INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
September 2015

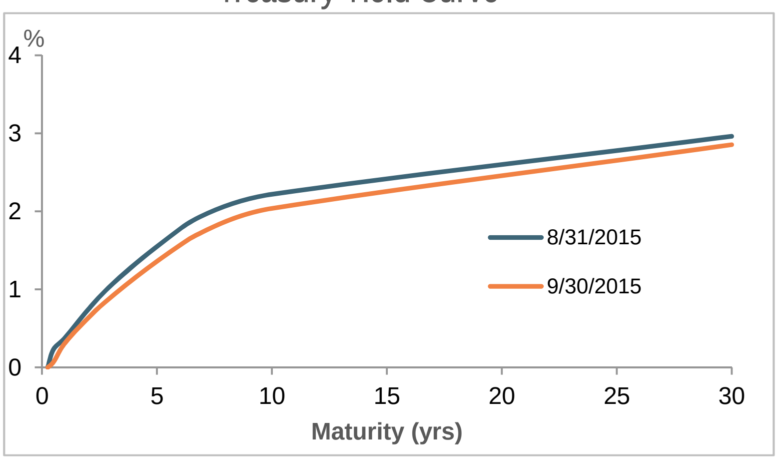
October 1, 2015

MARKET NEWS

- Treasury rates rallied across the curve in September as the Federal Reserve's (Fed) decision to leave rates unchanged removed market uncertainty and brought in buyers[1]
    - Comments from Federal Reserve (Fed) officials still suggest a rate hike in the October or December committee meetings, but policy changes will remain dependent on labor market conditions and international developments
    - The 10-year Treasury rate increased to 2.29% in anticipation of the Fed announcement, then rallied 25bps to close the month at 2.04%
- Outside the US, financial conditions continued to deteriorate as a result of collapsing commodity prices – Chinese manufacturing contracted for two consecutive months, while unemployment in Brazil rose to a 5-year high of 7.6%[1]
- Despite trouble abroad, the final revision of US gross domestic product (GDP) indicated that the US economy expanded at a 3.9% annual rate in the second quarter, aided by gains in consumer spending and construction[1]
    - Additionally, the labor market displayed positive momentum as the unemployment rate declined 0.2% to 5.1% and wage growth exceeded expectations
- A weak tone in the investment-grade corporate sector restrained primary market activity as issuers delayed deals, given adverse market conditions
    - Monthly issuance totaled just $80bn versus a September average of $120bn in the past three years[2]
- Corporate spreads weakened month-over-month as the industrial sector, especially metals and mining companies, experienced significant pressure given weak commodity prices
    - Investment-grade spreads widened 6bps to 169bps, while metals and mining spreads widened nearly 50bps to 393bps during the month[3]
- Agency mortgage-backed securities underperformed Treasuries, dragged down by elevated supply as a result of lower mortgage rates and improved housing turnover
- In the municipal market, a combination of low issuance, positive inflows, and attractive tax-exempt yields drove strong performance during the month
    - The Barclays Municipal Bond Index returned 0.72% during the month[3], while municipal/Treasury relative value ratios out the curve remained attractive at over 100%[1]

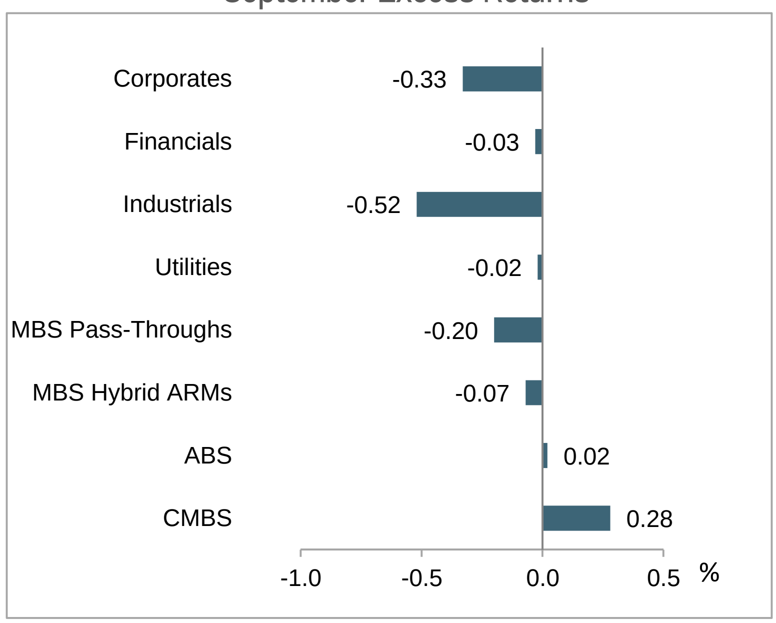
MARKET STATISTICS

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
9/30/2015	0.63	1.36	2.04	2.85
MTD Change	-0.11	-0.19	-0.18	-0.11

September Excess Returns[2*]



As Of: 9/30/15. 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.

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