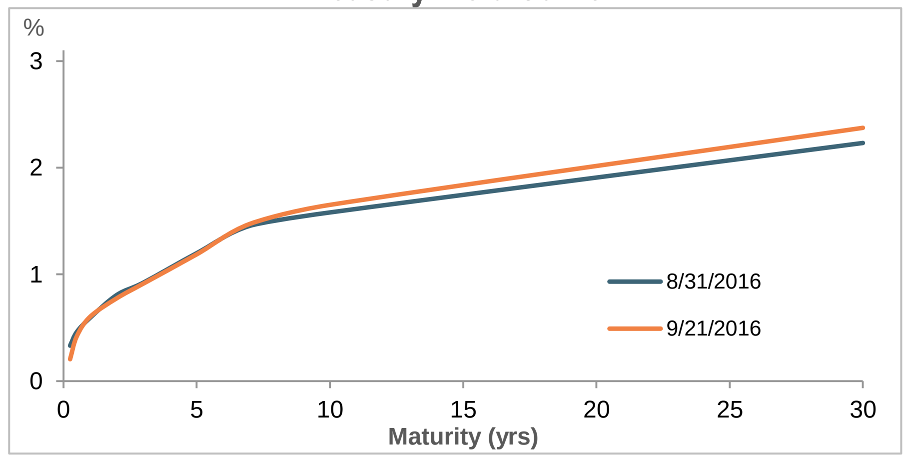
IR+M
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

September 16 – 22, 2016

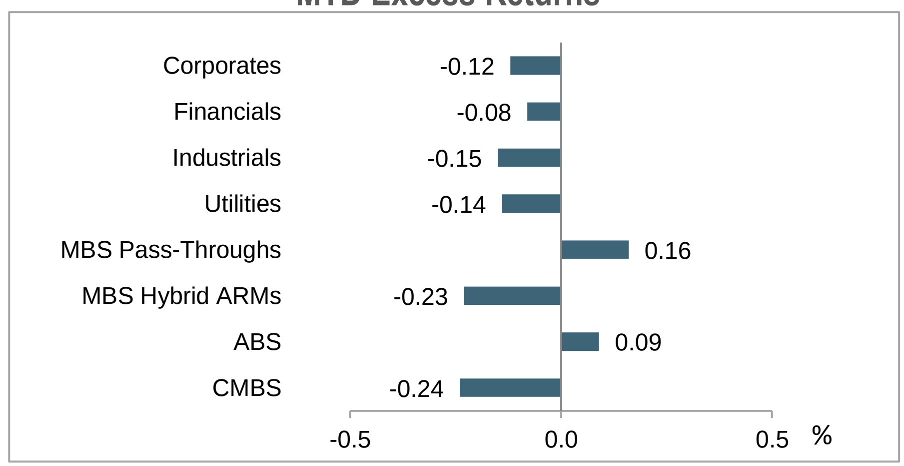
- As most investors expected, the Federal Open Market Committee (FOMC) left the federal funds rate unchanged at 0.25-0.50%[1]
  - Three of the ten officials voted in favor of a rate hike, while others recommended waiting until next year, highlighting increased opposition among committee members
  - Chairperson Janet Yellen acknowledged encouraging US economic data, but indicated that continued improvement is needed before raising the policy rate
- Short and long-end Treasury yields fell slightly on the week, and month-to-date, the 2-year rate is 3bps lower at 0.78%, and the 30-year rate is 14bps higher at 2.37%[1]
- Investment-grade corporate primary issuance slowed, ahead of the FOMC announcement, then picked back up once the market digested the news[2]
  - Supply totaled over $115 million on the month, and is about 9% ahead of last year's pace
- Corporate spreads recovered modestly, following the weakness seen earlier this month, on the heels of a busy supply calendar[3]
  - Spreads tightened 2bps and closed at 138bps
- Commercial mortgage backed securities (CMBS) underperformed Treasuries, as heavy issuance and rate hike uncertainty weighed on the sector[1]
- Municipal market activity slowed, as investors focused on the central bank policy news[1]
  - Fund flows were positive, but less robust relative to prior weeks, which weakened market technicals

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
9/21/2016	0.78	1.19	1.65	2.37
MTD Change	-0.03	-0.01	0.07	0.14

MTD Excess Returns[3*]



Sources: 1. Bloomberg 2. Citigroup 3. Barclays

*Excess returns are the curve-adjusted excess return of a given index relative to a term structure-matched position in Treasuries.

The views contained in this report are those of IR+M and are based on information obtained by IR+M from sources that are believed to be reliable. This report is for informational purposes only and is not intended to provide specific advice, recommendations, or projected returns for any particular IR+M product. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission from Income Research & Management.