MARKET NEWS

- Treasury rates sold off in October, most notably in the long-end, with the 10-year yield rising 23bps to 1.83% and the 30-year yield rising 26bps to 2.58%¹
  - Minutes from the Federal Reserve’s (Fed) September meeting indicated that officials voting against the hike considered it a close call, which increased expectations for a rate hike by year-end¹
  - Markets are currently pricing in a 15% probability of a hike at the November 2nd meeting, and a 69% probability of a hike at the December 14th meeting¹
- US economic reports signaled continued improvement in labor market conditions and business activity, which drove generally positive sentiment over the course of the month
  - The unemployment report revealed an increase in average hourly earnings, and the initial third quarter GDP estimate highlighted strength in both inventory and trade growth
- In the investment-grade corporate market, issuers took advantage of minimal, and in some cases negative, new issue concessions, and priced roughly $85 billion, which was in-line with expectations⁵
  - Year-to-date supply is 6% ahead of last year’s pace; however, there could be a slowdown in November if the presidential election spurs market volatility and pushes issuers to the sidelines
- Corporate spreads tightened through the first three weeks of October, then leaked modestly wider at the end of the month, closing 6bps tighter at 132bps³
  - Encouraging third quarter earnings and increased overseas buying supported the market and drove positive excess returns across all corporate sub-sectors
- In the agency mortgage-backed securities (MBS) market, muted market volatility and higher yields reduced prepayment activity and supported market technicals⁴
- Municipal bonds slightly underperformed Treasuries, driven by a robust issuance calendar of $52 billion, which marked the heaviest month in over 25 years¹
  - Supply in 2016 is projected to break the recent annual record of $433 billion, which was set in 2010 following the introduction of Build America Bonds (BABs)

MARKET STATISTICS

<table>
<thead>
<tr>
<th>Maturity</th>
<th>2-year</th>
<th>5-year</th>
<th>10-year</th>
<th>30-year</th>
</tr>
</thead>
<tbody>
<tr>
<td>10/31/2016</td>
<td>0.84</td>
<td>1.31</td>
<td>1.83</td>
<td>2.58</td>
</tr>
<tr>
<td>MTD Change</td>
<td>0.08</td>
<td>0.16</td>
<td>0.23</td>
<td>0.26</td>
</tr>
</tbody>
</table>


¹Excess returns are the curve-adjusted excess return of a given index relative to a term structure-matched position in Treasuries.

The views contained in this report are those of IR+M and are based on information obtained by IR+M from sources that are believed to be reliable. This report is for informational purposes only and is not intended to provide specific advice, recommendations, or projected returns for any particular IR+M product. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission from Income Research + Management.