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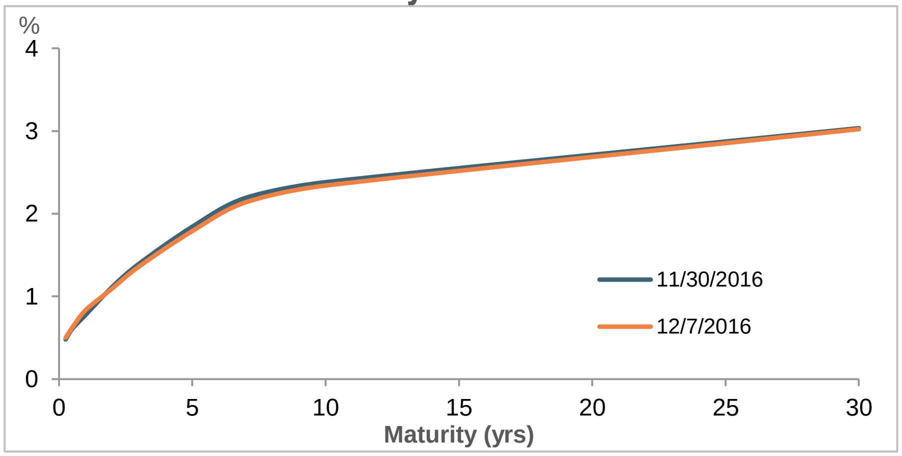
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
December 1 – 8, 2016

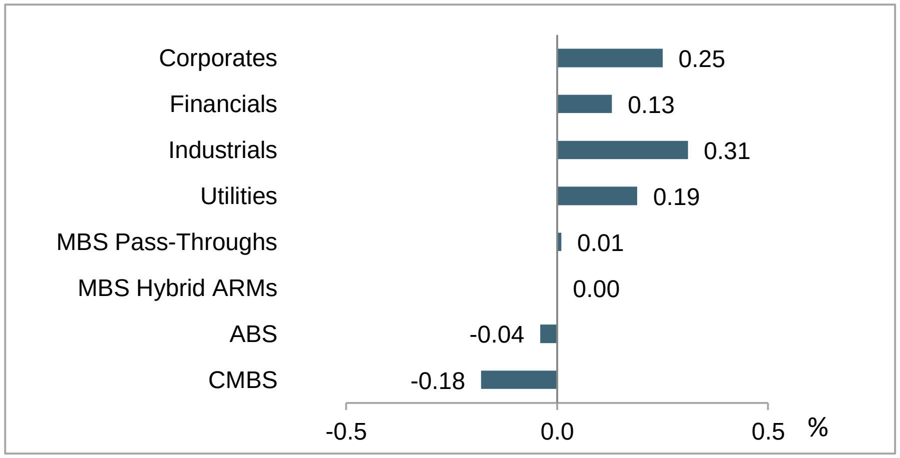
- Treasury rate volatility fell, and the curve flattened modestly at the beginning of December[1]
  - On average, ultra-short maturities rose 1bp, while longer-dated maturities fell 1bp
- Last Friday's labor report revealed the US economy added 178,000 jobs in November, and the unemployment rate fell to 4.6%[1]
  - The data supports investors' expectations that the Federal Reserve (Fed) will raise rates at next week's meeting
  - The market-implied probability remains at 100% – a level we've seen for over 2 weeks
- Year-to-date investment-grade corporate supply totaled $1.17 trillion, breaking the annual record set in 2015[2]
  - Issuers priced roughly $27 billion so far in December, and another $5-10 billion is expected before the market quiets heading into the holidays
- Corporates outperformed Treasuries with spreads tightening 2bps to a year-to-date tight of 127bps[1]
  - The Organization of the Petroleum Exporting Countries (OPEC) reached a deal to cut production, which sent oil prices marginally higher and benefitted the industrial sector
- Commercial mortgage-backed securities underperformed Treasuries by 18bps through the early part of December[1]
  - Increased issuance ahead of new risk retention regulation could continue to weigh on the market
- Municipal bonds rallied relative to Treasuries following the modest stabilization in rates[1]
  - The 10-year municipal/Treasury ratio fell 5% to 100%

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
12/7/2016	1.10	1.79	2.34	3.02
MTD Change	-0.02	-0.05	-0.04	-0.01

MTD Excess Returns[1*]



Sources: 1. Bloomberg Barclays 2. Citigroup

*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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