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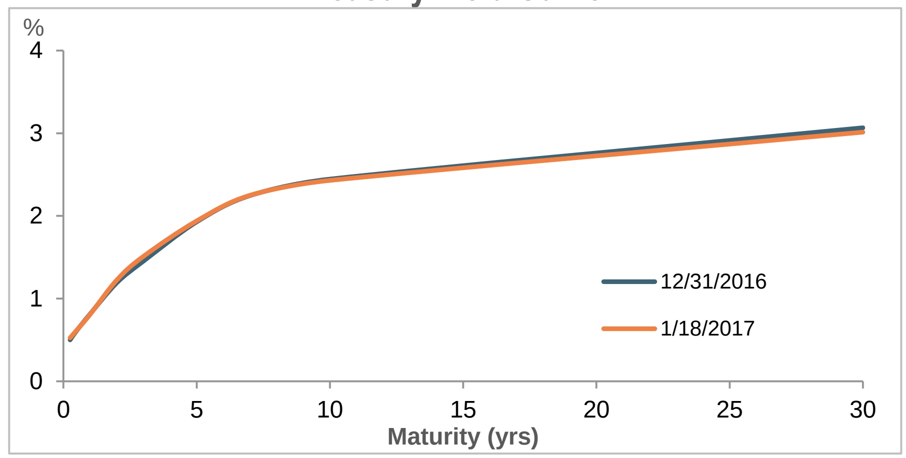
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

January 13 – 19, 2017

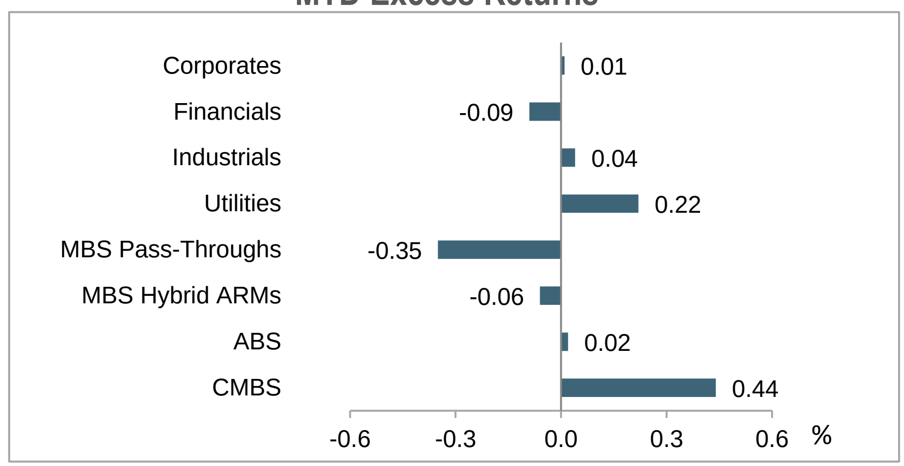
- At a speaking engagement on Wednesday, Federal Reserve (Fed) Chair Janet Yellen stated that Fed officials expect “a few” rate hikes this year, as the economy approaches the Committee’s employment and inflation targets[1]
    - The market-implied probability for at least three hikes in 2017 rose to 43%
- Treasury rates sold off this week, largely on Wednesday following Yellen’s speech, with intermediate yields increasing roughly 10bps day-over-day[1]
    - Month-to-date, the 2-year Treasury rate rose 3bps to 1.22%, and the 30-year Treasury rate fell 6bps to 3.01%
- Investment-grade supply totaled $25 billion for the holiday-shortened week and is 25% ahead of last year’s pace[2]
    - The financial sector drove most of the issuance as banks exited pre-earnings blackout periods
- Despite robust issuance, strong demand supported corporate spreads which traded flat and closed at 122bps[1]
- The U.S. Department of Housing and Urban Development (HUD) announced a surprise cut in mortgage insurance premiums (MIP), aiming to make homes more affordable, which could drive increased prepayment activity[1]
    - Agency mortgaged-backed securities weakened on the news and underperformed Treasuries by 0.35% month-to-date[1]
- Below-average supply, light dealer balance sheets, and increased demand supported municipal bonds[1]
    - The 10-year municipal/Treasury ratio fell 6% to 90%, and fund flows turned positive for the first time since November 2016

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
1/18/2017	1.22	1.94	2.43	3.01
MTD Change	0.03	0.01	-0.01	-0.06

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.