MARKET NEWS

- President Trump signed the Tax Cuts and Jobs Act (TCJA) into law, introducing several new policies, including a cap on state and local tax deductions, a one-time repatriation tax on overseas cash, a move to a territorial tax system, and a permanent drop in the corporate tax rate from 35% to 21%¹

- As expected, the Federal Reserve (Fed) hiked rates another quarter point, setting the federal funds target at 1.25-1.50%¹
  - The market-implied probability for another hike in March is around 70%
  - The Treasury curve flattened over the month with the spread between the 2-year and 30-year Treasury yields narrowing 20bps to 85bps¹
    - Since 2012, the average spread between 2-year and 30-year Treasuries was 230bps
  - Investment-grade corporate supply slowed heading into year end with issuers pricing $23 billion in the final month of 2017²
    - Year-to-date issuance totaled $1.2 trillion, which was modestly higher than supply in 2016
  - Generally healthy fundamentals and a relatively firm economic environment supported corporate spreads, which gradually tightened through December and closed at 93bps, a new post-crisis tight level¹
  - Securitized sectors lagged corporates, amid robust issuance, particularly in the asset backed securities (ABS) market¹
    - Annual supply increased across sub sectors year over year, most notably credit cards, which jumped nearly 40%
  - Tax reform spurred increased volatility within the municipal market as the new policies are expected to have meaningful implications for both investors and issuers¹
    - Supply spiked, as issuers tapped the market, ahead of the removal of the tax exemption for advance refundings
    - Despite the deluge of supply, municipal bonds rallied as investors shifted focus to 2018 and the potential for a strong January effect amid lighter issuance

MARKET STATISTICS

<table>
<thead>
<tr>
<th>Maturity</th>
<th>2-year</th>
<th>5-year</th>
<th>10-year</th>
<th>30-year</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/31/2017</td>
<td>1.89</td>
<td>2.21</td>
<td>2.41</td>
<td>2.74</td>
</tr>
<tr>
<td>MTD Change</td>
<td>0.11</td>
<td>0.07</td>
<td>0.00</td>
<td>-0.09</td>
</tr>
</tbody>
</table>


*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.