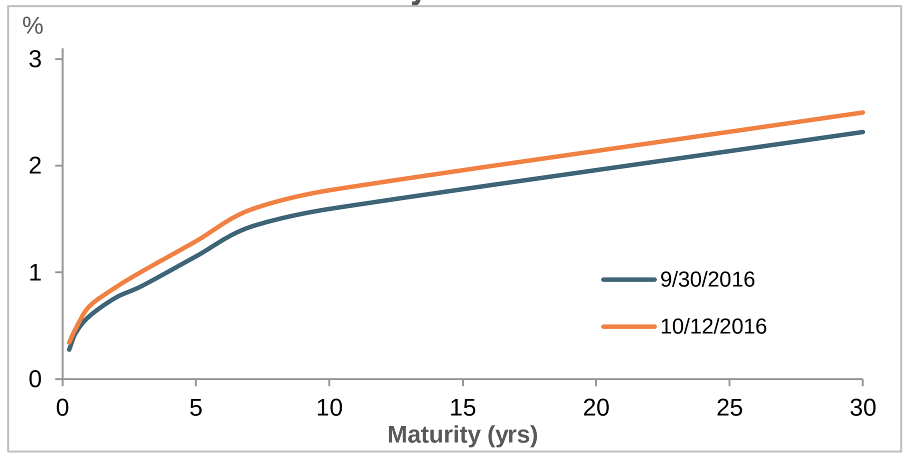
IR+M
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
October 7 – 13, 2016

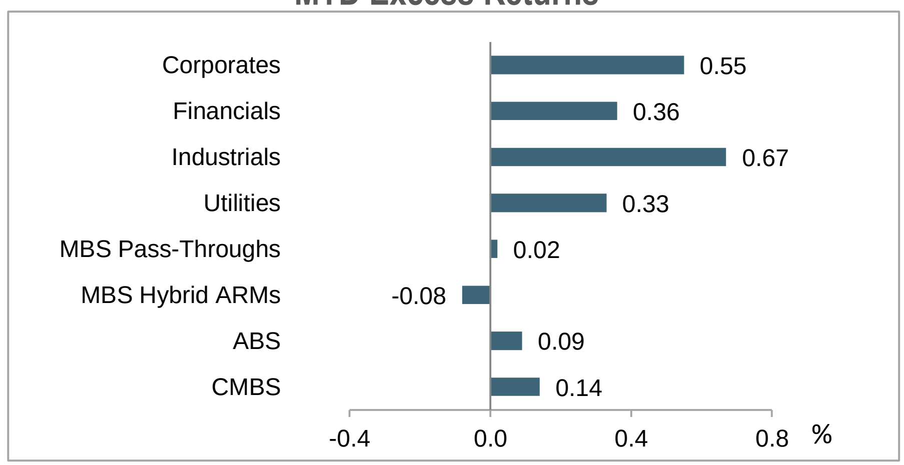
- Treasury rates sold-off this week as minutes from the Federal Reserve's (Fed) September meeting revealed that officials voting against the hike considered the decision a close call[1]
  - The 2-year yield rose 10bps to 0.86%, and the 30-year yield rose 18bps to 2.50%
- Nonfarm payrolls came in weaker than expected with 156,000 jobs added last month[1]
  - Despite the soft data, the market-implied probability of a rate hike at the Fed's December meeting remained stable week-over-week at about 66%
- Investment-grade corporate supply totaled just $15 billion, in-line with expectations for the shortened week[2]
  - Year-to-date supply passed the $1 trillion mark, outpacing last year by 9%
- Strong overseas buying supported corporate market technicals and drove spreads marginally tighter on the week[1]
  - Corporate sectors have generated strong month-to-date excess returns, led by industrials, which have outperformed Treasuries by 67bps
- The Fannie Mae agency mortgage-backed securities (MBS) universe prepaid 6% slower month-over-month, as higher mortgage rates and a lower day count reduced refinancing activity[1]
- Heavy issuance paired with the sell-off in Treasury rates continued to weigh on the municipal market[1]
  - The 10-year municipal/Treasury ratio rose 3% to 96%

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
10/12/2016	0.86	1.29	1.77	2.50
MTD Change	0.10	0.14	0.18	0.18

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.