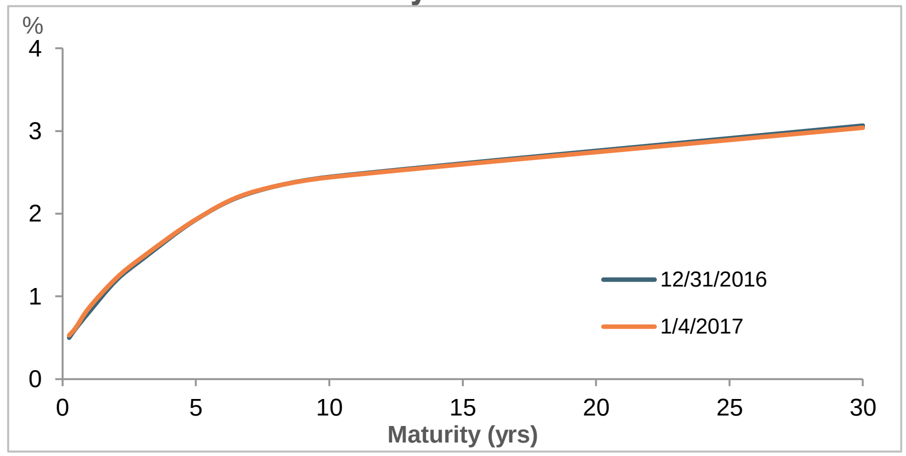
IR+M
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
January 1 – 5, 2017

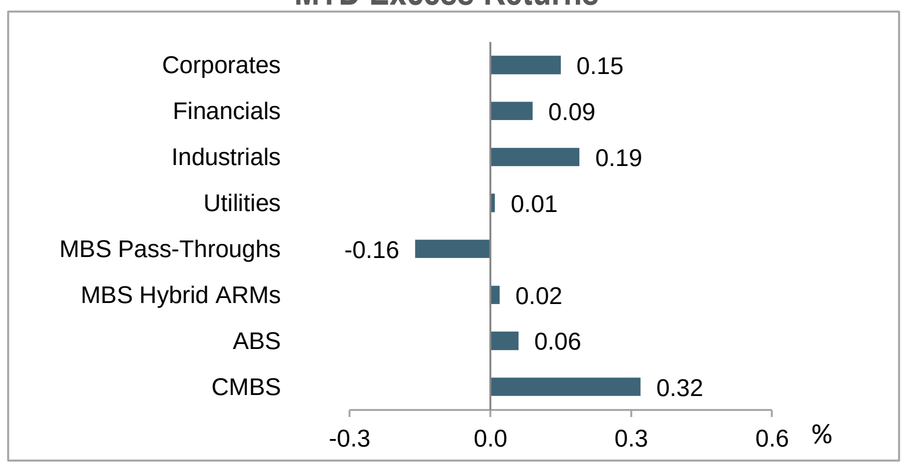
- The Treasury curve flattened modestly with the 2-year yield rising 3bps to 1.22% and the 30-year yield falling 3bps to 3.04%[1]
- The Federal Reserve (Fed) released the December meeting minutes, which highlighted progress toward the Committee's goals of 2% inflation and maximum employment, while acknowledging its concerns around the potential impact of the Trump administration's policies[1]
    - The Fed reiterated that the path for future hikes will be gradual and will depend heavily on economic conditions
- Initial jobless claims fell in the last report of 2016, setting the stage for a strong employment number on Friday[1]
    - Estimates indicate that the economy added 180,000 jobs in December, which is slightly higher than November's report
- Corporate supply flooded the market to start the new year with around $50 billion pricing, most of which came from the financial sector[2]
    - This marks the heaviest first week on record – the last one was in 2013 when issuers priced roughly $40 billion
- Strong demand met robust supply and investment-grade corporate spreads tightened 2bps to 121bps[1]
    - Positive economic releases coupled with oil price stabilization supported the market, particularly the industrial sector
- In the commercial mortgage-backed securities (CMBS) market, relatively quiet new issuance and fairly stable Treasury rates benefitted the sector, which generated 32bps of excess return[1]
- Municipal bonds kept pace with Treasuries to start 2017, with the 10-year municipal/Treasury ratio holding steady at 96%[1]

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
1/4/2017	1.22	1.93	2.44	3.04
MTD Change	0.03	0.00	-0.01	-0.03

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.