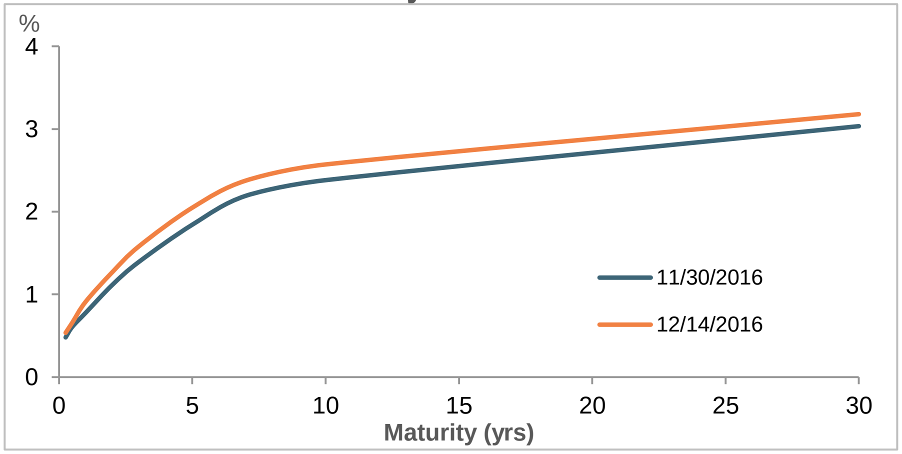
IR+M
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
December 9 – 15, 2016

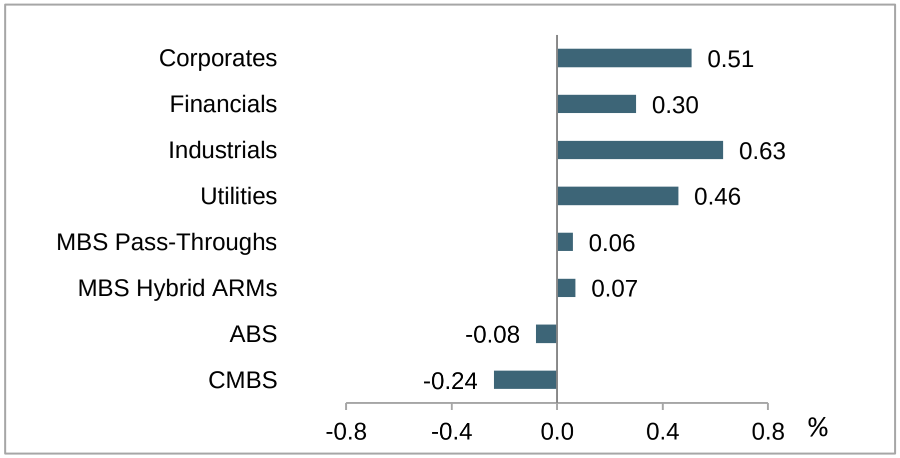
- The Federal Reserve (Fed) voted unanimously to hike rates by a quarter point, setting the new federal funds rate target to 0.50-0.75%[1]
  - The Committee also increased its projection for the pace of hikes in 2017 (from two to three) and cited strengthening labor market conditions and firming inflation
- Markets anticipated the policy change; however, Treasuries still reacted to the news and sold off across the curve[1]
  - Month-to-date, the 2-year and 30-year Treasury yields rose 15bps to 1.27% and 3.18%, respectively
- Investment-grade corporate supply slowed considerably this week, with only $4 billion pricing relative to last week's $15 billion[2]
  - Dealers are shoring up their books in preparation for the new year, and the supply pipeline is minimal through year-end
- Light supply and strong equity performance drove corporate spreads 3bps tighter to 124bps – the year-to-date tights[1]
  - Oil prices remained marginally above $50 a barrel, supporting the industrial sector, which generated 63bps of excess returns versus Treasuries
- The Fannie Mae agency mortgage-backed securities (MBS) universe prepaid 5% slower month-over-month, as slightly higher mortgage rates and a flat day count reduced refinancing activity[3]
  - The Treasury selloff is expected to impact December's report and result in lower prepayment speeds
- Muted issuance and healthy demand drove strong technicals in the municipal market[1]
  - The 10-year municipal/Treasury ratio stabilized around 95%, after reaching 108% earlier this month

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
12/14/2016	1.27	2.05	2.57	3.18
MTD Change	0.15	0.21	0.19	0.15

MTD Excess Returns[1*]



Sources: 1. Bloomberg Barclays 2. Citigroup 3. BofA Merrill Lynch

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