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INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
October 2015

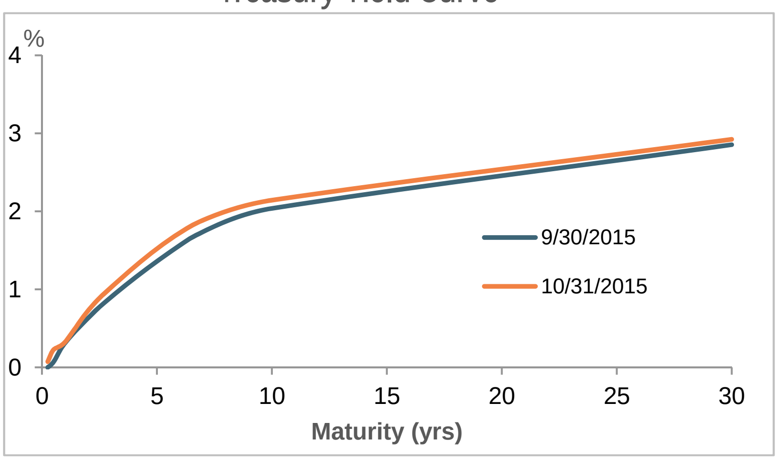
November 2, 2015

MARKET NEWS

- Treasury rates fell through mid-October on weaker-than-anticipated economic data; however, a surprisingly hawkish Federal Reserve (Fed) statement last week drove rates higher through month-end
  - The 10-year Treasury rate traded in a 20bp range, bottoming at 1.97% mid-month before spiking to 2.17% the day after the Fed release[1]
- The Fed's statement surprised many market participants by explicitly referencing the December meeting as a possible date for the first rate hike
  - Currently, the market is pricing in a 47% probability of a rate hike in December and above 50% odds for meetings in early 2016, assuming the Fed does not hike this year[1]
- The US Gross Domestic Product (GDP) report revealed that the economy grew 1.5% in the third quarter, following nearly 4% growth during the previous three months[1]
  - Despite a slowdown in the headline number, the full report indicated that domestic consumer and business spending remained strong, while the weak global economy hurt exports
- Mergers and Acquisitions (M&A) and shareholder-friendly activity continued to drive issuance in the corporate primary market, with over $100 billion in investment-grade supply during the month[2]
  - The market priced nearly $40 billion last week, highlighted by large transactions from Microsoft and insurance giant ACE Limited for share buybacks and acquisition financing, respectively
- On the demand side, corporate new-issue deals generated strong interest from investors and corporate bonds outperformed Treasuries on the month
  - Investment-grade spreads reached a post-crisis high of 171bps in early October, before rallying 12bps to 159bps[3]
- Asset-backed securities (ABS) underperformed the Treasury market given heavier-than-expected supply – ABS issuance totaled over $20 billion during the month and is expected to top $200 billion in 2015[1]
- In the municipal market, Chicago's City Council approved the Mayor's $530 million property tax increase to help correct the city's financial woes[1]
  - Incremental reviews will be dedicated towards pension funding, and spread levels on the city's outstanding general obligation bonds tightened following the announcement

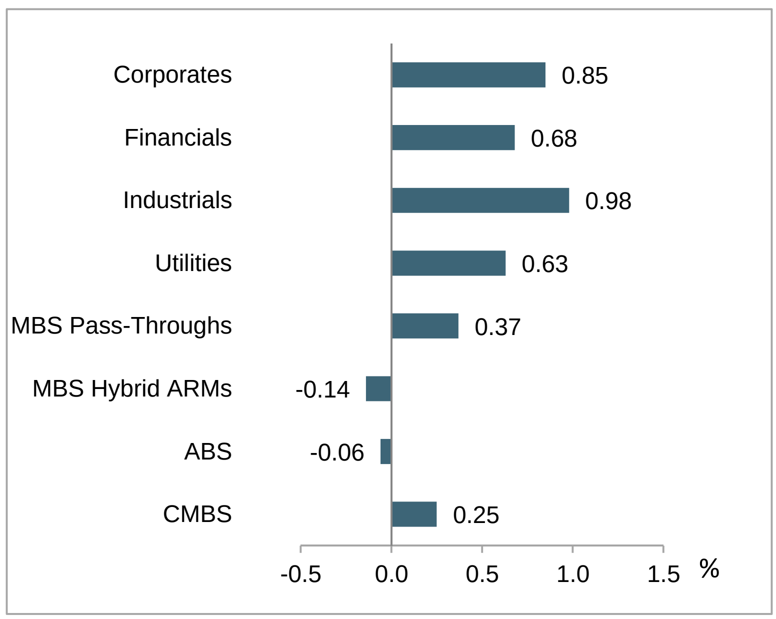
MARKET STATISTICS

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
10/31/2015	0.73	1.52	2.14	2.92
MTD Change	0.10	0.16	0.11	0.07

October Excess Returns[2*]



As Of: 10/31/15. 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.