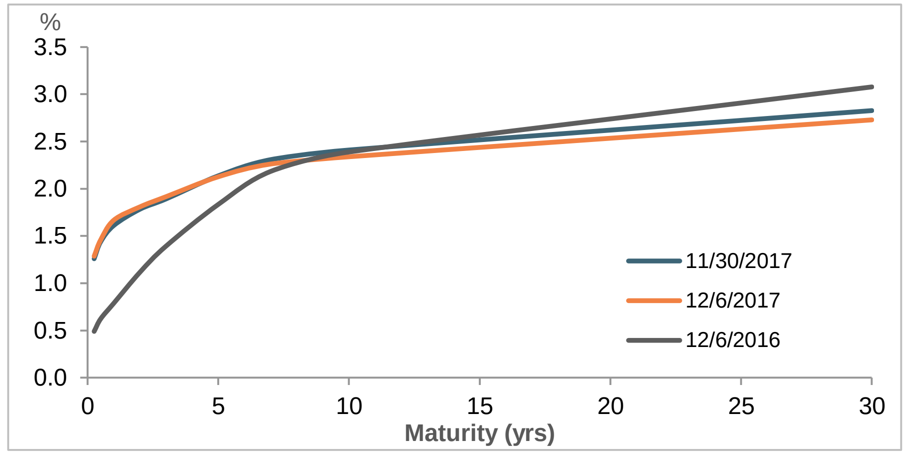
IR+M INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

December 1 – December 7, 2017

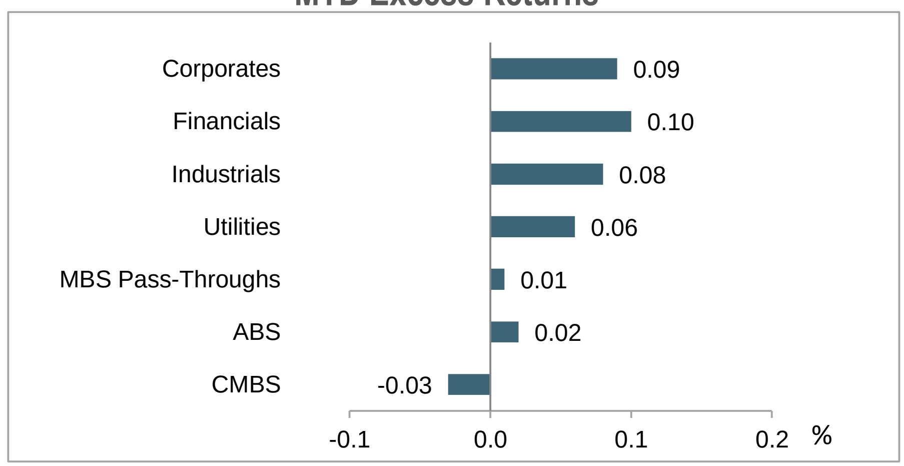
- Congress is working to reconcile the House and Senate versions of the tax reform bill[1]
    - This process could lead to meaningful changes to the final bill
- The Treasury curve flattened during the week, as investors continue to place more weight on future Fed rate hikes, applying upward pressure on the short end of the yield curve[1]
    - The spread between 2-year and 30-year Treasury yields narrowed to 92bps, a new post-crisis low
- Supply slowed down this week, and investment-grade corporate issuers priced roughly $15 billion[2]
    - December supply is expected to be $25-35 billion
    - Year-to-date issuance is just above $1.2 trillion, approximately 5% ahead of last year's pace
- Investment-grade corporate spreads grinded 1bp tighter, closing at 97bps, as strong demand persisted amid lighter supply[1]
    - High-yield spreads followed suit, closing 1bp tighter at 348bps
- Heavy supply weighed on spreads in the commercial mortgage-backed securities (CMBS) market, and the sector modestly underperformed Treasuries[1]
- The municipal market sharply rebounded this week after lagging significantly in November, and the 10-year municipal/Treasury ratio fell 11% to 83% after spiking as high as 95% last week[1]
    - Demand for municipals picked up, as investors expect that supply will be meaningfully reduced next year if tax reform passes as currently written

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
12/6/2017	1.81	2.13	2.34	2.73
MTD Change	0.03	-0.01	-0.07	-0.10

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.

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