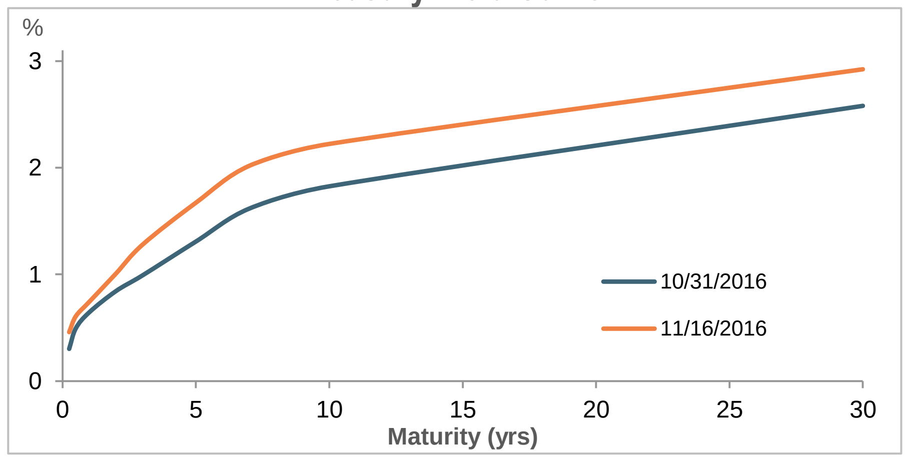
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

November 11 – 17, 2016

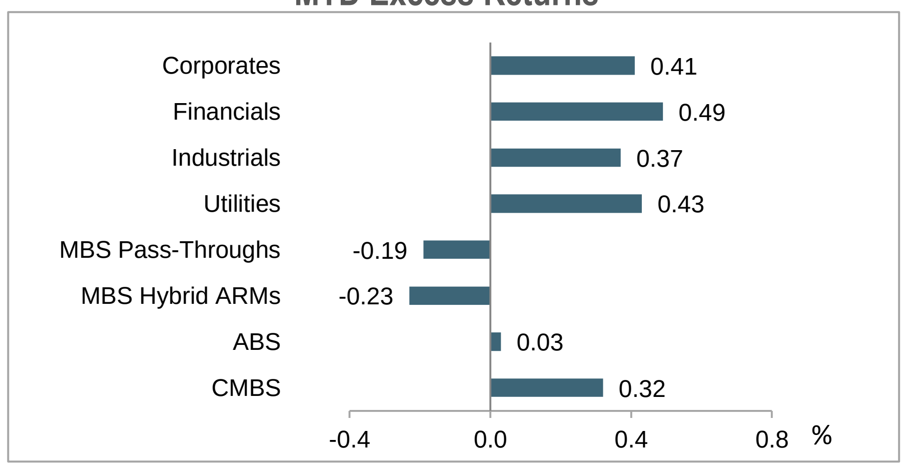
- The post-election bond rout continued, with Treasury rates surging, most notably in the intermediate part of the curve[1]
  - Since the election, the 5-year Treasury yield rose 20bps to 1.67%, and the 10-year Treasury yield rose 17bps to 2.22%
- On Thursday, Janet Yellen testified before Congress, and once again, acknowledged improving economic conditions[1]
  - Yellen set the stage for a rate hike at the Federal Reserve's (Fed) December meeting, indicating that it could be "appropriate relatively soon" – the market-implied probability currently stands at 96%
- Investment-grade corporate supply picked up ahead of Thanksgiving week, with issuers pricing roughly $40 billion[2]
  - New issue concessions moved modestly higher, but demand remained strong given higher all-in yields, and deals generally performed well
- Strong equity performance and higher Treasury yields supported the corporate market and drove spreads to the year-to-date tights[1]
  - Spreads have rallied 86bps since the wides seen in February, when commodity weakness weighed on the sector
- Mortgage-backed securities underperformed Treasuries amid the rate volatility and political uncertainty[1]
  - Demand for both purchase and refinancing loans plummeted following the spike in mortgage rates
- In the municipal market, uncertainty around future tax policies drove weakness and heavy outflows[1]
  - The 10-year municipal/Treasury ratio rose 9% week-over-week to 99%

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
11/16/2016	1.01	1.67	2.22	2.92
MTD Change	0.16	0.36	0.40	0.34

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.