IR+M CLIENT UPDATE
May 2017

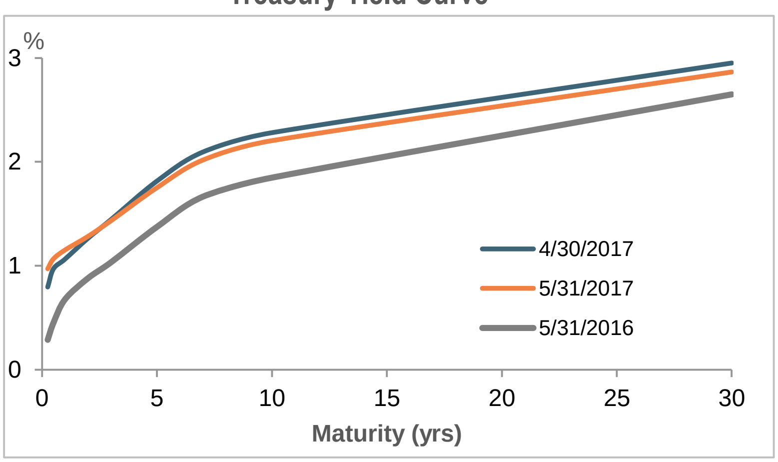
June 1, 2017

MARKET NEWS

- The Bureau of Economic Analysis (BEA) revised first quarter US GDP up to 1.2% from 0.7%, which is more in line with expectations, but still a relatively weak print[1]
    - Early estimates of second quarter GDP suggest a rebound in growth to slightly above 2%
- The Federal Reserve (Fed) left the federal funds target rate unchanged at 0.75-1.00%, as expected[1]
    - In the meeting minutes, Committee members appeared optimistic on the economy and offered some further details on a potential plan to begin shrinking the Fed's balance sheet
    - The probability for a hike at the June meeting trended higher over the month and stabilized around 90%
- The Treasury curve flattened in May as a generally positive Fed tone put upward pressure on short-end yields, while geopolitical concerns coupled with some weak economic prints weighed on longer-dated yields[1]
    - The 2-year Treasury rate rose 2bps to 1.28%, and the 30-year Treasury rate fell 9bps to 2.86%
- Investment grade corporate supply picked up following a slow April and marginally outpaced expectations on the heels of strong quarterly earnings[2]
    - Issuers priced roughly $150 billion for a year-to-date total of around $590 billion
- Corporate spreads tightened 3bps in the first half of May amid the risk-on environment, then traded sideways through month-end to close at 113bps, 2bps above the year-to-date tights[1]
- Despite an increase in issuance and continued negative retail headlines, spreads in the commercial mortgage-backed securities (CMBS) market narrowed modestly as demand for the high-quality sector remains strong in the low-yield environment[3]
- In the municipal market, technicals drove strong outperformance relative to Treasuries, particularly for shorter-dated maturities, as new supply has slowed significantly compared to last year, while fund inflows for the sector remain healthy[1]
    - The 1-year municipal/Treasury ratio dropped 12% to 66%, and the 10-year municipal/Treasury ratio fell 8% to 86% on the month

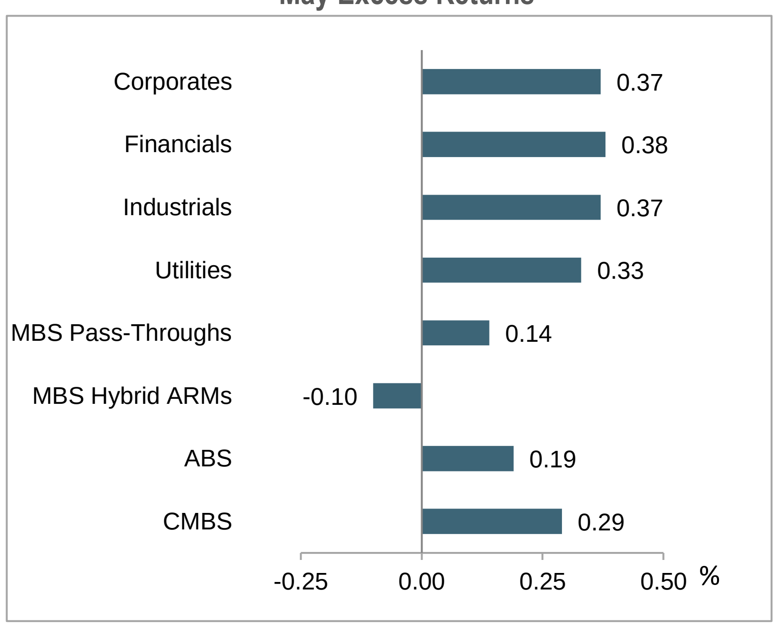
MARKET STATISTICS

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
5/31/2017	1.28	1.75	2.20	2.86
MTD Change	0.02	-0.07	-0.08	-0.09

May Excess Returns[1*]



As of: 5/31/17. Sources: 1. Bloomberg Barclays 2. Citigroup 3. BofA Merrill Lynch

*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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