IR+M

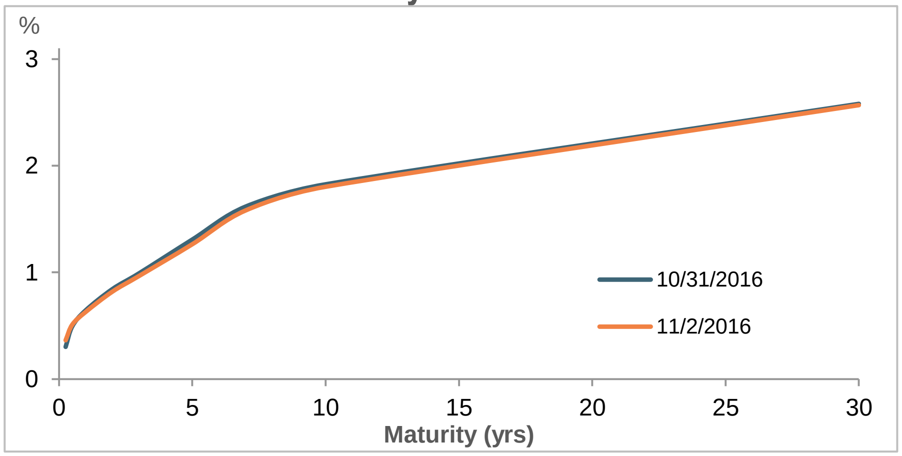
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

November 1 – 3, 2016

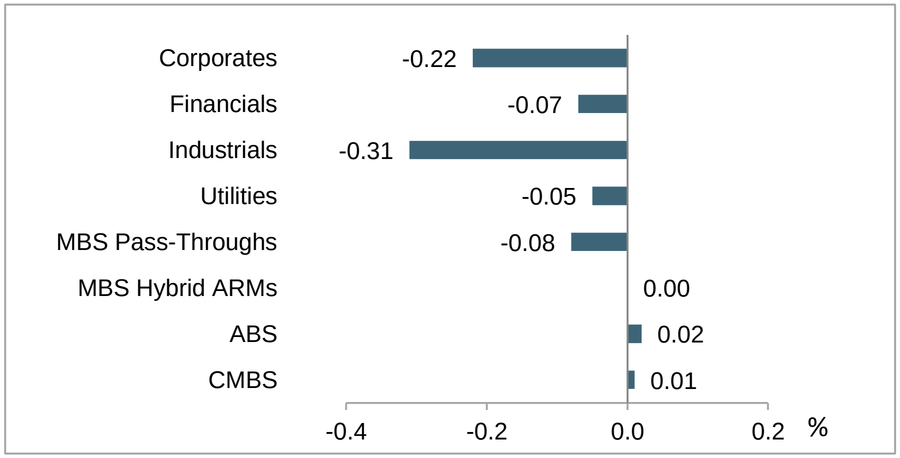
- As anticipated, the Federal Reserve (Fed) left rates unchanged following yesterday's meeting[1]
  - The committee acknowledged solid progress towards maximum unemployment and price stability, but indicated that continued improvement was needed before raising rates
  - The generally optimistic press release increased the market's implied probability of a December rate hike to 78%
- Treasury yields fell marginally to start the month, amid uncertainty around next week's presidential election[1]
  - The 2-year rate fell 2bps to 0.82%, and the 5-year rate fell 4bps to 1.26%
- A buildup in crude supply drove oil prices down, which weighed on the corporate market[1]
  - Corporate spreads widened 5bps to 135bps, led by the industrial sector, which leaked 7bps wider month-to-date
- Investment-grade corporate supply slowed this week with roughly $10 billion pricing, as a weak market pushed issuers to the sidelines[2]
  - The expectation for November issuance is around $80 billion, which is slightly below October's total of $85 billion
- The Fed announced it will continue to reinvest principal payments from its agency mortgage-backed securities holdings, which should create a positive technical[1]
- In the municipal market, pre-election jitters coupled with the recent new issue surge drove weakness in the sector[1]
  - Municipals cheapened versus Treasuries, with the 10-year municipal/Treasury ratio increasing to 97%

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
11/2/2016	0.82	1.26	1.80	2.57
MTD Change	-0.02	-0.04	-0.02	-0.01

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.