• The year-over-year increases in US Consumer Price Index (CPI) and Core CPI came in at 2.2% and 1.7%, respectively, and both were 0.1% below expectations¹

• The Treasury curve flattened as declining inflation expectations applied downward pressure on the long end while rising confidence in continued interest rate hikes lifted rates in the front end¹
  - The 2-year yield rose 5bps during the week, and the 30-year yield fell 2bps
  - The 10-year breakeven inflation rate declined 6bps to close at 1.83%, and the implied probability of another rate hike this year increased 3% and now sits at 80%

• Investment grade corporate supply was steady this week, as issuers priced roughly $19 billion²
  - Issuance has been skewed towards financial issuers, as those borrowers have come to market following third quarter earnings releases

• Robust demand met moderate supply, and investment grade spreads tightened 1bp to 97bps, matching post-crisis tights from 2014¹
  - High-yield spreads tightened 4bps during the week to 337bps, but remain 14bps off of post-crisis tights

• Mortgage-backed securities (MBS) have modestly underperformed Treasuries month-to-date, and continued balance sheet tapering coupled with additional Fed rate hikes could weigh on the sector¹

• A strong technical backdrop supported munis, which outperformed Treasuries, as the 10-year municipal/Treasury ratio fell 3% to close at 83%¹

Sources: 1. Bloomberg Barclays  2. Citigroup

¹Excess returns are the curve-adjusted excess return of a given index relative to a term structure-matched position in Treasuries.

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