Minutes from the Federal Open Market Committee’s (FOMC) July meeting highlighted a divide in the members’ expectations for inflation¹:

- Many indicated concern that inflation will remain below the 2% target, while others cautioned that delaying policy tightening could lead to overshooting the target.
- The FOMC did not offer details on the timing for the balance sheet tapering and expects to address that at the next meeting in September.

Treasury yields fell modestly across the curve amid mixed economic reports and heightened US political uncertainty¹:

- Both the 10-year and 30-year Treasury rates fell 2bps to 2.22% and 2.81%, respectively.
- Investment grade corporate supply totaled around $30 billion, led by Amazon, which priced $16 billion to fund its Whole Foods acquisition².

- Month-to-date issuance of $90 billion has already surpassed the supply estimate for the entire month of August.

Corporate spreads softened at the beginning of the week, on the heels of increased geopolitical risks, but rallied to close flat at 109bps, 7bps off the year-to-date tights¹.

In the securitized market, commercial mortgage-backed securities (CMBS) outperformed Treasuries, benefitting from healthy demand, despite a recent uptick in supply¹.

- Low new issuance, coupled with strong demand, supported municipal bonds, which kept pace with Treasuries¹.
  - The year-to-date trend lower in municipal yield volatility, in sympathy with the general market, has benefitted the sector.

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.

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