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 policies¹

- 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 Friday¹
- Corporate supply flooded the market to start the new year with around $50 billion pricing, most of which came from the financial sector²
  - 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 121bps¹
  - 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 return¹
- Municipal bonds kept pace with Treasuries to start 2017, with the 10-year municipal/Treasury ratio holding steady at 96%¹

Sources: 1. Bloomberg Barclays  2. Citigroup

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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