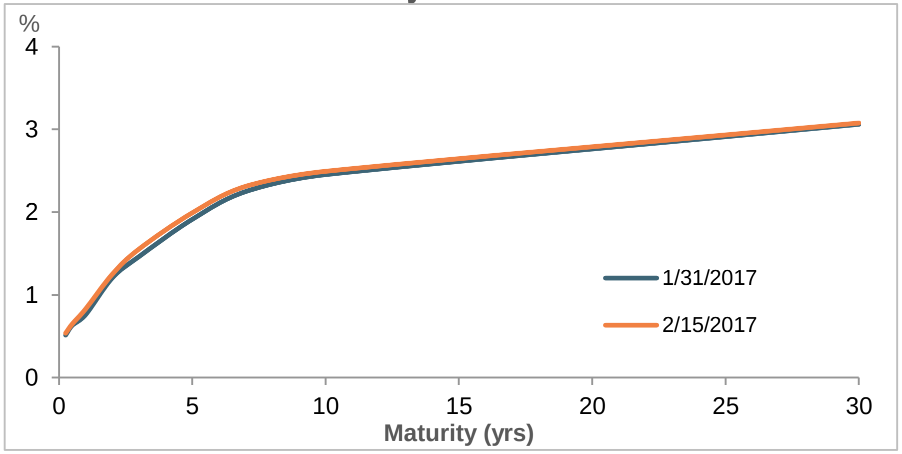
IR+M
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
February 10 – 16, 2017

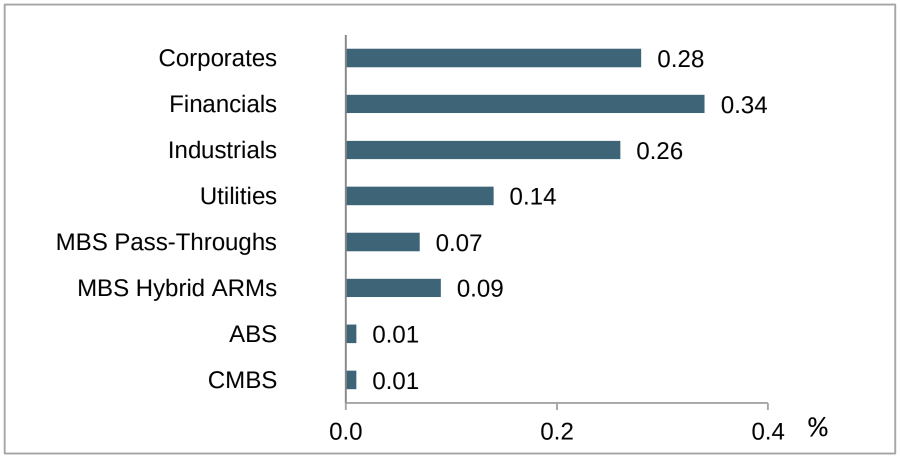
- Federal Reserve (Fed) Chair Janet Yellen testified before Congress this week and highlighted significant progress toward the Fed's goals of full employment and stable prices[1]
  - Following her testimony, the market-implied probability of a hike at the Fed's March meeting jumped from 30% to 44%
- Yellen's relatively hawkish tone coupled with strong economic reports drove a risk-on trade and a reversal of last week's Treasury rally[1]
  - Treasury yields rose across the curve, most notably in short and intermediate maturities, which increased by an average of 6bps over the course of the week
- Issuers priced roughly $22 billion in the investment-grade corporate market, which was in-line with expectations[2]
  - Issuance moderated considerably since January, but the market is still 76% ahead of last year's pace
- Robust demand met manageable supply, supporting corporate spreads, which tightened 3bps month-to-date and closed at 118bps[1]
  - Technicals remained strong and spreads are trading at levels that the market has not seen since late 2014
- Despite Treasury rate volatility, spreads in the mortgage-backed securities (MBS) market held in, as Yellen indicated that the Fed would continue to reinvest its agency MBS holdings[1]
  - The agency MBS market generated excess returns of 0.07%
- Muted primary issuance and quiet secondary activity drove a weak tone in the municipal market[1]
  - Municipals faltered alongside Treasuries, and the 10-year municipal/Treasury ratio hovered around 97%

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
2/15/2017	1.25	1.99	2.49	3.08
MTD Change	0.04	0.08	0.04	0.02

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.