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 prices¹

- 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 rally¹

- 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 expectations²
  - 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 118bps¹
  - 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 holdings¹
  - The agency MBS market generated excess returns of 0.07%
- Muted primary issuance and quiet secondary activity drove a weak tone in the municipal market¹
  - Municipals faltered alongside Treasuries, and the 10-year municipal/Treasury ratio hovered around 97%

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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