Congress passed the tax reform bill on Wednesday, sending the bill to the president’s desk, where it’s expected to be signed into law over the next few weeks¹

- The corporate tax rate will be permanently reduced in 2018 to 21% from the current rate of 35%

Attention now turns to a potential government shutdown, which is expected to be averted through a short-term funding bill to be voted on before the deadline on Friday¹

The Treasury yield curve steepened this week, as investors shifted their focus from short-end interest rate hikes to the potential inflationary impact of the tax reform bill¹

- The 10-year breakeven inflation rate climbed above 1.9% for the first time in approximately six months
- The 2-year yield rose 8bps to 1.86%, while the 30-year yield jumped 15bps to close at 2.88%

The seasonal slowdown in supply took hold this week, with no investment-grade corporate issuers coming to market²

- Lack of supply allowed investment-grade corporate spreads to move 2bps tighter and close at 94bps, matching 2017 tights¹
  - High-yield spreads tightened 6bps to close at 344bps, still 16bps wide of 2017 tights
- Asset-backed securities (ABS) lagged Treasuries month to date, as the market works to digest ample supply from earlier in the month¹
- Municipals modestly outperformed Treasuries, as investors welcomed a slower pace of supply following a few weeks of heavy issuance¹
  - The 10-year municipal/Treasury ratio fell 2% to 85%

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.
¹¹The 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.