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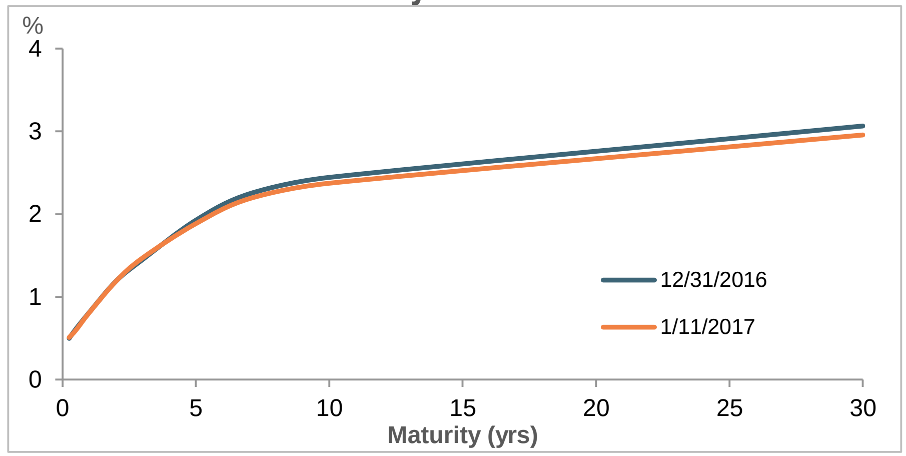
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

January 6 – 12, 2017

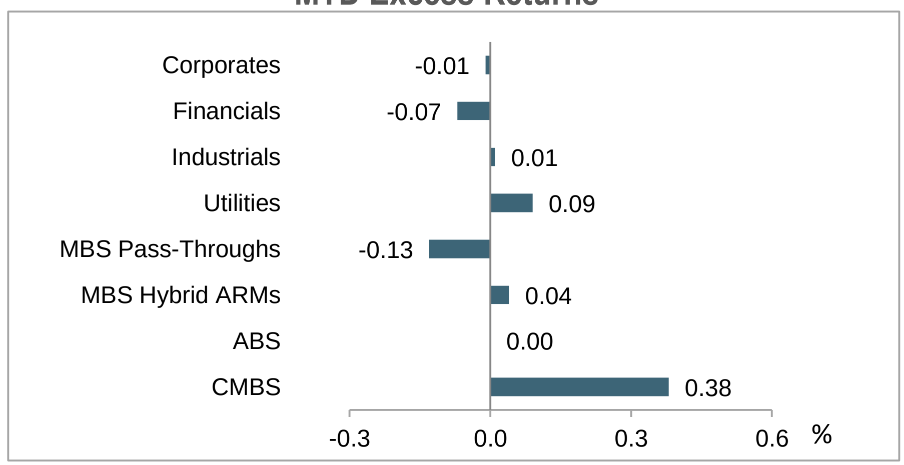
- The post-election Treasury rate selloff reversed course this week as vague policy statements released by the Trump administration drove increased uncertainty[1]
    - Yields dropped most notably in longer-dated maturities with 10-year and 30-year rates falling 7bps and 11bps, respectively
- Last week's employment report indicated that 156,000 jobs were added in December, which was lower than expected[1]
    - Despite the miss, wage growth strengthened, driving positive market sentiment to start the week
- Investment-grade issuers flooded the market again, pricing roughly $34 billion, for a month-to-date total of $87 billion[2]
    - Issuance volume exceeded expectations and is over 50% ahead of last year's pace
- Corporate spreads held in relatively well in the midst of heavy supply, and leaked just 1bp wider to 122bps[1]
    - A continuation of robust supply coupled with increasing political volatility could put pressure on spreads through the month
- In the commercial mortgage-backed securities (CMBS) market, newly-implemented risk-retention rules suppressed supply as originators continue to navigate the updated regulations[1]
    - Quiet issuance supported the CMBS sector, which outperformed Treasuries by 0.38% month-to-date
- Muted supply also benefitted municipal bonds, which historically perform well in January as tax-exempt issuers ease into the new year[1]

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
1/11/2017	1.19	1.89	2.37	2.96
MTD Change	0.00	-0.04	-0.07	-0.11

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.