INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

January 2017

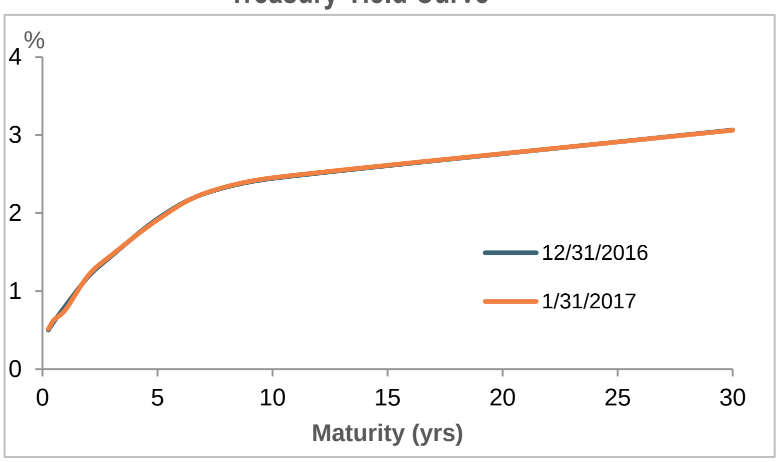
February 1, 2017

MARKET NEWS

- Strong economic reports and positive market sentiment drove a risk-on trade to begin the year, with the Dow Jones Industrial Average rising above 20,000 for the first time[1]
    - Fourth quarter GDP estimates around 2% and consistently low jobless claims highlighted healthy business activity and improving U.S. labor market conditions
- Volatility in the Treasury curve was modest over the course of the month and left rates unchanged, with the 10-year yield closing at 2.45% and the 30-year yield closing at 3.06%[1]
    - Vague political statements from Trump's administration prompted a slight rally in the first half of the month, but the move reversed during the following week after comments from Federal Reserve (Fed) Chair Janet Yellen suggested the Committee expects multiple rate hikes this year
    - The market-implied probability of a hike at the Fed's March meeting hovered around 30%
- Investment-grade corporate supply totaled $170 billion, exceeding estimates by $70 billion[2]
    - While the financial sector drove most of the issuance, Microsoft and AT&T priced large deals, totaling $17 billion and $10 billion, respectively – Microsoft's transaction was the seventh largest investment-grade deal on record
- Despite robust supply, healthy demand and equity market strength supported corporate spreads, which traded in a narrow range over the month and closed 1bp tighter at 121bps[1]
- Muted issuance, relatively stable Treasury rates, and a strong market tone benefitted commercial mortgage-backed securities (CMBS), which outperformed Treasuries by 0.37%[1]
    - Net supply is projected to be flat, or negative, in 2017, which could support spreads in the short-term
- In the municipal market, issuance picked up in the second half of the month and totaled over $30 billion, compared to a historical January average of $21 billion[1]
    - Consecutive weeks of relatively solid inflows helped municipal bond performance, and the 5-year municipal/Treasury ratio fell 6% to 87%

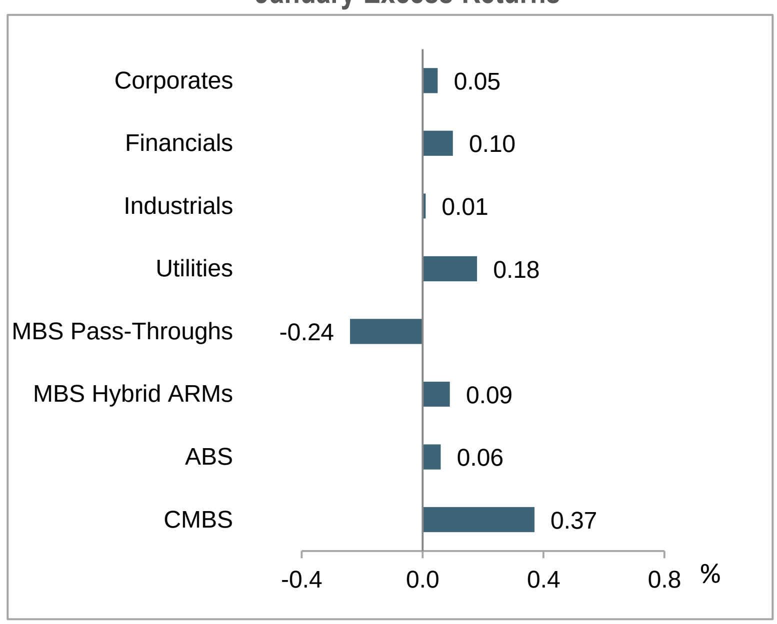
MARKET STATISTICS

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
1/31/2017	1.21	1.91	2.45	3.06
MTD Change	0.02	-0.02	0.00	-0.01

January Excess Returns[1*]



As of: 1/31/17. 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.