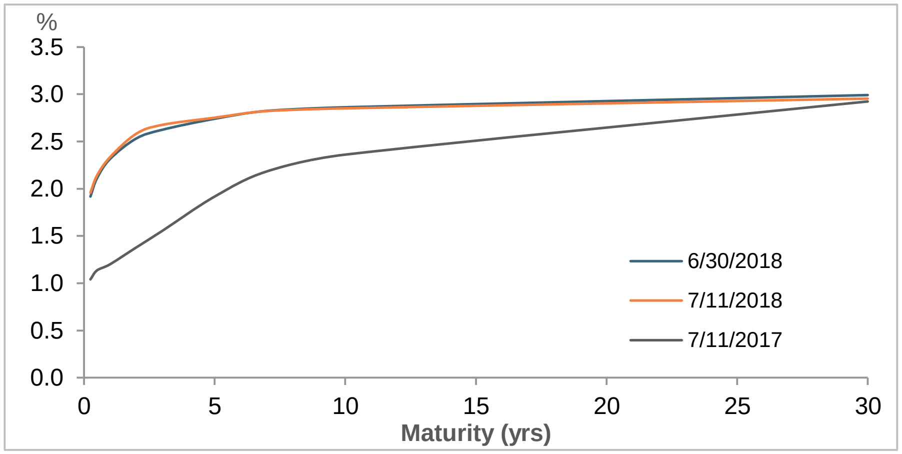
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

July 6 – July 12, 2018

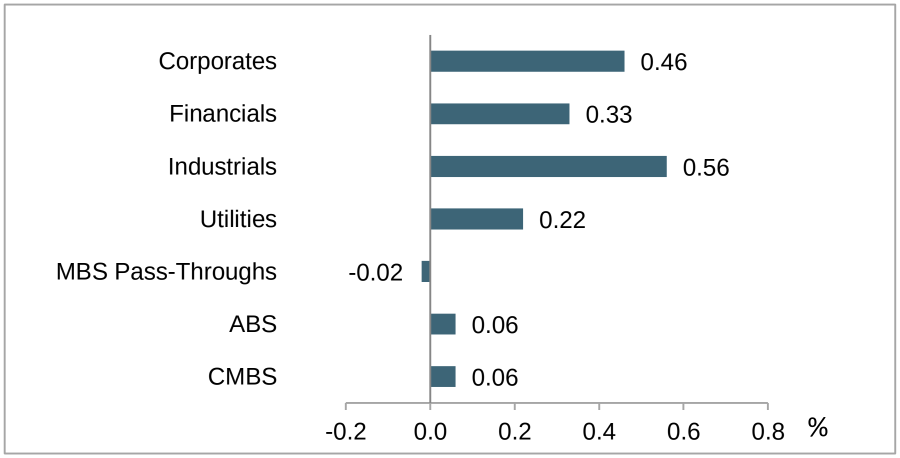
- The US Consumer Price Index (CPI) increased 0.1% in June, continuing the trend of a gradual buildup of inflationary pressure[1]
  - The steady climb will likely keep the Federal Reserve on a path of measured increases in interest rates
- Initial jobless claims trended lower, falling 18,000 to 214,000, consistent with job market strength[1]
- A risk-on tone pushed short- and intermediate-dated Treasury yields higher week-over-week and the curve flattened[1]
  - The difference between the 2-year and 10-year yield reached a new post-crisis low of 27bps
- Investment-grade corporate issuers brought roughly $12 billion to market after no issuance during the holiday week[2]
  - The financial sector has led the way with $332 billion priced year-to-date, almost 50% of total supply
- A higher risk appetite early in the week and a focus on positive second quarter earnings drove corporate spreads 3bps tighter to 119bps[1]
  - High yield spreads tightened 12bps to close at 354bps
- Issuance of less than $2 billion, coupled with strong demand, helped asset-backed securities (ABS) outpace Treasuries[1]
- Municipals outperformed Treasuries, as light supply and healthy demand continued to provide a tailwind[1]
  - Year-to-date supply is $156 billion, over $30 billion less than the prior year

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
7/11/2018	2.58	2.75	2.85	2.95
MTD Change	0.05	0.01	-0.01	-0.04

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.