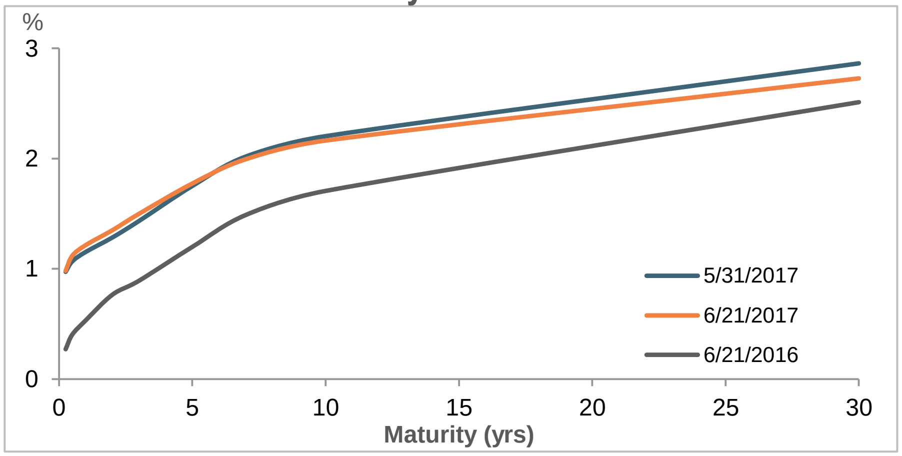
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

June 16 – June 22, 2017

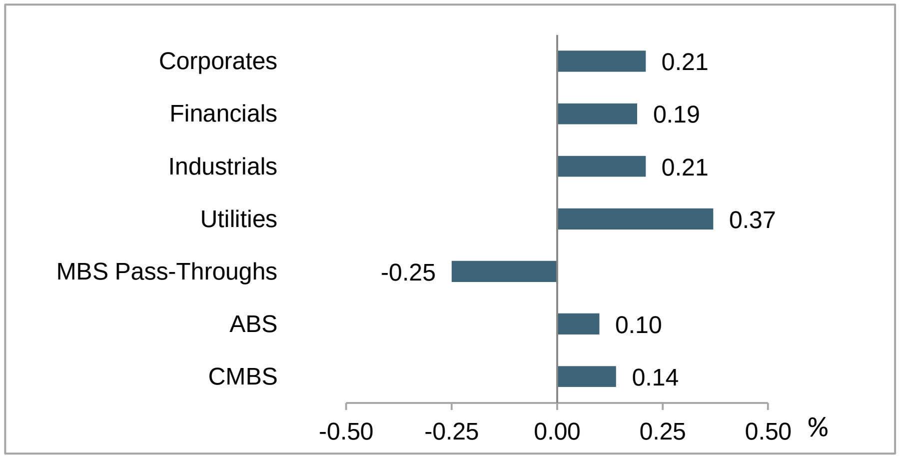
- The month-to-date flattening of the Treasury yield curve continued this week, driven by a rising federal funds rate coupled with softening long-term inflation expectations, and the 10-year yield reached a low not seen since last year's US presidential election[1]
    - The 2-year Treasury yield rose 2bps on the week to 1.35%, while the 30-year Treasury fell 4bps to 2.73%
- Inflation expectations softened, as the 10-year breakeven inflation rate fell below 1.7%, hitting pre-election levels[1]
- Investment grade corporate spreads have remained resilient in the face of lower oil prices and healthy supply, while high yield spreads have widened over 10bps since the beginning of the month[1]
    - Corporate spreads have traded in a 2bps range over the past 30 trading days and closed at 112bps
- Oil prices weakened, slipping below $43 per barrel, the lowest level in over six months[1]
- Investment grade corporate supply picked up modestly with nearly $19 billion pricing versus last week's $10 billion of issuance[2]
- Existing home sales were stronger than expected in May at 5.62 million although inventories remain at historically low levels, which could impact sales and prices going forward[1]
- Mortgage-backed securities (MBS) underperformed Treasuries amid heightened focus on the unwinding of the Federal Reserve's balance sheet, which is expected to weigh on technicals[1]
- Municipals outperformed Treasuries this week, and the 10-year municipal/Treasury ratio decreased 2% to 85%[1]

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
6/21/2017	1.35	1.77	2.16	2.73
MTD Change	0.07	0.02	-0.04	-0.13

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.