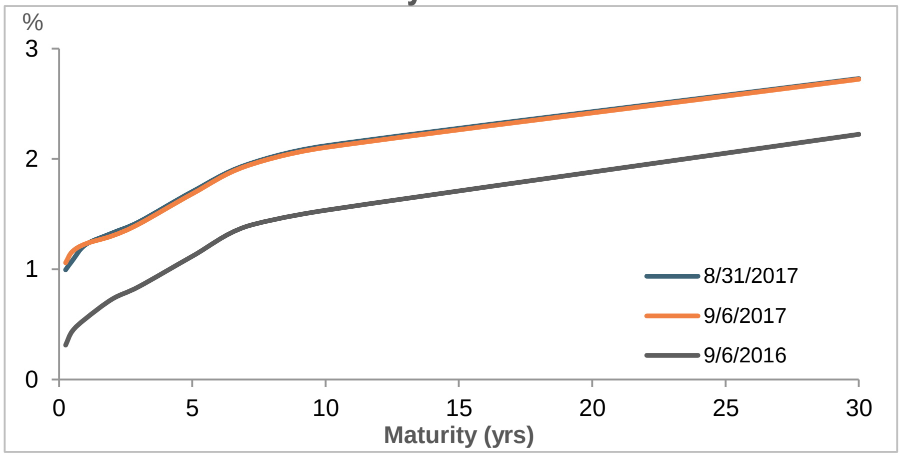
IR+M
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
September 1 – September 7, 2017

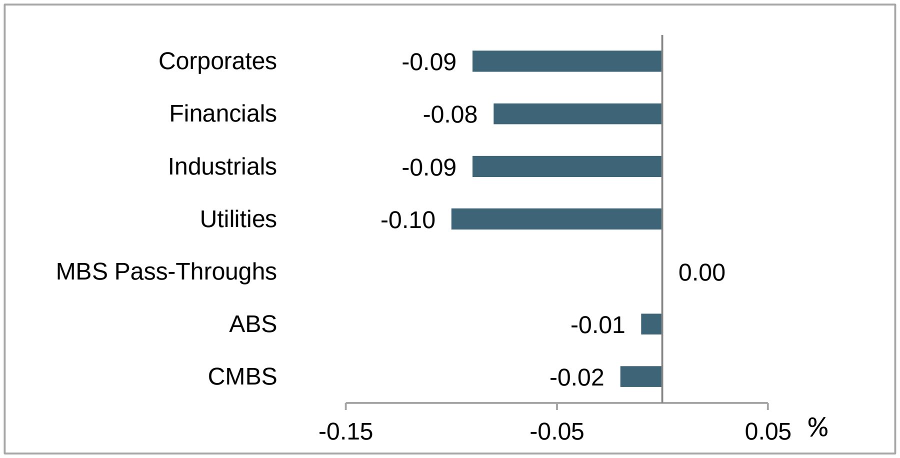
- President Trump struck a deal with Democrats on a proposal to suspend the debt ceiling, fund the government through mid-December, and provide emergency aid to Hurricane Harvey victims[1]
  - While debt ceiling concerns may be alleviated for now, the issue will likely resurface again soon when funding runs out
- US jobless claims came in higher than expected at 298,000 although Texas accounted for about 15% of claims following the impact of Hurricane Harvey[1]
- Treasury yields moved lower across the curve during the week, with shorter term yields falling more than longer term yields as the market adjusted its expectation for future interest rate hikes following a series of dovish remarks from various Federal Reserve (Fed) speakers[1]
  - The 2-year yield fell 3bps on the week and has dropped 10bps over the past two months
- The implied probability for another rate hike this year is now approximately 25%, falling from over 50% in early July[1]
- Investment grade corporate supply picked up significantly as issuers priced over $40 billion following a quiet last week of August[2]
- Trading within a 2bps range over the past month, investment grade corporate spreads ended the week 1bp wider at 111bps as the market worked to digest heavy supply[1]
- Agency mortgage-backed securities performed in line with Treasuries despite lower rates as investors anticipate the Fed meeting in September for further guidance on its balance sheet reduction[1]
- Strong fund inflows and light supply supported municipals, and the sector outperformed Treasuries with the 10-year muni/Treasury ratio declining 1% to 86%[1]

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
9/6/2017	1.30	1.69	2.11	2.72
MTD Change	-0.03	-0.01	-0.01	-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.