IR+M INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
July 2017

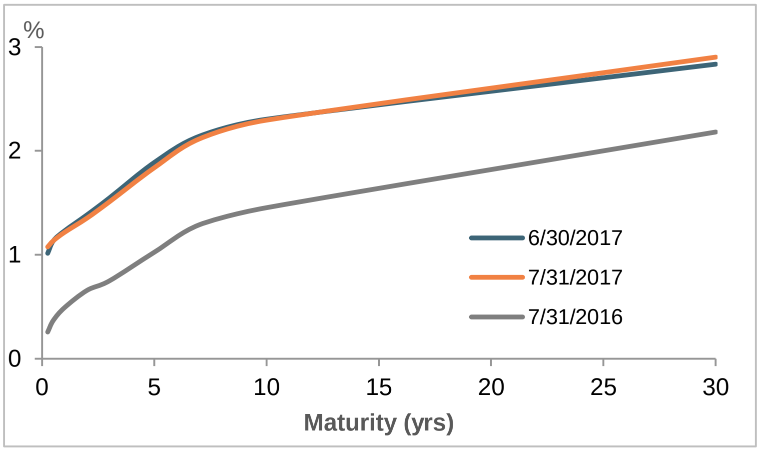
August 1, 2017

MARKET NEWS

- US inflation data disappointed with the Consumer Price Index (CPI) rising a mere 0.1%, for a year-over-year increase of 1.6%, well below the Federal Reserve's (Fed) 2% target[1]
- Despite low inflation, second quarter GDP growth rebounded to an annualized rate of 2.6%, led by solid consumer spending, which rose 2.8% quarter-over-quarter[1]
- The Fed left rates unchanged, but indicated expectations to begin tapering the balance sheet "relatively soon"[1]
    - The market-implied probability of an additional hike by year-end fell 10% to 42%, as the Fed appeared more cautious on the inflation picture
- The Treasury curve steepened modestly in July amid increased uncertainty around future rate hikes, which anchored the short-end, while a generally risk-on tone and low market volatility supported a rise in the long-end[1]
    - The 2-year Treasury yield fell 3bps to 1.35%, while the 30-year Treasury yield rose 6bps to 2.90%
- Investment grade corporate supply totaled around $100 billion, which was $20 billion more than estimated[2]
    - AT&T took advantage of a firm market tone and priced $22.5 billion, the third largest deal on record, which is expected to fund the company's acquisition of Time Warner Inc.
- This year's gradual downward trend in corporate spreads continued through July, with the investment grade market tightening 7bps to 102bps, and the high-yield market tightening 13bps to 352bps[1]
    - Corporate spreads haven't touched levels this low since 2014
- Relatively stable Treasury yields coupled with a generally healthy market environment supported securitized sectors, particularly commercial mortgage-backed securities (CMBS)[1]
    - Despite a recent uptick in CMBS issuance, strong demand mitigated potential weakness as investors continue to value high-quality bonds that offer incremental carry over Treasuries
- Illinois lawmakers passed a budget for the first time in two years, which rating agencies acknowledged as a credit positive, driving a meaningful rally in spreads on the state's debt[1]
    - Municipal bonds broadly outperformed Treasuries over the month, supported by favorable technicals

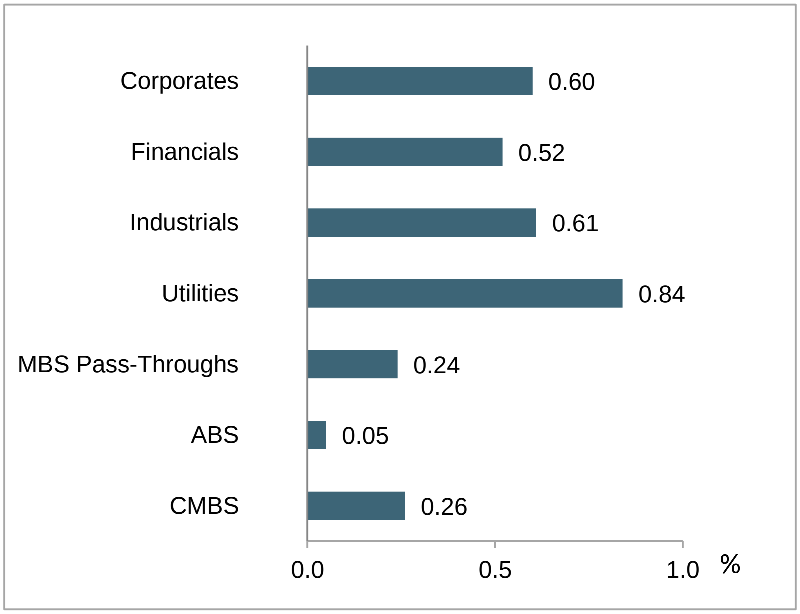
MARKET STATISTICS

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
7/31/2017	1.35	1.84	2.30	2.90
MTD Change	-0.03	-0.05	-0.01	0.06

July Excess Returns[1*]



As of: 7/31/17. 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.

The views contained in this report are those of IR+M and are based on information obtained by IR+M from sources that are believed to be reliable. This report is for informational purposes only and is not intended to provide specific advice, recommendations, or projected returns for any particular IR+M product. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission from Income Research + Management.