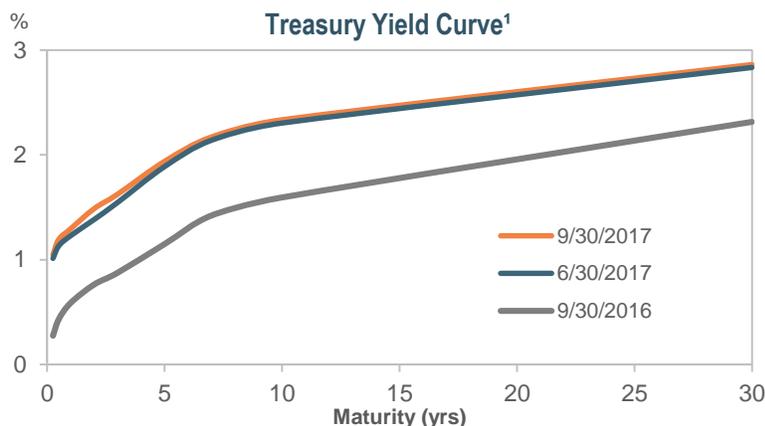


THIRD QUARTER RECAP

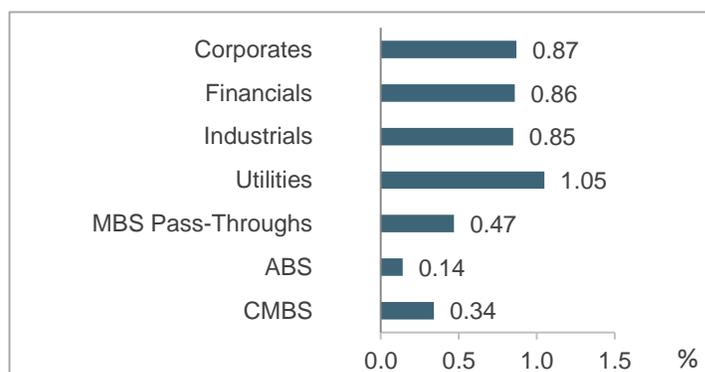
- The Federal Reserve (Fed) announced that balance sheet normalization will begin in October¹
- Treasury yields rose modestly quarter over quarter, most notably in shorter maturities, in anticipation of continued monetary policy tightening¹
 - Uncertainty regarding future inflation has anchored longer rates, resulting in a flatter Treasury curve
- Despite heightened geopolitical risk and robust supply, overall strong second quarter earnings releases, coupled with healthy demand, benefitted the corporate market¹
 - Investment grade spreads closed at 101bps, a new year-to-date tight level
- Issuers priced roughly \$315 billion in the third quarter, led by a few sizable M&A-driven deals²
- In the commercial mortgage-backed securities (CMBS) market, heavy supply met healthy demand, and spreads remained around historical tight¹
- In the mortgage-backed securities (MBS) market, reaction to the Fed's balance sheet announcement was relatively muted as the plan was well-telegraphed and seemingly already priced into the market¹

2017 GOING FORWARD

- The US economy has been improving at a slow pace, and long Treasury yields have risen modestly, perhaps signaling optimism regarding the future economic picture¹
- Volatility could emerge once the Fed's balance sheet tapering plan is put into practice, but in the interim, strong fundamentals continue to support housing valuations¹
- In addition to balance sheet normalization, the Fed expects to hike rates a quarter point in December¹
 - The current market-implied probability is 77%
- The US debt ceiling was suspended, influenced by the demand for hurricane relief, and Congress will readdress the budget issue in December¹
- Corporate spreads have rallied over 20bps this year and are below historical tightness on a duration-adjusted basis¹
 - Supply estimates suggest a quieter quarter to end the year, which could support further spread tightening



Third Quarter Excess Returns³



Corporate and securitized bonds extended strong year-to-date performance amid a relatively stable US economic backdrop. At IR+M, we remain overweight most spread sectors but have improved our overall liquidity profile and are prepared to take advantage of weakness should volatility materialize and offer compelling entry points. In the meantime, we will continue to scour the market and capitalize on mispricings and other attractive opportunities.

As of: 9/30/17. Sources: 1. Bloomberg 2. Citigroup 3. Bloomberg Barclays. 4. Morgan Stanley, Citigroup Index LLC. 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 for, or projected returns of 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.