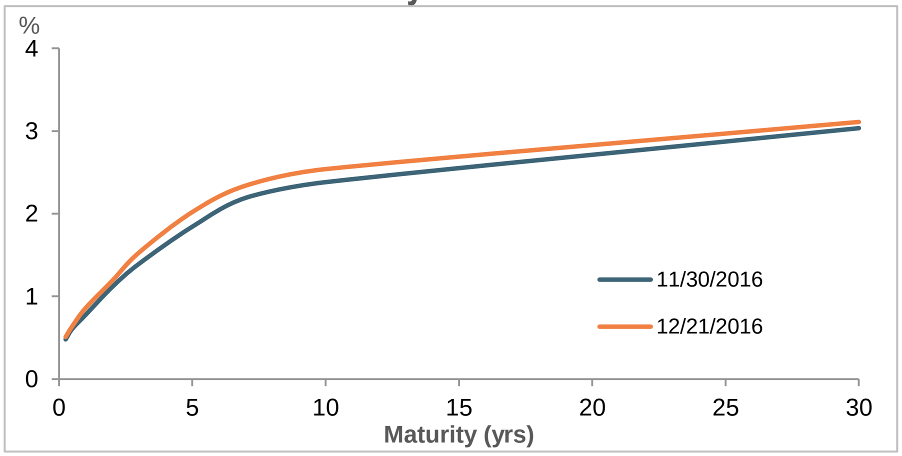
IR+M INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
December 16 – 22, 2016

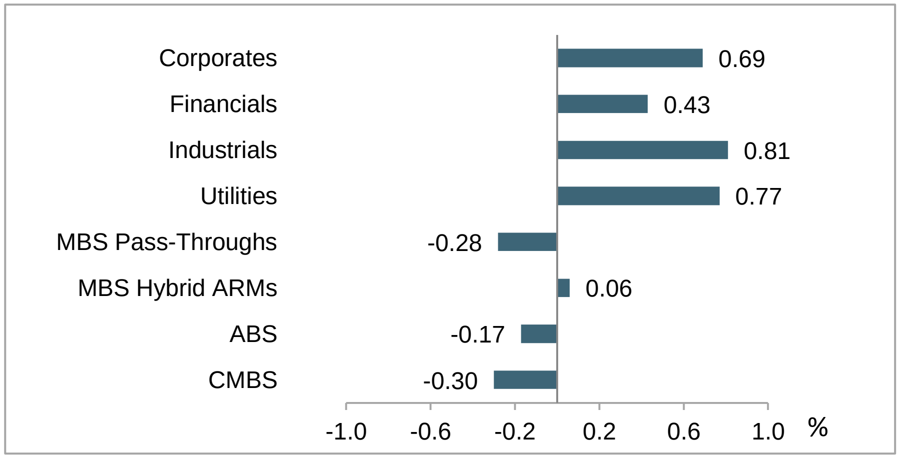
- In stark contrast to the recent post-election selloff, volatility in the Treasury market subsided this week and prices moved slightly higher
  - The 10-year Treasury rate fell 6bps to 2.54%, as activity slowed ahead of the holiday weekend[1]
- Investors expect the quiet environment to continue through year-end, as the economic calendar contains only a handful of major releases
  - On a positive note, US GDP (Gross Domestic Product) growth for the third quarter was revised upward to 3.5% from 3.2%, the strongest pace in two years[1]
- Investment-grade corporate bonds reacted well to the drop in volatility, as muted supply and the higher rate environment attracted buyers in the secondary market
  - Corporate spreads fell 2bps week-over-week to 123bps – on the year, spread levels have moved steadily tighter after hitting a wide of 215bps in mid-February[1]
- Corporate primary activity totaled less than $2 billion week-over-week, and issuance is not expected to pick up again until the first week of January[2]
  - The market has priced $1.2 trillion in corporate debt in 2016, in-line with last year's total and early dealer estimates
- Agency mortgage-backed securities have underperformed Treasuries by 0.28% in December, as market participants react to the prospect of reduced monetary stimulus in the new year[1]
- In the municipal market, year-to-date issuance reached a record-setting $440 billion through mid-December, eclipsing the previous annual record of $433 billion set in 2010[1]

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
12/21/2016	1.19	2.02	2.54	3.11
MTD Change	0.08	0.18	0.15	0.07

MTD Excess Returns[1*]



Sources: 1. Bloomberg Barclays 2. JP Morgan

*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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