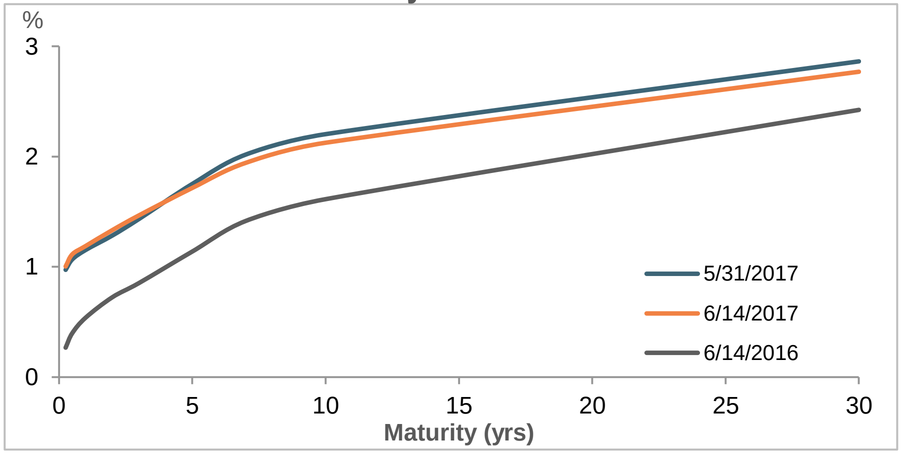
IR+M INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
June 9 – June 15, 2017

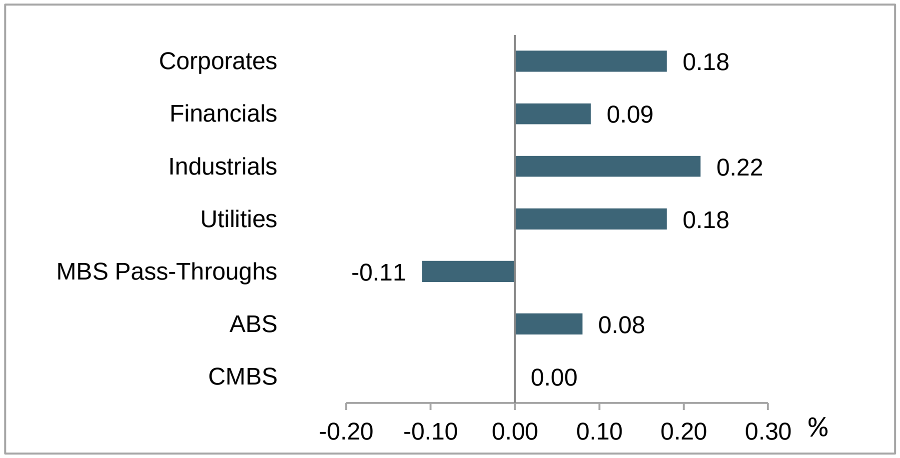
- As expected, the Federal Open Market Committee (FOMC) voted to hike its overnight rate by 25bps[1]
  - Additionally, the FOMC confirmed that it expects to begin unwinding its $4.5 trillion balance sheet at some point this year
  - The FOMC will shrink its balance sheet by allowing a small but increasing amount of securities to mature each month, starting with $6 billion for Treasuries and $4 billion for mortgages
- The Consumer Price Index (CPI) decreased 0.1% in May, which was below expectations[1]
  - The drop in energy prices during May was a major driver, and it was the second monthly CPI decline over the past three months
  - Core CPI, which excludes food and energy, rose only 1.7% over the past 12 months, the smallest increase since May 2015
- The Treasury curve continued to flatten following the FOMC overnight rate hike and weak CPI print[1]
  - The 2-year Treasury yield rose 2bps on the week to 1.33%, while the 30-year Treasury fell 7bps to 2.77%
- Retail sales came in below expectations, decreasing by 0.3% during May, reflecting the biggest monthly drop in 16 months[1]
- Oil prices dropped to their lowest levels of 2017 following disappointing crude oil inventory data and an unexpected build in gasoline inventories[1]
- After six straight weeks of corporate issuance exceeding $20 billion, supply was softer this week, with roughly $10 billion pricing[2]
- Corporate spreads, having traded from 112bps to 114bps over the past 20 trading days, remain range-bound and closed at 112bps[1]
- Asset-backed securities (ABS) have outperformed Treasuries month-to-date given strong demand for high-quality, short duration paper[1]
- Municipals underperformed Treasuries this week, and the 10-year municipal/Treasury ratio increased 3% on the week to 87%[1]

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
6/14/2017	1.33	1.72	2.13	2.77
MTD Change	0.05	-0.03	-0.07	-0.09

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.