IR+M CLIENT UPDATE
August 2017

INCOME RESEARCH + MANAGEMENT

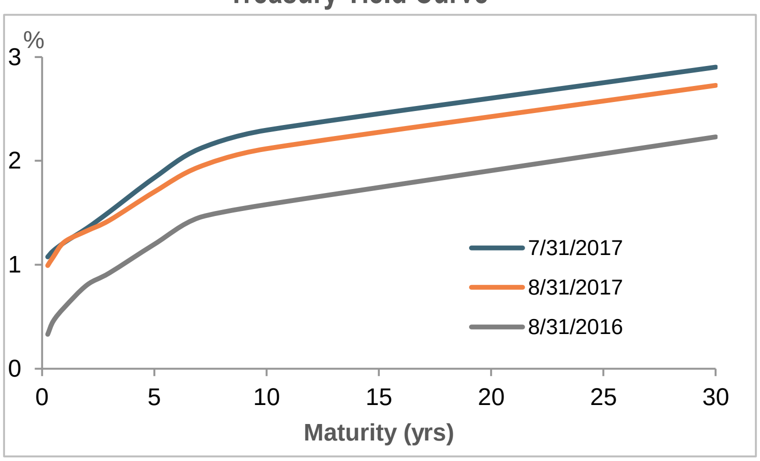
September 1, 2017

MARKET NEWS

- In the July meeting minutes, the Federal Reserve (Fed) revealed some division regarding the rate hike path; however, signs suggest that most members anticipate a balance sheet tapering announcement at the September meeting[1]
- Treasury rates fell across the curve amid heightened geopolitical risk coupled with weak inflation data, which drove increased uncertainty around the health of the US economy and the Fed's plans for monetary policy tightening[1]
    - The rally was most notable in intermediate and long maturities, with the 10-year falling 18bps to 2.12% and the 30-year falling 17bps to 2.73%
- Investment grade issuers priced roughly $95 billion, marking the second heaviest August on record, slightly behind last year's August total of $111 billion[2]
    - Amazon and British American Tobacco both tapped the debt market to fund large acquisitions, raising $16 billion and $17 billion, respectively
    - Early Wall Street estimates suggest around $120 billion of new issuance in September, largely driven by refinancing transactions, with $115 billion in outstanding debt expected to mature over the month
- Increased geopolitical fears amid the heavy supply calendar weighed on corporate spreads, which widened 10bps in the first couple weeks of the month, then traded flat through the latter half, closing at 110bps[1]
- Securitized sectors fared better than corporates, led by commercial mortgage-backed securities (CMBS), which outperformed Treasuries by 0.17%[1]
    - Strong demand met healthy supply, but forward estimates suggest a heavier pipeline for CMBS issuance in the fall, which could be a catalyst for spread softening[3]
- In the municipal bond market, positive fund flows continued to support the sector, despite the year-to-date rally, which has pushed municipal/Treasury ratios to historically rich levels, particularly in shorter-dated maturities[1]
    - The 5-year municipal/Treasury ratio fell 2% in August to 66%, which is 27% lower on the year

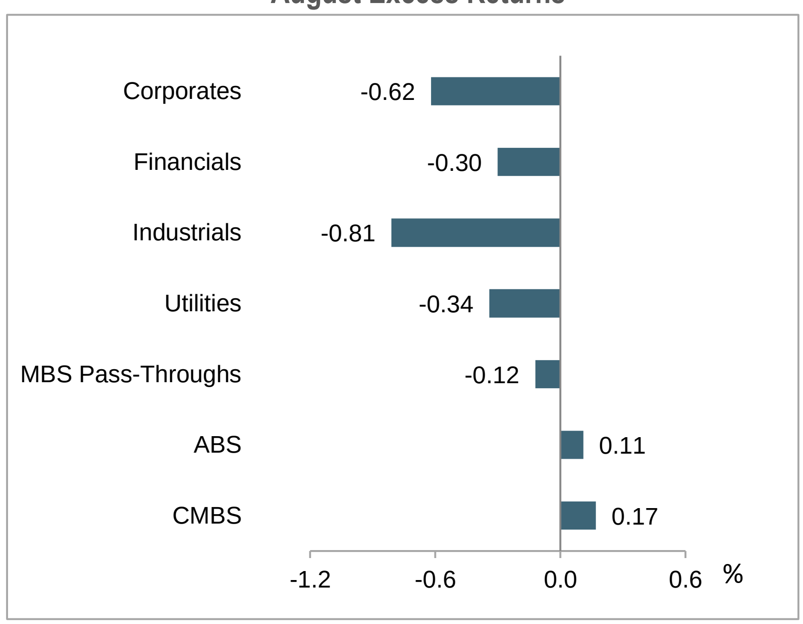
MARKET STATISTICS

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
8/31/2017	1.33	1.70	2.12	2.73
MTD Change	-0.02	-0.14	-0.18	-0.17

August Excess Returns[1*]



As of: 8/31/17. Sources: 1. Bloomberg Barclays 2. Citigroup 3. BofA Merrill Lynch

*Excess returns are the curve-adjusted excess return of a given index relative to a term structure-matched position in Treasuries.