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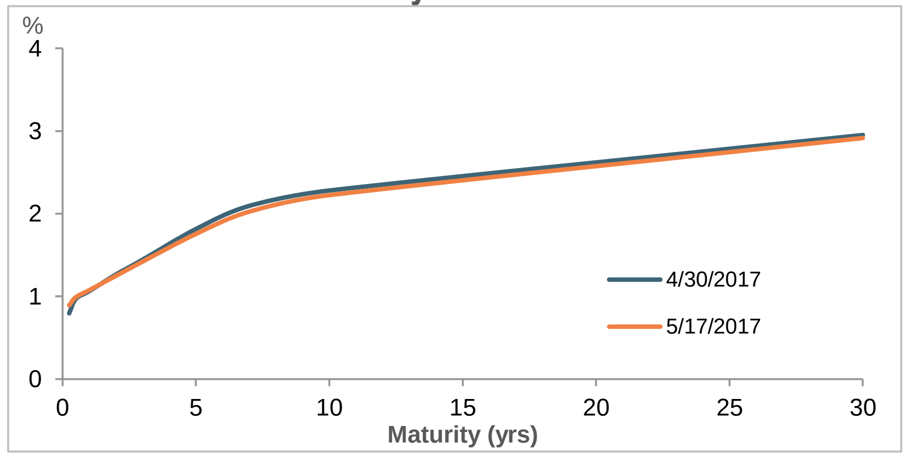
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

May 12 – May 18, 2017

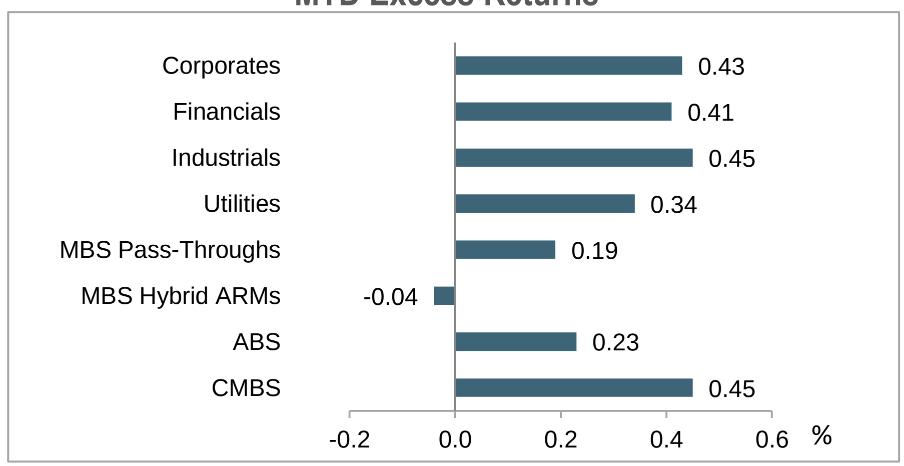
- Initial jobless claims were again slightly below expectations at 232,000, continuing the trend of strong and improving labor market conditions[1]
- US industrial production rose 1%, marking the largest monthly gain in over three years, another positive signal for the US economy[1]
- Oil prices climbed on news that Saudi Arabia and Russia affirmed their support for prolonging an existing deal to cut supply until March 2018[1]
- Consumer prices rebounded after weakness in March, but the Consumer Price Index (CPI) print was still below expectations[1]
    - Breakeven inflation rates have fallen approximately 30bps from 2017 highs with the 10-year breakeven dropping below 1.8%
- Heightened political uncertainty instigated a risk-off market sentiment, pushing Treasury yields lower across the curve[1]
    - The 2-year Treasury yield declined 11bps to 1.25%, while the 10-year Treasury fell 19bps on the week to 2.23%
    - The implied probability for a June rate hike dropped from 100% amidst increased volatility
- Investment-grade corporate issuers priced over $25 billion this week, in line with dealer expectations[2]
- Moderate supply was met with healthy demand, and corporate spreads held in despite some equity weakness, tightening another 1bp to 112bps[1]
- The securitized market also benefitted from strong demand, with commercial mortgage-backed securities (CMBS) as the best performer, generating 45bps of excess returns month-to-date[1]
- Municipals modestly underperformed Treasuries and the 10-year municipal/Treasury ratio climbed 2% to 92%[1]

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
5/17/2017	1.25	1.76	2.23	2.92
MTD Change	-0.01	-0.06	-0.05	-0.03

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.

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