IR+M

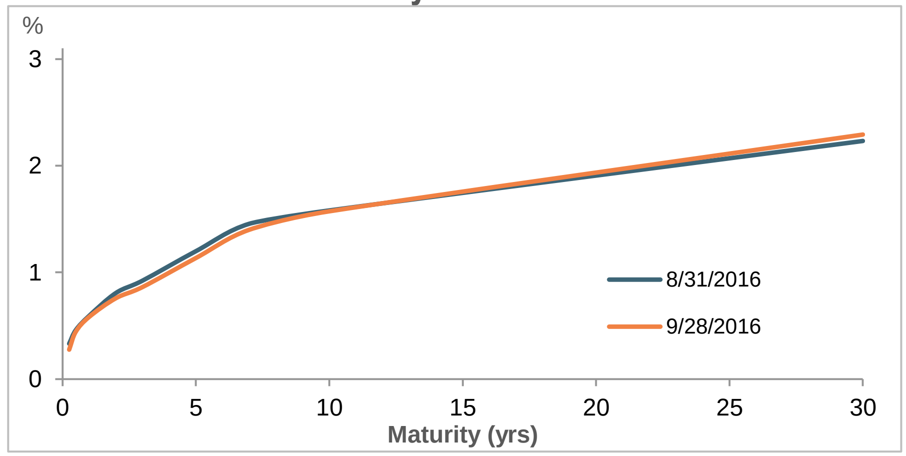
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

September 23 – 29, 2016

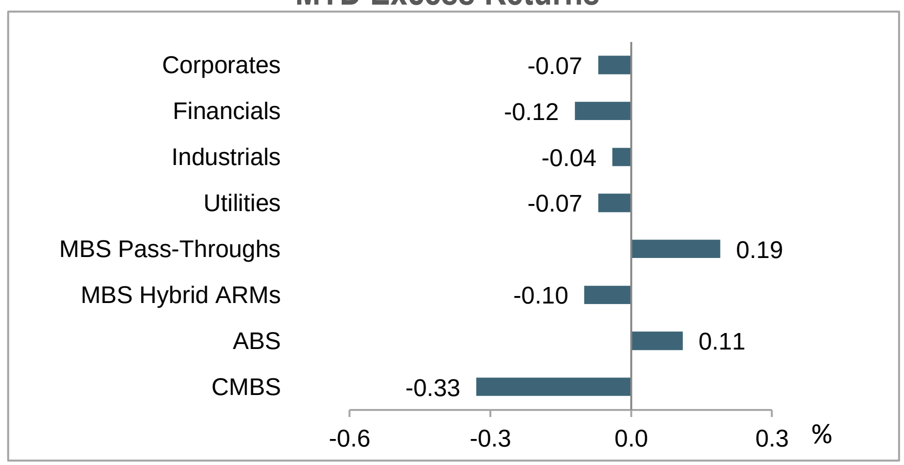
- The Treasury curve flattened week-over-week, reversing some of the steepening that occurred earlier in the month[1]
  - Month-to-date, the 2-year Treasury yield fell 5bps to 0.76%, and the 30-year Treasury yield rose 6bps to 2.29%
- Initial jobless claims came in marginally below expectations at 254,000, suggesting the labor market is healthy and improving[1]
  - More encouraging U.S. economic data is expected next week, which may increase the likelihood of a rate hike at the Federal Reserve's (Fed) December meeting – the market is currently pricing in a 53% chance of a hike by year-end
- Investment grade corporate issuers priced around $15 billion, for a month-to-date total of over $130 billion[2]
  - Year-to-date issuance is 10% ahead of last year's pace, and projections suggest the $1 trillion mark will be surpassed by early October
- Corporate spreads moved sideways amid manageable supply and average trading volumes this week[3]
- Agency mortgage-backed securities outperformed Treasuries on the week, as declining volatility following the Bank of Japan and Fed announcements supported the sector[1]
- In the municipal market, demand from tax-sensitive, yield-driven investors remains strong for the high-quality, income-generating asset class[1]
  - Inflows tapered off slightly, but this week marked the 52nd consecutive week of positive inflows into municipal funds, which is the longest streak since 2010

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
9/28/2016	0.76	1.14	1.57	2.29
MTD Change	-0.05	-0.06	-0.01	0.06

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.