

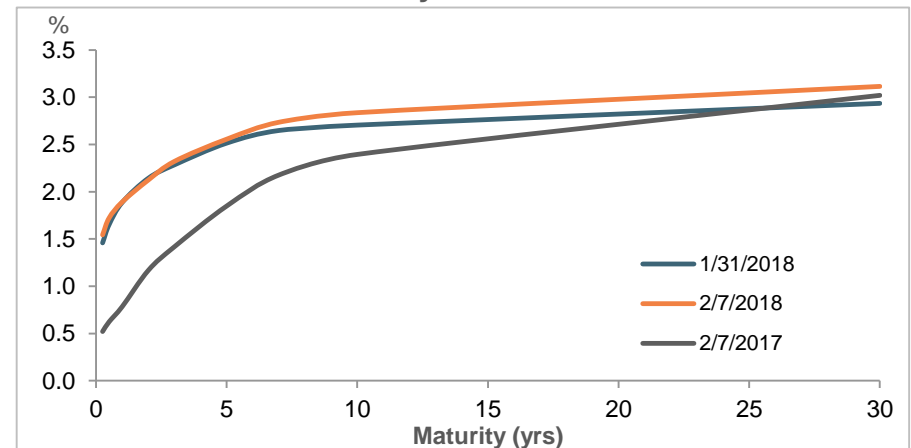


IR+M CLIENT UPDATE

February 1 – February 8, 2018

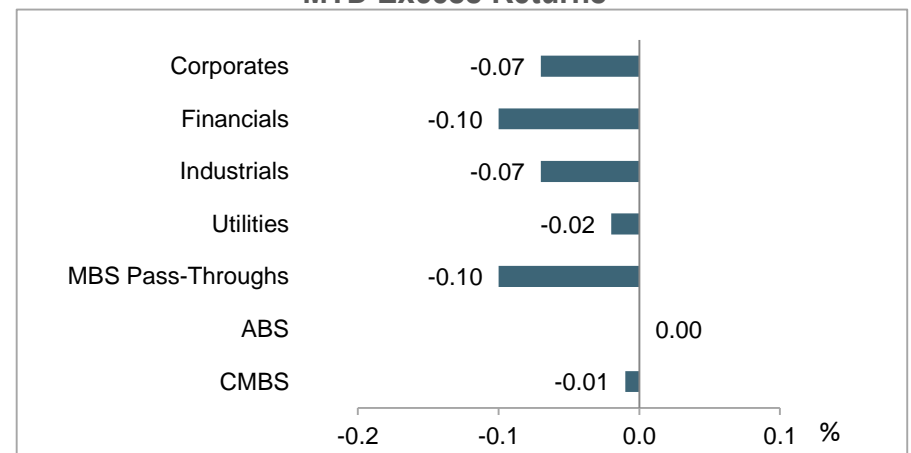
- The Senate reached a bipartisan agreement on a two-year budget deal that would avert a government shutdown and suspend the debt ceiling if passed by the House and signed by President Trump today¹
 - House Democrats may not broadly support the bill since it does not address immigration
- The Treasury curve steepened this week, rate volatility picked up, and the 10-year closed at 2.84%, a 3-year high¹
 - The short end of the curve held in with the 2-year yield declining 1bp to 2.13%, as the implied probability of a March rate hike fell 6% to 92% on the heels of equity weakness
- Corporate supply was light at approximately \$17 billion, as many issuers chose to wait out the volatility rather than test the market²
 - Issuers that did price deals saw oversubscribed order books and small, if any, new issue concessions
- Investment-grade corporate spreads were resilient during the bout of market volatility and leaked just 1bp wider to 87bps, settling in 2bps wide to recently established post-crisis tights¹
- Equity volatility spilled over to the high-yield market, where spreads widened as much as 26bps to 345bps before landing at 334bps¹
- Securitized sectors generally held in, although mortgage-backed securities (MBS) lagged Treasuries, as the sharp increase in Treasury rates led to extension fears, weighing on performance¹
- Municipals outperformed Treasuries, as light supply and strong demand for high-quality paper generated a tailwind for the sector¹
 - The 10-year municipal/Treasury ratio fell 3% to 85%

Treasury Yield Curve¹



Maturity	2-year	5-year	10-year	30-year
2/7/2018	2.13	2.56	2.84	3.12
MTD Change	-0.01	0.04	0.13	0.18

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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