

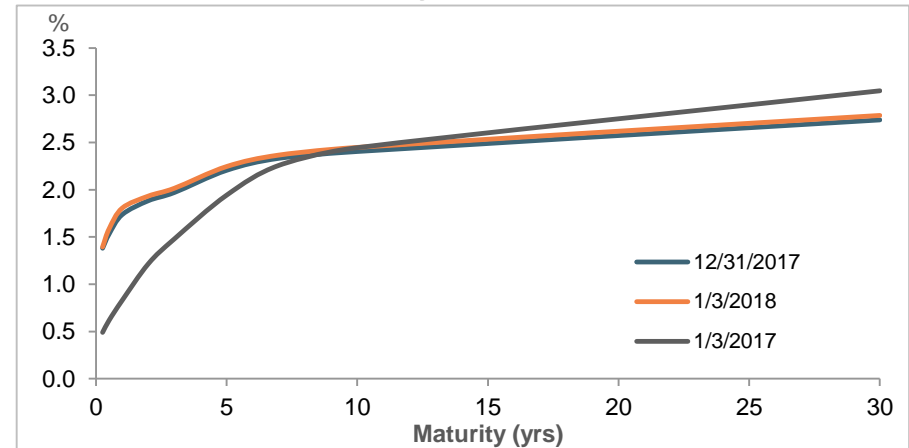


IR+M CLIENT UPDATE

January 1 – January 4, 2018

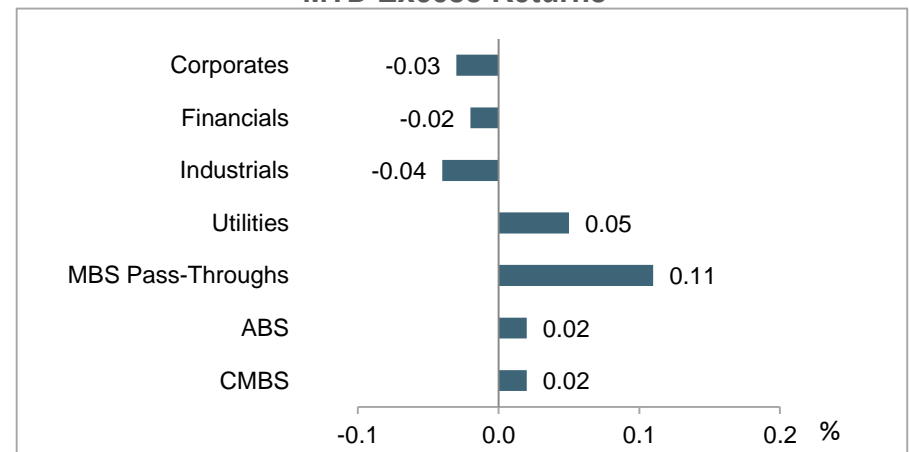
- ADP released a stronger-than-expected employment report ahead of Friday's nonfarm payrolls release¹
 - The ADP report points to 250,000 new jobs in December, well ahead of expectations for approximately 190,000
- Minutes from the December Federal Reserve (Fed) meeting showed that members discussed how the recently passed tax reform bill may impact growth and the pace of rate hikes¹
 - The Fed still expects to raise rates three times in 2018
- Treasury yields rose this week as the tax reform package buoyed equity markets to start the year and inflation expectations increased¹
 - The 10-year breakeven inflation rate closed above the Fed's inflation target of 2% for the first time since March 2017
- Supply came back online to start the new year as investment-grade corporate issuers priced over \$18 billion so far this week²
- Investment-grade corporate spreads leaked 1bp wider to 94bps as the market worked to digest ample supply¹
- The modest equity rally supported high-yield spreads, which tightened 9bps to 334bps, only 8bps wide of 2017 tights¹
- Securitized sectors outperformed Treasuries month to date, as strong demand for high-quality, short duration paper led to spread tightening¹
- Municipals outperformed Treasuries, as seasonally favorable technicals known as the "January effect" led to strong performance¹
 - The 10-year municipal/Treasury ratio fell 2% to 83%

Treasury Yield Curve¹



Maturity	2-year	5-year	10-year	30-year
1/3/2018	1.93	2.25	2.45	2.79
MTD Change	0.04	0.04	0.04	0.05

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.

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, or projected returns for 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.