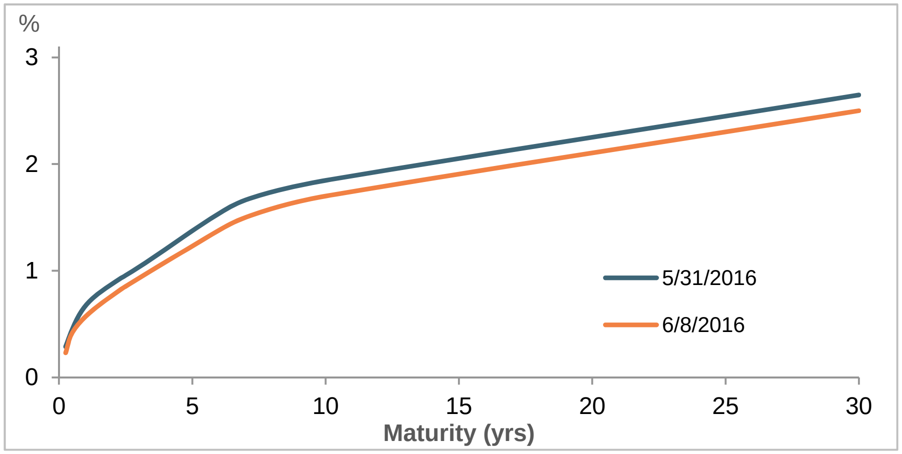
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

June 1 – 9, 2016

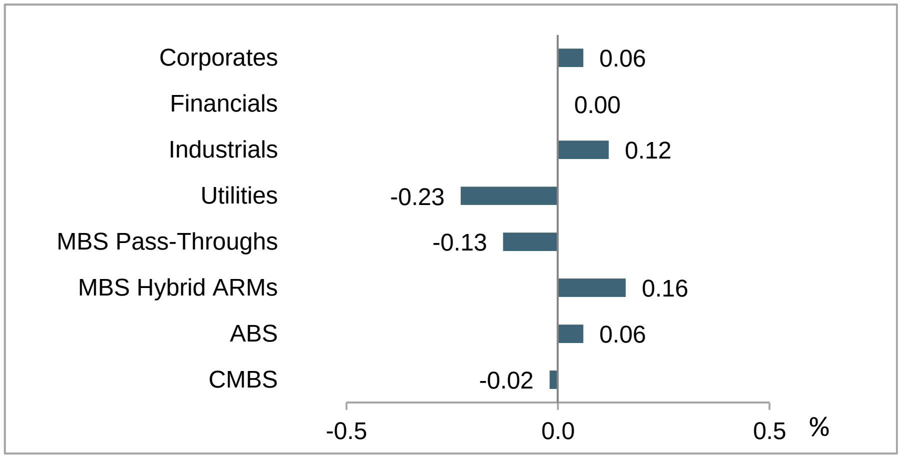
- Treasury rates rallied moderately month-to-date, following the surprisingly weak jobs report last Friday[1]
    - In the long-end of the curve, both the 10-year and 30-year Treasury rates approached year-to-date lows at 1.7% and 2.5%, respectively
- May's jobs report caught the market off-guard with only 38,000 jobs added in the month, falling short of expectations for 160,000 jobs[1]
    - The unemployment rate fell to 4.7%, but the drop was caused by discouraged workers falling out of the labor force
- On Monday, Federal Reserve (Fed) Chair Yellen acknowledged the weak jobs report, but reassured the market that the positives in the US economy outweigh the negatives
    - Yellen also reminded the market that one economic report will not have a major impact on the Fed's overall view on the strength of the US economy
- After last month's record breaking $167bn in corporate issuance, June's month-to-date issuance is roughly $36bn[2]
    - Aetna came to market with $13bn in bonds to finance their $34bn acquisition of Humana Inc. – the deal is the third largest bond offering of the year and makes up a nice chunk of the month's total issuance
- Delinquency rates in US commercial mortgage backed securities (CMBS) increased to 4.35% in May, but overall remain well below crisis highs[1]
- On Wednesday, Moody's downgraded Illinois to Baa2 from Baa1 due to continued political obstacles that prohibited the state from addressing both its budget deficit and underfunded pension[1]

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
6/8/2016	0.77	1.23	1.70	2.50
MTD Change	-0.11	-0.14	-0.15	-0.15

MTD Excess Returns[3*]



Sources: 1. Bloomberg 2. J.P. Morgan 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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