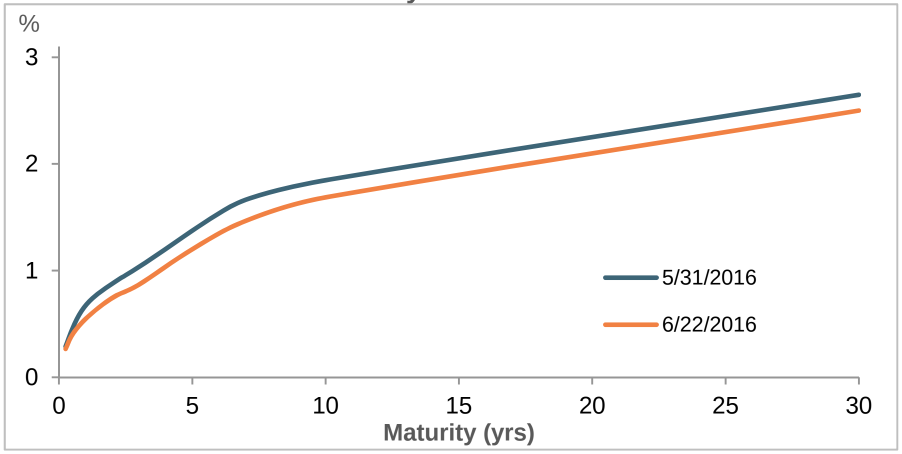
IR+M
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
June 17 – 23, 2016

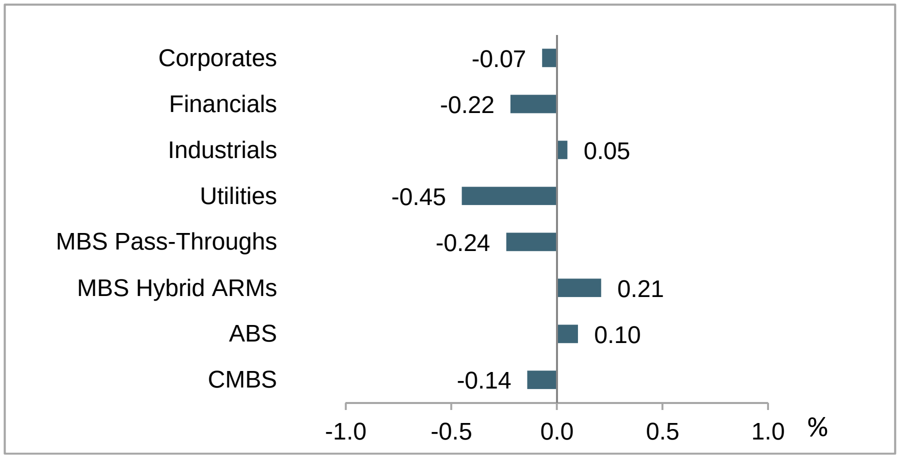
- Treasury rates rose modestly across the curve this week, after global political risks and strong foreign demand drove rates to year-to-date lows last week[1]
  - After starting the year at 2.26%, the 10-year Treasury touched a low of 1.57% last week, before rising 0.11% to 1.69% as the tone in risk markets improved
- In her testimony before Congress, Federal Reserve (Fed) Chair Janet Yellen reiterated that future rate increases will be gradual and heavily dependent on the outlook for US economic growth
- Jobless claims fell to an eight-week low of 259,000 this week, suggesting the US labor market is holding up against weakening global conditions[1]
- The corporate primary market remained quiet again this week as investors await the decision and impact of Thursday's Brexit vote[2]
  - Month-to-date issuance is roughly $50 billion, which is a significant drop from May's record-setting supply of $167 billion
- The lack of supply provided a strong technical for the market – corporate spreads retraced most of the widening that occurred earlier in the month[3]
  - Investment-grade spreads tightened 5bps on the week to 151bps and are now just 2bps wider on the month
- Fixed-rate mortgage-backed securities (MBS) underperformed Treasuries month-to-date, as yield-driven buyers stepped away from the market amid declining rates
- The Supreme Court issued an opinion affirming that the local Puerto Rico debt recovery act is unconstitutional
  - The House bill currently on the Senate floor is now the only option left for Puerto Rico to restructure their debt – it is likely the territory will miss a payment on its general obligation debt due July 1st

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
6/22/2016	0.75	1.20	1.69	2.50
MTD Change	-0.13	-0.17	-0.16	-0.15

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.