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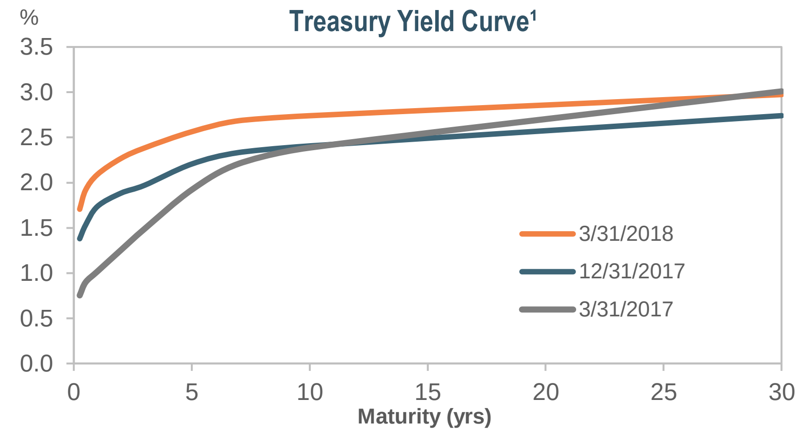
INCOME RESEARCH + MANAGEMENT

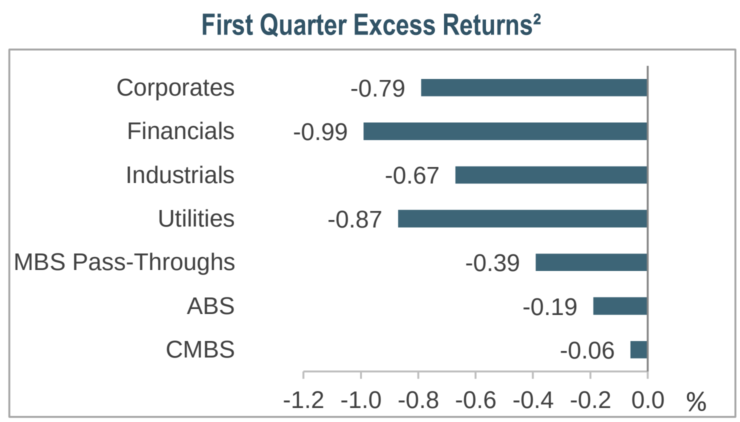
IR+M MARKET UPDATE
FIRST QUARTER REVIEW + OUTLOOK

April 17, 2018

FIRST QUARTER RECAP

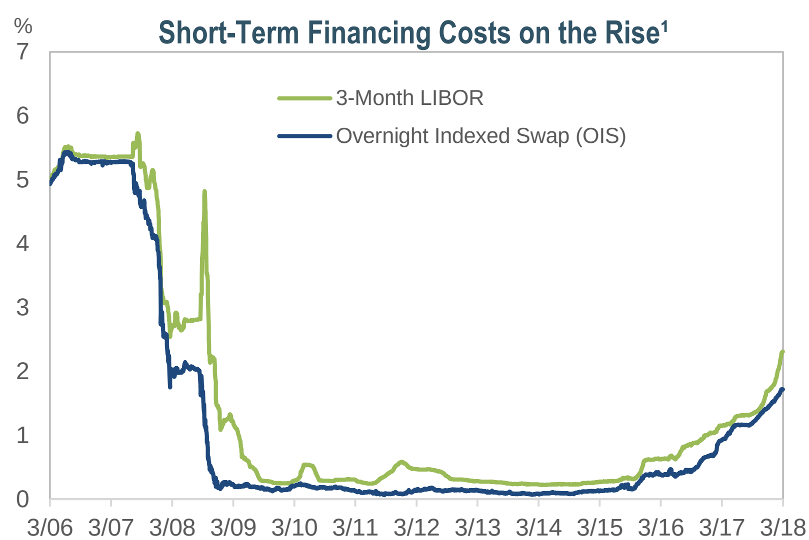
- In the first quarter of 2018, the US economy showed few signs of slowing down, despite a wave of notable political events
- The markets withstood the onset of tax reform, leadership changes at the Federal Reserve (Fed), continued Fed tightening, and an exchange of trade tariffs between the US and China
- In March, the Fed voted unanimously to raise the federal funds target range to 1.50-1.75%[1]
    - The 10-year yield briefly touched 2.94%, and closed at 2.74% – a level not seen since early 2014
- Investment-grade corporate spreads widened 16bps for the quarter, closing at 109bps[2]
    - Despite spread widening, fundamentals remained strong, as estimated earnings growth for the first quarter is roughly 17%
- Investment-grade supply was in excess of $324 billion, which was down nearly $40 billion – or 10.7% – from a year ago[3]
- Securitized sectors generated modestly negative excess returns relative to Treasuries due to increased interest rate volatility





2018 GOING FORWARD

- As we enter the second quarter, the Fed continues to tighten monetary policy, and expects that economic conditions will merit two additional rate increases this year
    - In the forecasts, the Fed projects a median fed funds rate of 2.9% by the end of 2019, which implies three rate hikes next year
- Uncertainty surrounding US trade relations and foreign policy could result in elevated volatility
- 3-month LIBOR rose above 2% during the quarter for the first time since 2008, and short-term borrowing rates are likely to remain at an elevated level[1]
- Pressure on the front-end of the yield curve is likely to continue as a result of foreign earnings repatriation due to tax reform and increased T-Bill issuance



Entering the second quarter, the Treasury yield curve from five to 30 years is the flattest it has been in more than 10 years. Investment-grade spreads are at their widest point in six months, but the near-term credit outlook remains positive. At IR+M, we maintain a steadfast commitment to bottom-up security selection and sector rotation, which we believe will help us navigate the current environment.

As of: 3/31/18. Sources: 1. Bloomberg 2. Bloomberg Barclays 3. Citigroup; 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 for, or projected returns of any particular IR+M product.

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