MARKET NEWS

- US politics dominated headlines in November, as Donald Trump’s victory over Hillary Clinton in the presidential election surprised investors
  - US equities rallied and fixed income sold off following the news, with the S&P 500 rising 2.77% and the US bond market falling 2.24%¹
  - Treasury rates surged across the curve as generally positive market sentiment drove a risk-on trade³
    - Intermediate yields increased by 35% on average, with the 5-year rising 54bps to 1.84% and the 10-year rising 56bps to 2.38%
  - The Federal Reserve (Fed) left rates unchanged; however, the Committee highlighted positive and improving US economic conditions, suggesting it’s ready to hike “relatively soon”⁰
    - The market-implied probability of a rate hike at the Fed’s December meeting is currently 100%³
- Investment-grade corporate issuers priced $75 billion in the primary market, which was skewed towards the latter half of the month, as companies avoided the volatile post-election environment⁶
  - Year-to-date issuance is $13 billion short of the $1.16 trillion annual record set last year – December’s projected issuance of $30 billion should push 2016 supply beyond that mark
  - Corporate spreads tightened 4bps in the first half of the month after markets digested the election results, then traded sideways for the second half and closed at 129bps – 1bp off the year-to-date tights³
    - Corporates have outperformed Treasuries in 2016, largely driven by the industrial sector, which benefitted from a recovery in oil prices – crude oil traded around $30 a barrel in January and is currently hovering around $50
- Political uncertainty and the rate sell-off weighed on the agency mortgage-backed securities (MBS) market, which underperformed Treasuries by almost 50bps on the month⁴
  - Refinancing and new loan activity plunged as mortgage rates rose alongside Treasuries, heightening concerns about extension risk
- The Treasury rate backup paired with future tax policy uncertainty drove weakness in the municipal market, resulting in significant outflows¹
  - Municipals cheapened relative to Treasuries, and the 10-year municipal/Treasury ratio rose 9% to 105%

MARKET STATISTICS

<table>
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<th>Treasury Yield Curve¹</th>
<th>November Excess Returns³</th>
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<tr>
<td></td>
<td>Corporates</td>
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<td>Maturity</td>
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<td>11/30/2016</td>
<td>0.27</td>
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<td>MTD Change</td>
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¹Excess returns are the curve-adjusted excess return of a given index relative to a term structure-matched position in Treasuries.

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