The Trump administration released a basic framework for tax reform, although the plan may not be in its final form.

Federal Reserve Chair Janet Yellen discussed inflation during a speech on Tuesday, reiterating her view that recent softness is likely transitory and should not delay gradual rate increases.

- The implied probability for another rate hike this year rose from 64% to 70% following her speech.

After briefly falling earlier in the week, Treasury yields rose and the curve steepened as investors adjusted inflation expectations.

- Breakeven inflation rates jumped as the 10-year breakeven rose 3bps to close at 1.88%, the highest level since May.
- The 2-year yield increased 3bps, and the 30-year yield climbed 5bps.

Supply was modest, with investment grade corporate issuers pricing approximately $16 billion this week.

Strong demand persisted, and given moderate supply, investment grade corporate spreads tightened 2bps to 104bps, which are only 2bps off year-to-date tights and 7bps off post-crisis tights.

- High yield corporate spreads also tightened 2bps during the week to close at 350bps, 6bps wide to year-to-date tights.

Although many investors expected the Fed’s balance sheet reduction plan to negatively impact mortgage-backed securities (MBS), the sector has outperformed Treasuries by 0.27% during the month.

Municipals underperformed Treasuries this week, and the 5-year muni/Treasury ratio increased 3% to close at 71%.

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.

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