• The Federal Open Market Committee released the May meeting minutes which indicated progress toward consensus on an approach to unwinding the Federal Reserve’s (Fed) $4.5 trillion balance sheet¹
  • Under the proposed method, the Fed expects to specify the level of bonds to roll off each month, with that amount increasing gradually over time
  • Regarding interest rate policy, the implied probability for a June hike is back to 100%, and the likelihood of two or more by year-end is hovering around 50%
• Oil prices rebounded as the Organization of the Petroleum Exporting Countries (OPEC) reached an agreement to extend an existing deal to reduce supply until March 2018, although some market participants were hoping for a longer extension¹
• A risk-on tone returned to the market this week, as equities strengthened and Treasury yields rose across the curve¹
  • The 2-year Treasury yield increased 3bps to 1.28%, while the 10-year Treasury rose 2bps on the week to 2.25%
• As first quarter earnings season comes to a close, results were very strong with earnings on track to grow 13.6% year-over-year, the highest growth rate since the third quarter of 2011¹
• Heavy issuance last Friday carried over into this week with $35 billion pricing, which was at the high end of dealer expectations²
• Healthy demand met ample supply, driving flat new issue price concessions and supporting corporate spreads, which closed at 113bps¹
• Weak prints for new and existing home sales, housing starts, and mortgage applications weighed on mortgage-backed securities (MBS) performance¹
• Municipals outperformed Treasuries, and the 10-year municipal/Treasury ratio declined 4% to 88%¹

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.
²The views contained in this report are those of IR+M and are based on information obtained by IR+M from sources that are believed to be reliable. This report is for informational purposes only and is not intended to provide specific advice, recommendations, or projected returns for any particular IR+M product. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission from Income Research & Management.