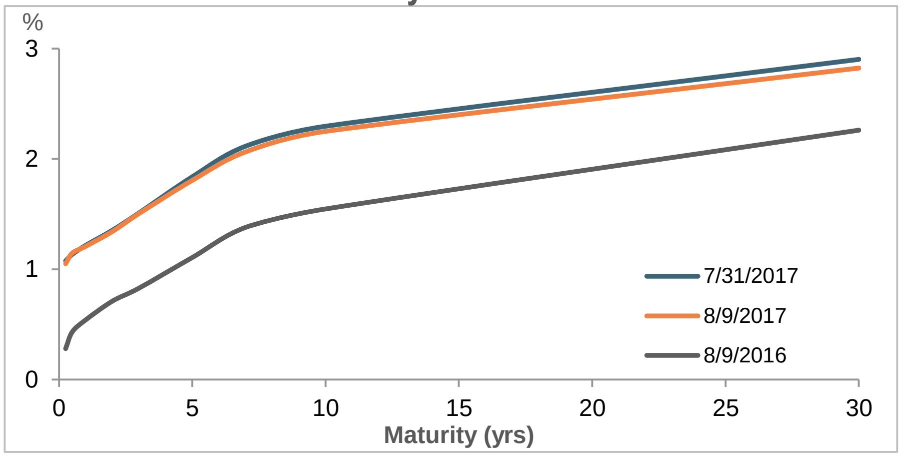
IR+M INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

August 4 – August 10, 2017

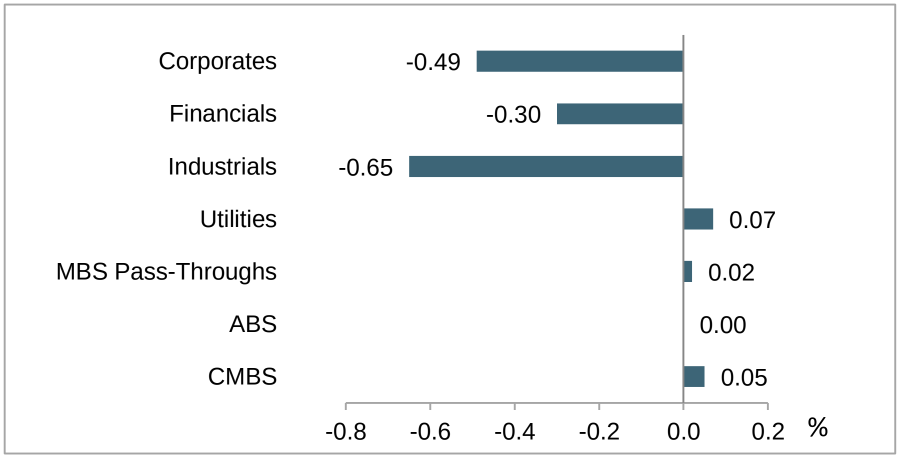
- Treasury yields fell across the curve, most notably in the long end, driven by geopolitical uncertainty and a risk-off market tone[1]
  - The 30-year yield dropped 4bps on the week to close at 2.82%
- The US Producer Price Index came in below expectations at -0.1%, setting the stage for tomorrow's widely anticipated release of the US Consumer Price Index (CPI)[1]
  - Economists expect CPI to gain 0.2% for a year-over-year rate of 1.8%, slightly below the Federal Reserve's 2% target
- Investment grade corporate supply was heavy this week with issuers pricing over $40 billion[2]
  - British American Tobacco issued over $17 billion to help fund its acquisition of Reynolds American, which was the second largest new issue of the year behind AT&T's deal last month
- Under pressure from robust supply along with equity market weakness, investment grade corporate spreads reversed course and leaked 6bps wider during the week and closed at 109bps, which is a level that the market has not seen since June[1]
  - Communications was the weakest Industrial subsector month-to-date as the market worked to digest last month's $22.5 billion AT&T issuance
  - High yield corporate spreads also jumped 19bps to 368bps
- The securitized market faced similar healthy supply this week, but strong demand and insulation from equity weakness supported the sector, leading to outperformance relative to corporates[1]
- Municipals kept up with Treasuries month-to-date, and muni/Treasury ratios remain at relatively low historical levels with the 10-year ratio hovering around 83%[1]

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
8/9/2017	1.34	1.81	2.25	2.82
MTD Change	-0.01	-0.03	-0.05	-0.08

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.