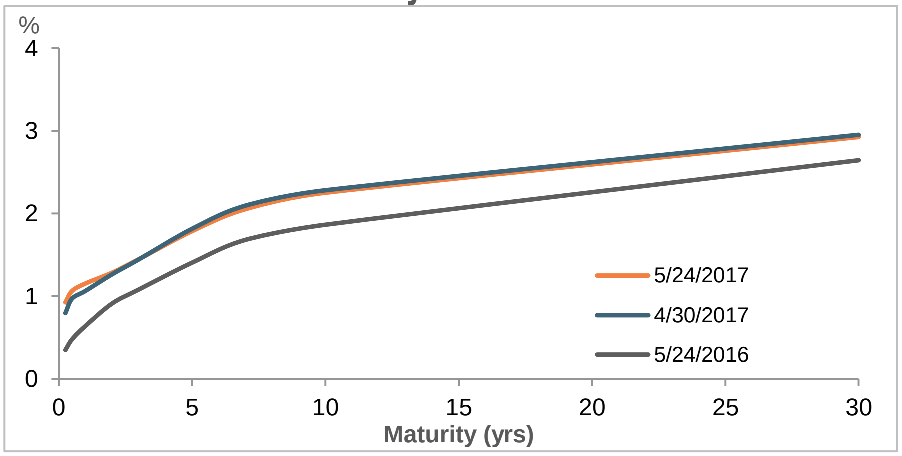
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

May 19 – May 25, 2017

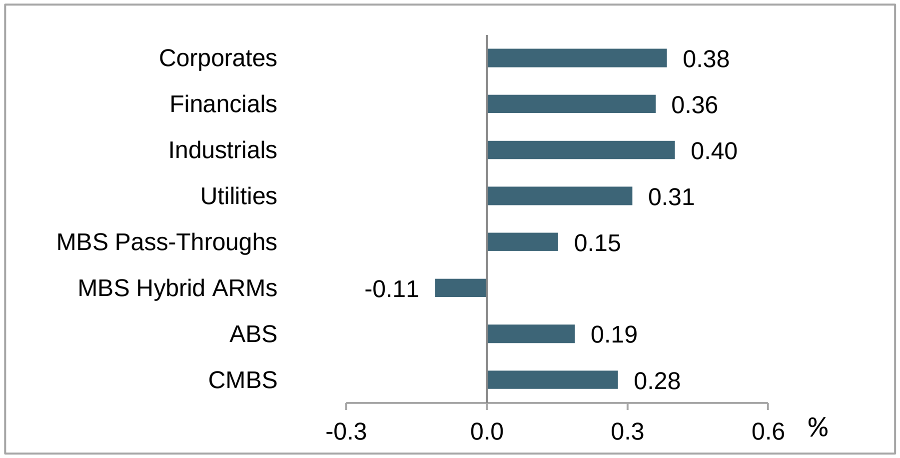
- The Federal Open Market Committee released the May meeting minutes which indicated progress toward consensus on an approach to unwinding the Federal Reserve's (Fed) $4.5 trillion balance sheet[1]
    - Under the proposed method, the Fed expects to specify the level of bonds to roll off each month, with that amount increasing gradually over time
    - Regarding interest rate policy, the implied probability for a June hike is back to 100%, and the likelihood of two or more by year-end is hovering around 50%
- Oil prices rebounded as the Organization of the Petroleum Exporting Countries (OPEC) reached an agreement to extend an existing deal to reduce supply until March 2018, although some market participants were hoping for a longer extension[1]
- A risk-on tone returned to the market this week, as equities strengthened and Treasury yields rose across the curve[1]
    - The 2-year Treasury yield increased 3bps to 1.28%, while the 10-year Treasury rose 2bps on the week to 2.25%
- As first quarter earnings season comes to a close, results were very strong with earnings on track to grow 13.6% year-over-year, the highest growth rate since the third quarter of 2011[1]
- Heavy issuance last Friday carried over into this week with $35 billion pricing, which was at the high end of dealer expectations[2]
- Healthy demand met ample supply, driving flat new issue price concessions and supporting corporate spreads, which closed at 113bps[1]
- Weak prints for new and existing home sales, housing starts, and mortgage applications weighed on mortgage-backed securities (MBS) performance[1]
- Municipals outperformed Treasuries, and the 10-year municipal/Treasury ratio declined 4% to 88%[1]

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
5/24/2017	1.28	1.79	2.25	2.93
MTD Change	0.02	-0.03	-0.03	-0.02

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.