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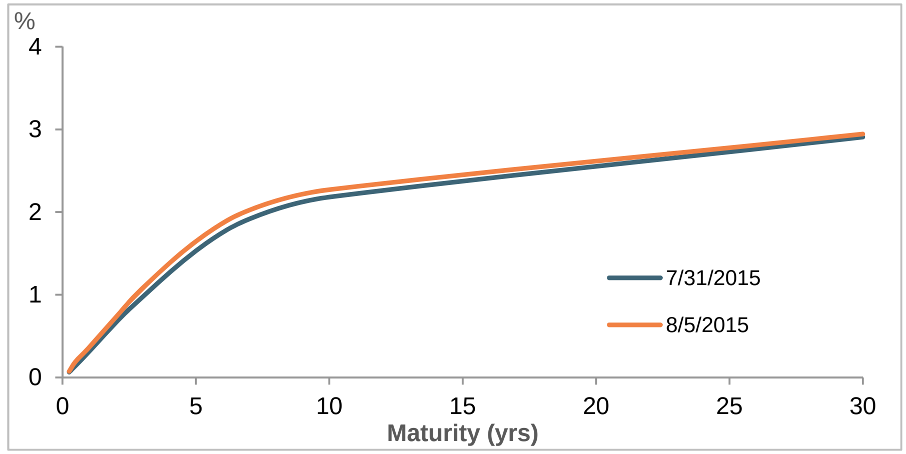
IR+M CLIENT UPDATE

August 1 – 6, 2015

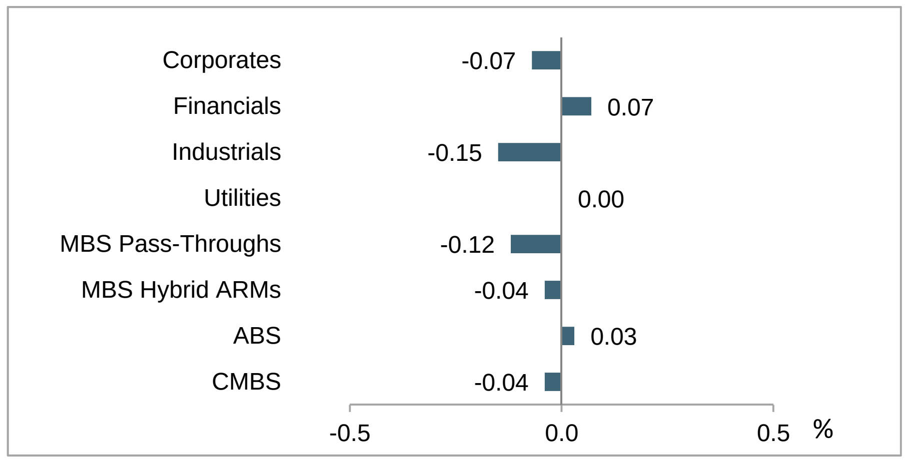
- Following July's rate rally, Treasury yields increased in the first days of August as positive economic indicators supported the argument that the Federal Reserve (Fed) will begin tightening policy in September
    - Fed Bank of Atlanta President Dennis Lockhart commented in an interview this week that a rate hike at the next meeting could be "appropriate" given the strength of the economy
    - The 10-year Treasury yield increased 9bps to 2.27%[1]
- The number of Americans filing for unemployment benefits remained stable week-over-week at 270,000, reinforcing the Fed's view of healthy US labor markets[1]
- The July employment report due Friday will be closely watched by market participants – a strong nonfarm payroll print could significantly increase the likelihood of a September hike[1]
- The corporate market performed well to start the month given a summer slowdown in the primary market and stabilization in commodity prices
    - Corporate issuance totaled approximately $16 billion month-to-date – investors expect around $80 billion in supply this month, versus $110 billion in July[2]
    - Corporate spreads performed in-line with the Treasury market, holding steady at 155bps[3]
- Agency mortgage-backed securities underperformed Treasuries as prepayments ticked up – mortgage applications jumped 4.7% week-over-week amid the lower rate environment[1]
- Puerto Rico failed to meet a $58 million bond payment due on Monday, marking the first default of the US territory[1]
    - Market reaction was muted as investors have predicted a default for the past few years – the 10-year municipal/Treasury ratio was unchanged at 101% week-over-week

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
8/5/2015	0.73	1.65	2.27	2.94
MTD Change	0.06	0.12	0.09	0.04

MTD Excess Returns[3*]



Sources: 1. Bloomberg 2. JPMorgan 3. Barclays

*Excess returns are the curve-adjusted excess return of a given index relative to a term structure-matched position in Treasuries.

100 Federal Street, 30th Floor Boston, MA 02110 (617) 330-9333 www.incomeresearch.com