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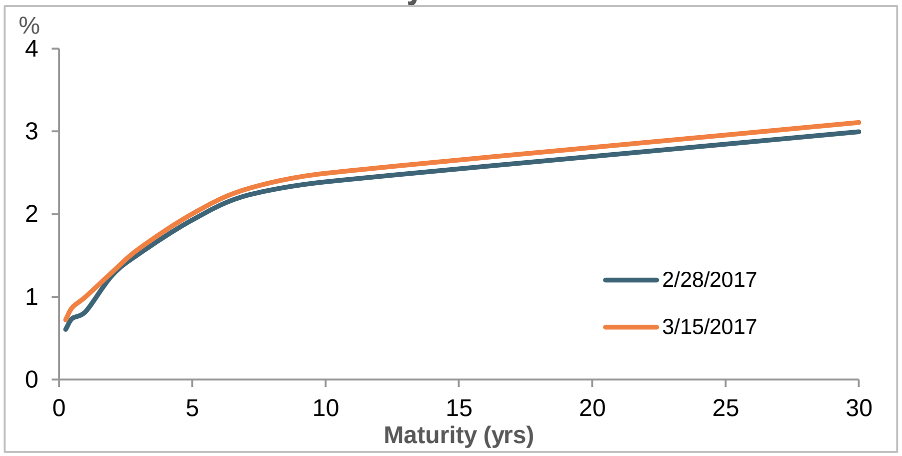
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
March 10 – 16, 2017

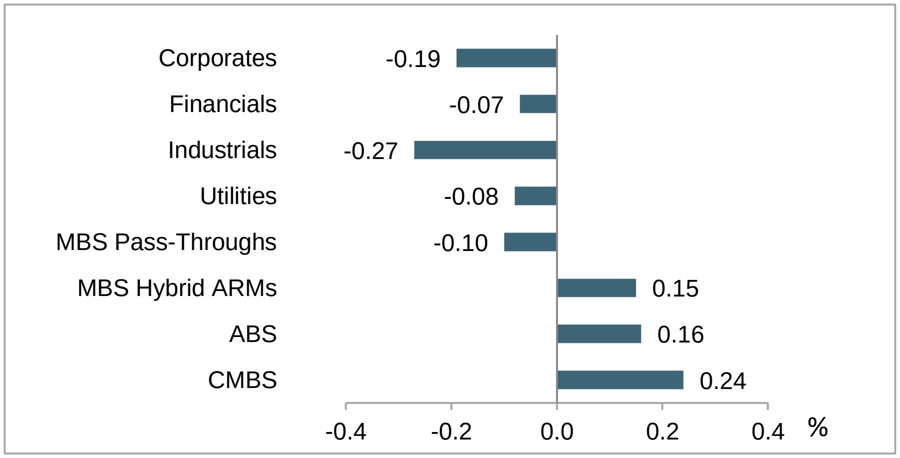
- Yesterday the Federal Open Market Committee (FOMC) hiked rates by a quarter point, setting the federal funds rate target to 0.75-1.00%[1]
  - One Committee member voted against the increase, and projections imply that two more hikes are expected this year
- Treasury yields sold off to start the week, then fell across the curve following the rate hike announcement[1]
  - The 10-year Treasury rate rose 21bps on the month through Tuesday, then plunged 10bps on Wednesday to 2.49%[1]
- Producer and consumer price index inflation reports came in as expected, with prices rising around 0.1% month-over-month, suggesting stronger inflation near the Fed's 2% target[1]
- Investment-grade issuance slowed mid-week as a winter storm in the northeastern US coupled with the FOMC rate decision pushed most deals to the sidelines on Tuesday and Wednesday[2]
  - Issuers priced about $30 billion for a month-to-date total of $90 billion, which is almost 20% ahead of last year's pace[2]
- Lower oil prices weighed on investment-grade corporate spreads, which leaked 4bps wider, closing at 118bps[1]
- The FOMC offered few details on the Committee's plan for shrinking the Fed's balance sheet and indicated that proceeds from agency mortgage-backed securities (MBS) holdings will continue to be reinvested, which should support market technicals[1]
  - The sector outperformed corporates month-to-date, but weakened relative to Treasuries
- Municipal bonds struggled to keep up with the Treasury rally yesterday, and the 5-year municipal/Treasury ratio rose 5% to 85%[1]

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
3/15/2017	1.30	2.00	2.49	3.11
MTD Change	0.04	0.07	0.10	0.11

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.