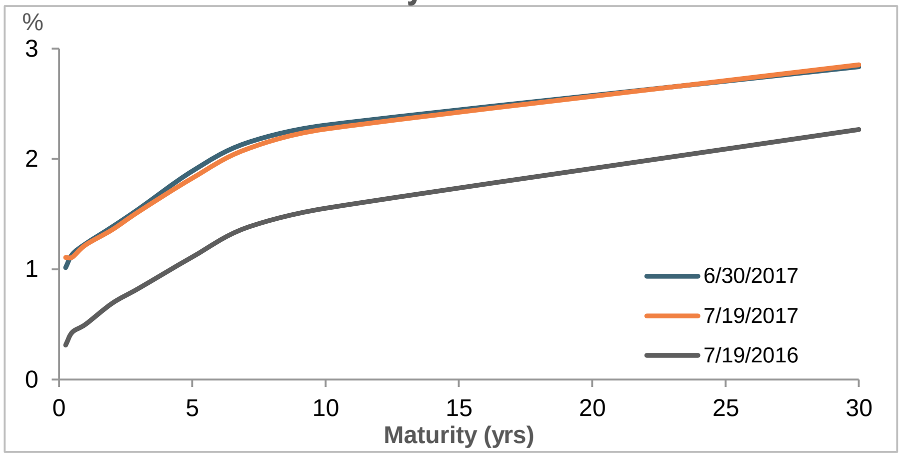
IR+M
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

July 14 – July 20, 2017

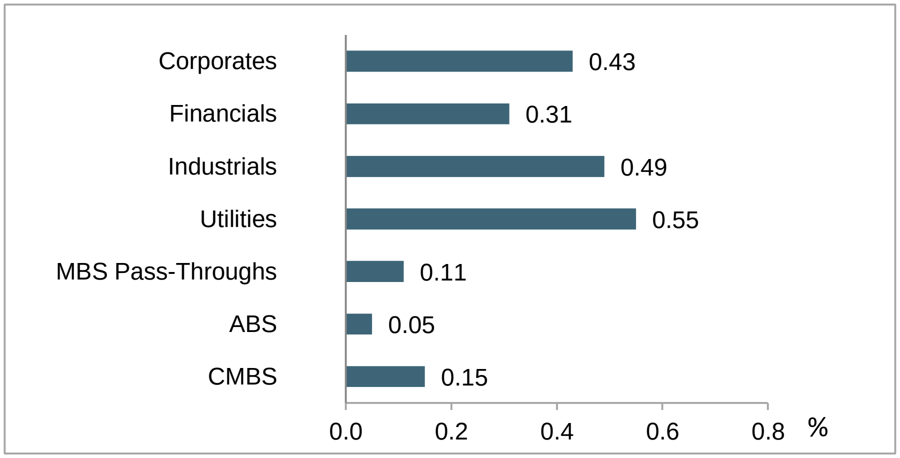
- The Treasury curve flattened this week as moderating inflation expectations pushed long-term yields lower[1]
    - The 10-year rate fell 5bps to 2.27%, and the 30-year rate fell 4bps to 2.85%
    - Notably, the 3-month Treasury yield has risen 9bps during the month to 1.11%, in anticipation of tighter monetary policy
- The US Consumer Price Index (CPI) for June came in below expectations, continuing a four month stretch of weak inflation data[1]
- Oil prices rebounded above $45 per barrel after a positive inventory report showed larger than expected gasoline drawdowns[1]
- Investment grade corporate supply exceeded estimates as many companies took advantage of a firm market tone following relatively strong second quarter earnings reports[2]
    - Led by over $25 billion from US money center banks, issuers priced over $40 billion this week, which surpassed the combined total issuance for the first two weeks of July
- Investment grade corporate spreads remained resilient in the face of heavy supply and tightened 1bp this week to close at 104bps, which is 7bps wider than post-crisis tights[1]
    - Generally positive US bank earnings benefitted corporate spreads and aided the month-to-date equity rally
- Relatively stable Treasury yields coupled with heightened demand supported securitized sectors, which have modestly outpaced Treasuries month-to-date[1]
- Strong technicals helped the municipal market as healthy demand met modest supply, which is well below last year's pace[1]
    - The sector outperformed Treasuries this week, and the 10-year municipal/Treasury ratio decreased 2% to 84%

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
7/19/2017	1.36	1.83	2.27	2.85
MTD Change	-0.02	-0.06	-0.04	0.01

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.