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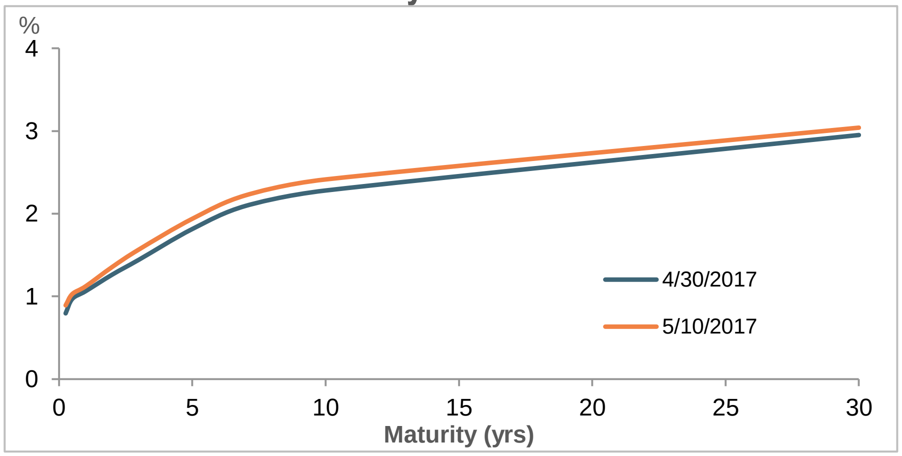
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
May 5 – May 11, 2017

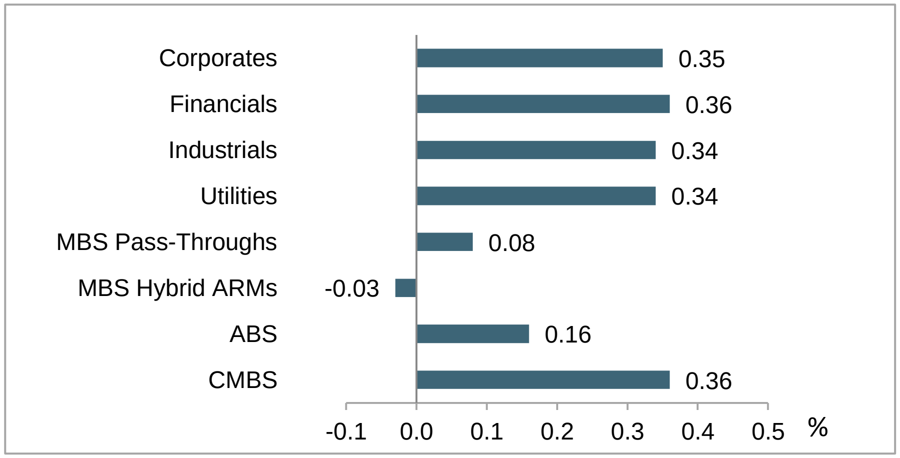
- Initial jobless claims were announced slightly lower than expected at 236,000, continuing the stretch of strong and improving labor market conditions[1]
- The producer-price index climbed 2.5% to its highest level in five years, a signal that inflation is picking up in the US economy[1]
- Federal Reserve (Fed) speakers addressed issues such as rate hikes, pace of inflation, and the balance sheet without surprising the markets this week[1]
    - Implied probabilities now indicate the Fed is 100% likely to hike rates at the June meeting
- Bullish market sentiment continued following the Fed's meeting last week, pushing Treasury yields higher across the curve[1]
    - The 2-year Treasury yield rose 6bps to 1.36%, while the 10-year Treasury rose 10bps on the week to 2.42%
- Investment-grade corporate issuers priced close to $30 billion this week, as heavy post-earnings issuance continued[2]
- Strong earnings and a risk-on market tone supported corporate spreads, which tightened 2bps to 113bps[1]
- Mortgage backed security spreads tightened slightly this week after the March prepayment report showed speeds increasing at a slower pace than the market expected[1]
- Commercial mortgage-backed securities (CMBS) continued to strengthen relative to Treasuries, earning 36bps in excess returns month-to-date[1]
- Municipals marginally outperformed Treasuries as municipal/Treasury ratios dropped 3%[1]

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
5/10/2017	1.36	1.94	2.42	3.04
MTD Change	0.10	0.12	0.14	0.09

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.

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