Relatively hawkish comments from the Federal Reserve spurred a jump in Treasury rates across the curve, with the 2-year reaching 1.36%, a level the market hasn’t seen since 2009.

- Market implied-probabilities suggest that the Fed will hike rates 0.25% at the Committee’s meeting next week.
- The ADP employment report beat estimates by a significant margin, as private jobs rose nearly 300,000 in February, setting the stage for a strong release in nonfarm payrolls tomorrow.
- Consensus is around 190,000 jobs added in February, which is in line with the ADP report forecasts.
- In anticipation of next week’s potential Fed hike, investment-grade corporate issuers priced roughly $50 billion month-to-date, which is more than half the total supply issued in February.
- Demand remained relatively healthy in the face of robust supply, as the grab for yield continues in this low global rate environment.
- Investment-grade corporate spreads tightened to start the month, then reversed course on the heels of falling oil prices.
- Concerns regarding compliance with the OPEC production cut deal drove a selloff in oil, hurting corporate spreads, which closed at 114bps.
- The Fannie Mae agency mortgage-backed securities (MBS) universe prepaid 20% slower month-over-month, as higher mortgage rates and a lower day count reduced refinancing activity.
- In the municipal market, tax reform remains an overhang; however, month-to-date, the sector performed in line with Treasuries and the 10-year municipal/Treasury ratio stabilized around 96%.

Sources: 1. Bloomberg Barclays 2. J.P. Morgan

*Excess returns are the curve-adjusted excess return of a given index relative to a term structure-matched position in Treasuries.

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