INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
May 2016

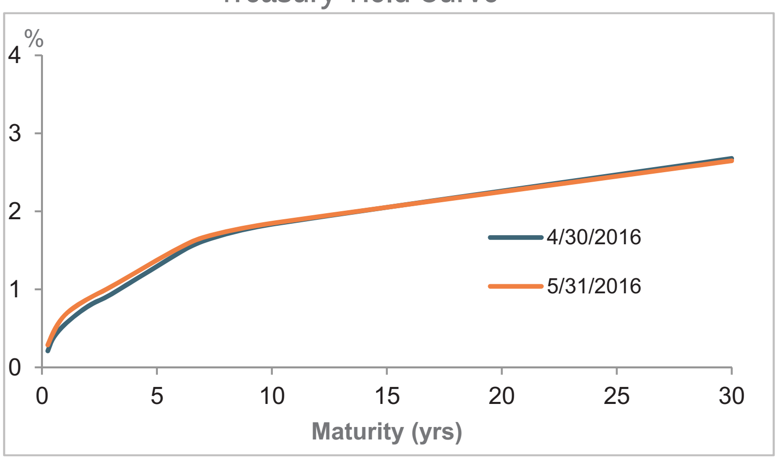
June 1, 2016

MARKET NEWS

- Strong US economic data and hawkish comments from the Federal Reserve (Fed) drove higher rates in short- and intermediate-term Treasuries in May
    - Last Friday, Fed Chair Janet Yellen hinted that an interest-rate hike in the coming months could be appropriate if the economy continues to improve
    - The market-implied probability that the Fed will raise rates at June's meeting jumped from 12% to 24%, while the 2-year Treasury rate increased 10bps to 0.88% during the month[1]
- In US economic news, data suggested that growth is rebounding in the second quarter – retail sales made the largest gain in over a year (1.3%), and jobless claims trended comfortably below 300,000, consistent with an improving labor market[1]
- Investment grade corporate issuance surpassed $160 billion on the month, exceeding last May's record total of nearly $150bn, to mark the busiest month on record[2]
    - Issuance is anticipated to slow to around $80 billion in June, which could provide a positive technical for the market entering the historically slower summer months
- Corporate bonds remained resilient in the face of heavy supply, with investment grade spreads closing just 3bps wider on the month at 149bps[3]
    - The industrial sector underperformed as expectations for tighter credit conditions drove fears of a stronger dollar and lower oil prices
- Securitized sectors benefited from positive momentum in the housing market – single-family new home sales jumped nearly 17% to 619,000 units in April, bringing year-to-date sales up 7% versus the same period last year[1]
- Commercial mortgage-backed securities outperformed Treasuries amid slowing origination that boosted secondary activity; the lull in new loans is anticipated to continue into the summer
- In the municipal market, new supply totaled over $39 billion in May, an increase of 17% versus last month, as Fed messaging encouraged more new sales and refinancing[1]
    - Heavy issuance weighed on the market despite continued strong fund flows, and short-term municipal bonds weakened alongside Treasuries

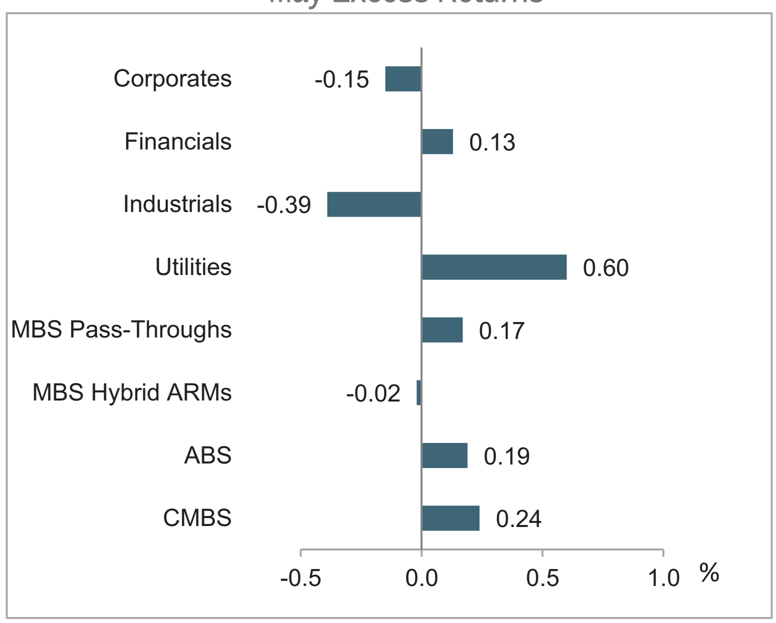
MARKET STATISTICS

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
5/31/2016	0.88	1.37	1.85	2.65
MTD Change	0.10	0.08	0.01	-0.03

May Excess Returns[3*]



As Of: 5/31/16. 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.