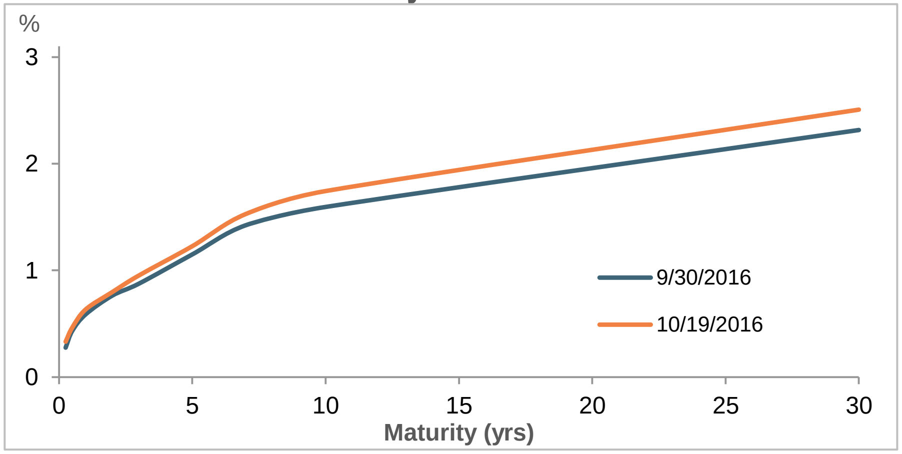
IR+M INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
October 14 – 20, 2016

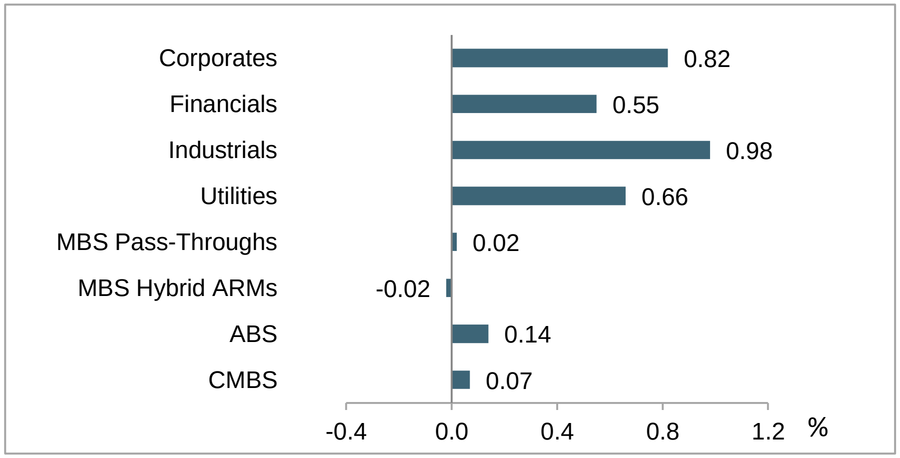
- Steady GDP growth, labor market improvement, and positive inflation momentum drove the Treasury curve higher month-to-date, most notably in the long-end[1]
    - The 10-year yield rose 15bps to 1.74%, and the 30-year yield rose 19bps to 2.51%
- On Wednesday, the Federal Reserve (Fed) released the beige book, a recurring report on current US economic conditions, which appear to be improving[1]
    - Overall positive results supported the likelihood that the Fed will raise rates at the December meeting, with markets pricing in a 68% probability
- Investment-grade corporate supply totaled around $24 billion, slightly below last month's weekly average of $30 billion[2]
    - Financials drove most of the issuance, as banks exited pre-earnings blackout periods and took advantage of tight levels
- Strengthening commodity fundamentals along with better than expected third quarter earnings supported the investment-grade corporate market[1]
    - Spreads tightened 9bps on the month to 129bps – the year-to-date tights
- In the commercial mortgage-backed securities (CMBS) market, a robust supply pipeline and continued rate hike uncertainty weighed on the sector, which underperformed Treasuries by 7bps on the week[1]
- The municipal new issue calendar overwhelmed the market again with roughly $15 billion pricing, which was one of the busiest weeks in over 30 years[1]
    - Heavy issuance is expected to continue through October, but begin to quiet down heading into the holiday season

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
10/19/2016	0.80	1.23	1.74	2.51
MTD Change	0.03	0.08	0.15	0.19

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.