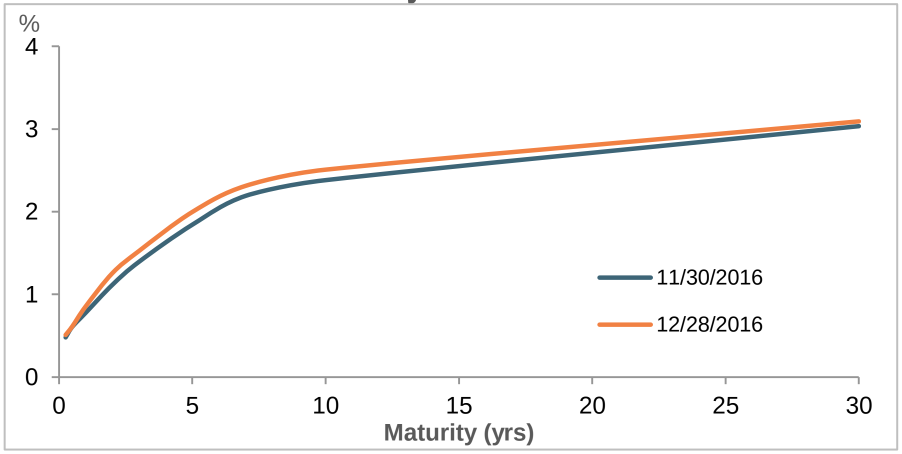
IR+M
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
December 23 – 29, 2016

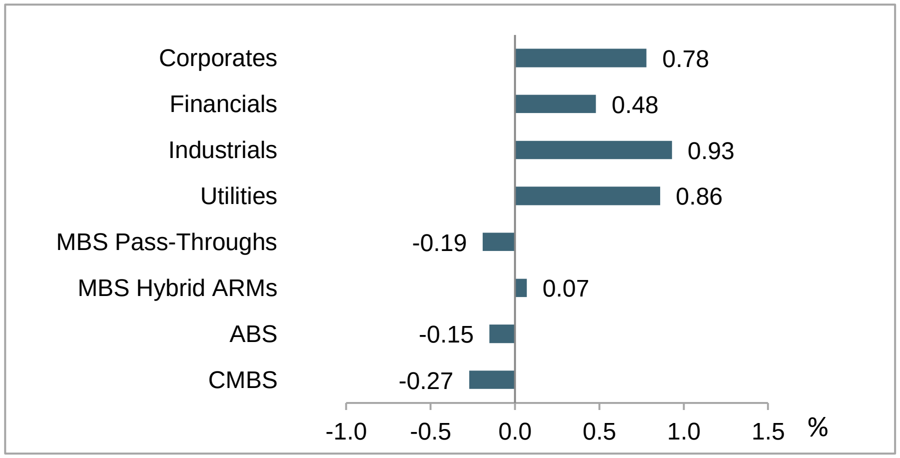
- Market volatility remained muted this week, and Treasury yields traded relatively flat[1]
    - Month-to-date, rates rose across the curve, most notably in the 2- and 5-year maturities, which rose 14bps and 15bps, respectively
- Consumer sentiment strengthened, following last week's upward revision of US GDP[1]
    - The University of Michigan Consumer Sentiment Index for December was revised higher to 98.2, a post-recession high
- Muted primary activity characterized the investment-grade corporate market this week, as the focus shifted to 2017 supply[2]
    - Issuance next year is expected to be around $1.1 trillion – marginally lower than the $1.2 trillion priced this year
- Minimal supply drove corporate spreads 1bp lower to a year-to-date tight of 122bps[1]
    - The rally in oil prices continued to support the market, particularly the industrial sector, which tightened 111bps since oil prices bottomed out in February this year
- The recent stabilization of Treasury rates benefitted the mortgage-backed securities (MBS) market, which recovered after some post-election weakness[1]
    - Month-to-date, agency fixed-rate mortgages underperformed Treasuries by 0.19%
- Municipal market activity slowed during the holiday-shortened week
    - Uncertainty remains around the Trump administration's tax policies, which may cause volatility early in the new year[1]

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
12/28/2016	1.26	2.00	2.51	3.09
MTD Change	0.14	0.15	0.13	0.06

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.