IR+M
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
January 2018

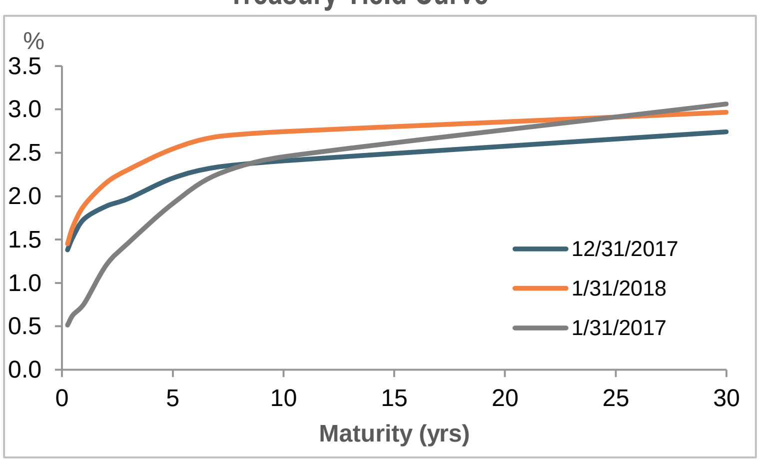
February 1, 2018

MARKET NEWS

- Fourth quarter US GDP growth was solid at 2.6%, but missed expectations for 3%, which would have marked three straight quarters of 3% or higher GDP growth[1]
    - Despite the below-expectations headline number, consumer spending rose by 3.8%, beating estimates of 3.6%
- As expected, the Federal Reserve (Fed) held rates steady in Janet Yellen's last meeting as Fed Chair, keeping the federal funds target at 1.25-1.50%[1]
    - The market-implied probability for another hike in March increased from 70% to 99%, as the Fed became more optimistic that inflation will reach its 2% target over the medium term
- Treasury yields rose sharply, most notably in the belly of the curve, where 5-year and 10-year yields jumped 31bps and 30bps, respectively[1]
    - The spread between the 10-year yield and 30-year yield narrowed to 23bps, the lowest level since 2007
- Supply was solid during the month, and investment-grade corporate issuers priced just under $125 billion[2]
    - Financial issuers accounted for over 80% of all investment-grade issuance, as many came to market following earnings announcements
- Strong year-over-year earnings growth of roughly 11%, coupled with ample demand, led to investment-grade corporate spreads tightening 7bps to 86bps, the tightest level since February 2007[1]
- High-yield spreads tightened 24bps to 319bps after setting a new post-crisis tight of 311bps during the month[1]
- Mortgage-backed securities (MBS) underperformed Treasuries amid the sharp rise in rates, as extension fears and concerns regarding Fed sales weighed on spreads[1]
- Municipal performance was bifurcated during the month, with short-end munis outperforming and long-end munis underperforming, as tax reform impacted investor bases differently, leading to insurance company selling in the long end[1]
    - The 5-year muni/Treasury ratio declined 4% to 73%, while the 30-year muni/Treasury ratio increased 6% to 101%

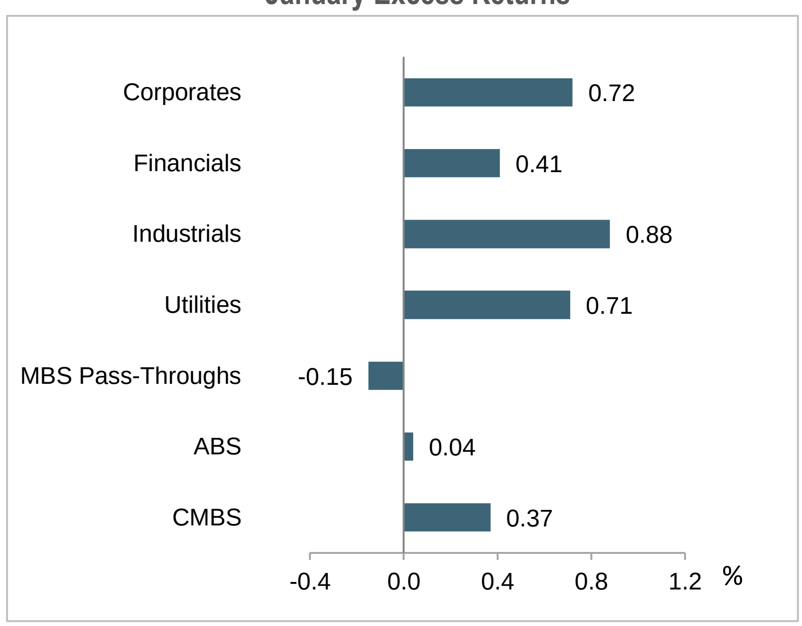
MARKET STATISTICS

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
1/31/2018	2.14	2.52	2.71	2.94
MTD Change	0.25	0.31	0.30	0.20

January Excess Returns[1*]



As of: 1/31/18. 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.