INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
October 2016

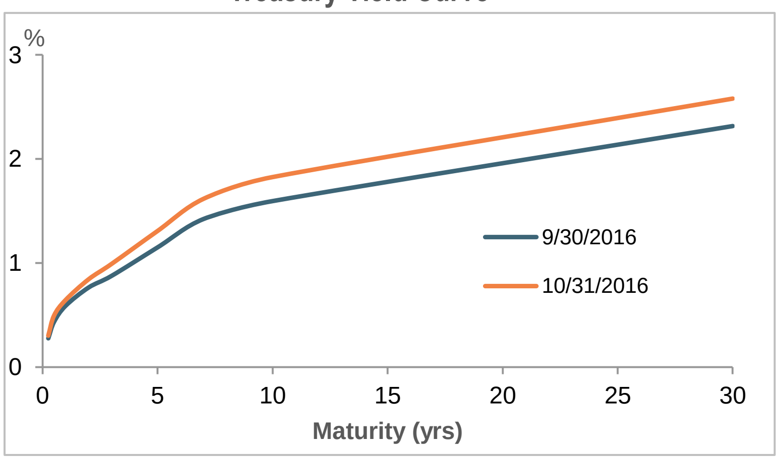
November 1, 2016

MARKET NEWS

- Treasury rates sold off in October, most notably in the long-end, with the 10-year yield rising 23bps to 1.83% and the 30-year yield rising 26bps to 2.58%[1]
    - Minutes from the Federal Reserve's (Fed) September meeting indicated that officials voting against the hike considered it a close call, which increased expectations for a rate hike by year-end[1]
    - Markets are currently pricing in a 15% probability of a hike at the November 2nd meeting, and a 69% probability of a hike at the December 14th meeting[1]
- US economic reports signaled continued improvement in labor market conditions and business activity, which drove generally positive sentiment over the course of the month
    - The unemployment report revealed an increase in average hourly earnings, and the initial third quarter GDP estimate highlighted strength in both inventory and trade growth
- In the investment-grade corporate market, issuers took advantage of minimal, and in some cases negative, new issue concessions, and priced roughly $85 billion, which was in-line with expectations[2]
    - Year-to-date supply is 6% ahead of last year's pace; however, there could be a slowdown in November if the presidential election spurs market volatility and pushes issuers to the sidelines
- Corporate spreads tightened through the first three weeks of October, then leaked modestly wider at the end of the month, closing 6bps tighter at 132bps[3]
    - Encouraging third quarter earnings and increased overseas buying supported the market and drove positive excess returns across all corporate sub-sectors
- In the agency mortgage-backed securities (MBS) market, muted market volatility and higher yields reduced prepayment activity and supported market technicals[4]
- Municipal bonds slightly underperformed Treasuries, driven by a robust issuance calendar of $52 billion, which marked the heaviest month in over 25 years[1]
    - Supply in 2016 is projected to break the recent annual record of $433 billion, which was set in 2010 following the introduction of Build America Bonds (BABs)

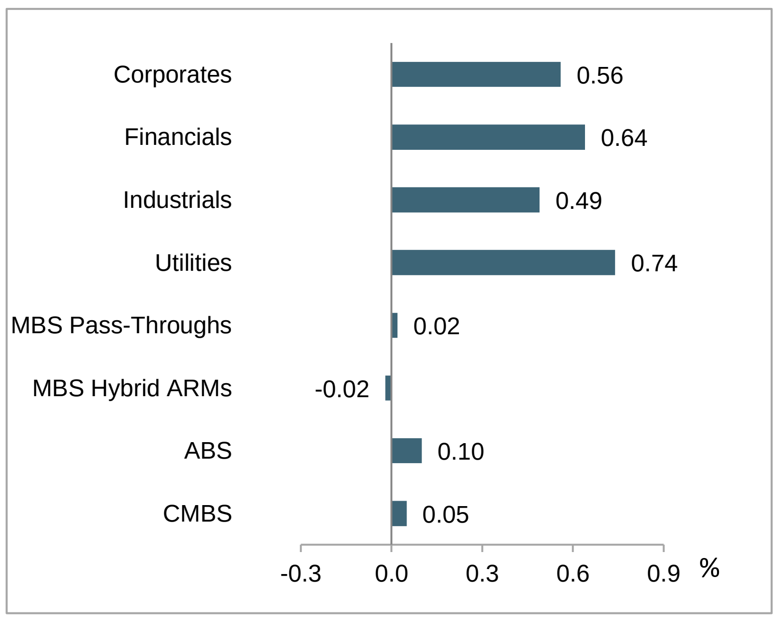
MARKET STATISTICS

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
10/31/2016	0.84	1.31	1.83	2.58
MTD Change	0.08	0.16	0.23	0.26

October Excess Returns[3*]



As Of: 10/31/16. Sources: 1. Bloomberg 2. Citigroup 3. Barclays 4. BofA Merrill Lynch

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