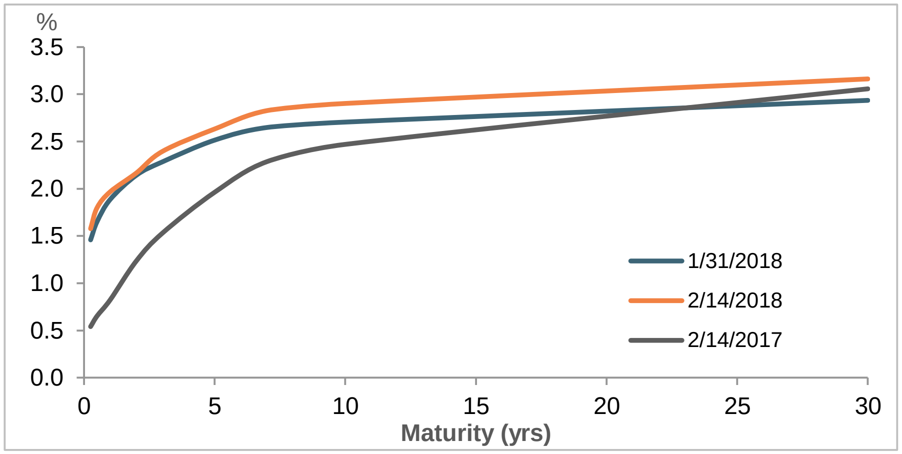
IR+M CLIENT UPDATE
February 9 – February 15, 2018

IR+M INCOME RESEARCH + MANAGEMENT

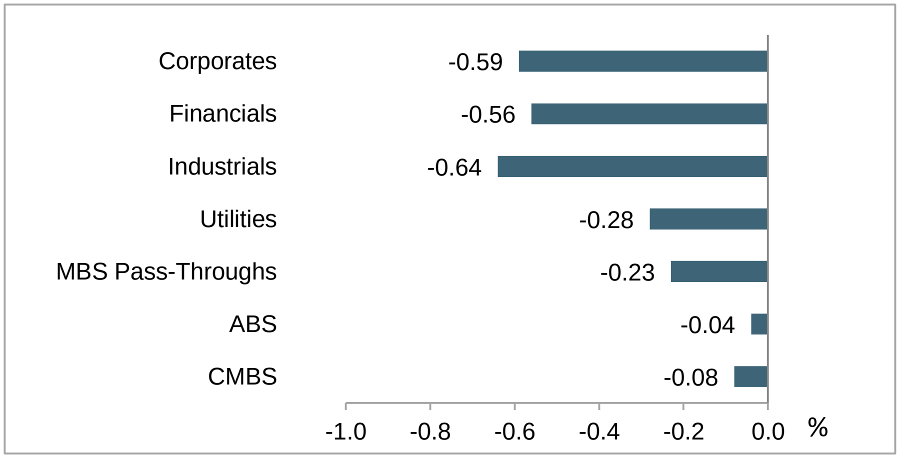
- The US Consumer Price Index (CPI) increased by 2.1% year over year, which beat expectations for an increase of 1.9%[1]
    - Core CPI, which excludes food and energy, rose by 1.8%, and also beat expectations, but remained below the Federal Reserve's 2% target
- Treasury yields rose, especially in the belly of the curve, as inflation expectations increased on the heels of the strong CPI print[1]
    - The 5-year breakeven inflation rate jumped back above 2% after briefly falling to 1.95%
    - The 10-year yield rose 6bps and closed at 2.90%, a level the market hasn't seen since early 2014
- Market volatility left investment-grade corporate supply subdued this week, and issuers priced roughly $9 billion[2]
- A soft market tone and heightened volatility impacted investment-grade corporate spreads, which widened out 7bps to 94bps[1]
    - Weakness also weighed on the high-yield market, where spreads widened 22bps to 356bps[1]
- Securitized sectors were largely insulated from corporate market weakness, and asset-backed securities (ABS) fared relatively well due to strong demand, outperforming corporates[1]
- Municipals performed roughly in line with Treasuries during the week amid limited supply and positive fund flows[1]
    - The 10-year municipal/Treasury ratio increased to 87% before settling in unchanged on the week at 85%

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
2/14/2018	2.17	2.63	2.90	3.16
MTD Change	0.03	0.11	0.19	0.22

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.