IR+M CLIENT UPDATE
November 2016

INCOME RESEARCH + MANAGEMENT

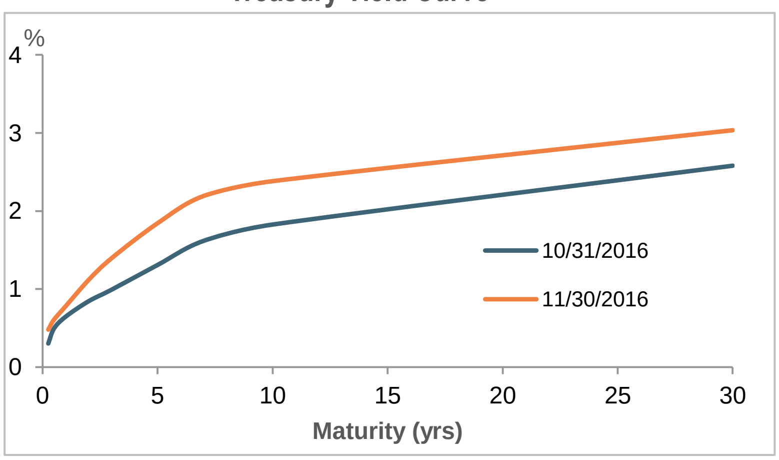
December 1, 2016

MARKET NEWS

- US politics dominated headlines in November, as Donald Trump's victory over Hillary Clinton in the presidential election surprised investors
    - US equities rallied and fixed income sold off following the news, with the S&P 500 rising 2.77% and the US bond market falling 2.24%[1]
- Treasury rates surged across the curve as generally positive market sentiment drove a risk-on trade[1]
    - Intermediate yields increased by 35% on average, with the 5-year rising 54bps to 1.84% and the 10-year rising 56bps to 2.38%
- The Federal Reserve (Fed) left rates unchanged; however, the Committee highlighted positive and improving US economic conditions, suggesting it's ready to hike "relatively soon"[1]
    - The market-implied probability of a rate hike at the Fed's December meeting is currently 100%
- Investment-grade corporate issuers priced $75 billion in the primary market, which was skewed towards the latter half of the month, as companies avoided the volatile post-election environment[2]
    - Year-to-date issuance is $13 billion short of the $1.16 trillion annual record set last year – December's projected issuance of $30 billion should push 2016 supply beyond that mark
- Corporate spreads tightened 4bps in the first half of the month after markets digested the election results, then traded sideways for the second half and closed at 129bps – 1bp off the year-to-date tights[3]
    - Corporates have outperformed Treasuries in 2016, largely driven by the industrial sector, which benefitted from a recovery in oil prices – crude oil traded around $30 a barrel in January and is currently hovering around $50
- Political uncertainty and the rate sell-off weighed on the agency mortgage-backed securities (MBS) market, which underperformed Treasuries by almost 50bps on the month[3]
    - Refinancing and new loan activity plunged as mortgage rates rose alongside Treasuries, heightening concerns about extension risk
- The Treasury rate backup paired with future tax policy uncertainty drove weakness in the municipal market, resulting in significant outflows[1]
    - Municipals cheapened relative to Treasuries, and the 10-year municipal/Treasury ratio rose 9% to 105%

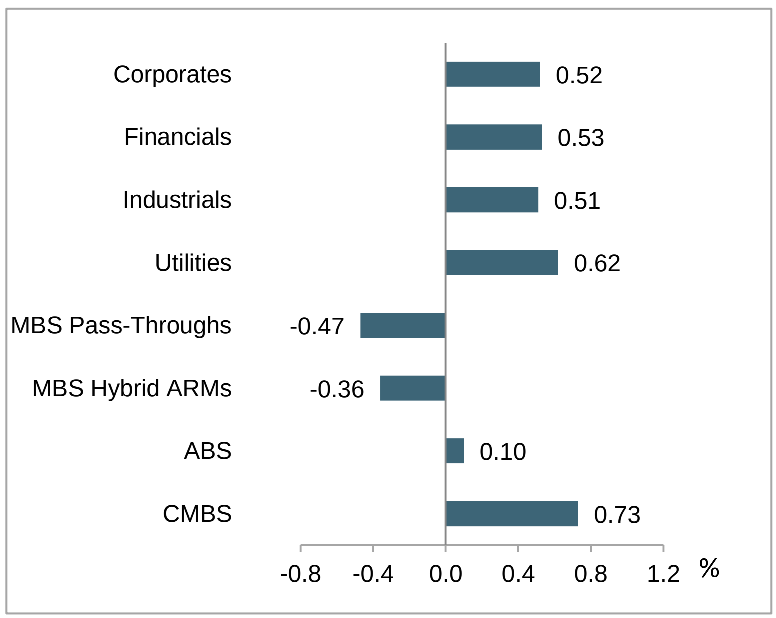
MARKET STATISTICS

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
11/30/2016	1.12	1.84	2.38	3.04
MTD Change	0.27	0.54	0.56	0.46

November Excess Returns[3*]



As Of: 11/30/16. 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.