IR+M INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
June 2017

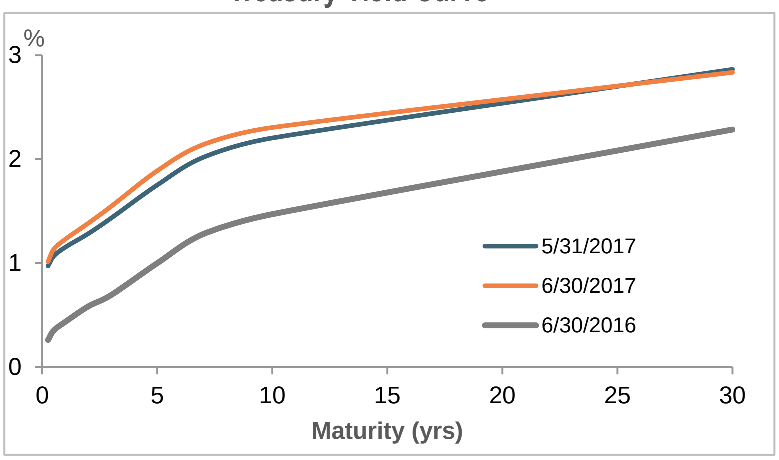
July 3, 2017

MARKET NEWS

- The US Consumer Price Index (CPI) fell 0.1% month-over-month, largely driven by falling prices in core goods, most notably apparel and new and used cars[1]
- The unemployment rate continued its downward trend in June and reached 4.3% – the lowest level in over 15 years[1]
- As expected, the Federal Open Market Committee (FOMC) hiked rates a quarter point, setting the federal funds rate target at 1.00-1.25%[1]
    - Market-implied probabilities indicate a 45% probability of one additional hike in 2017
    - The FOMC also offered details on the strategy for shrinking the balance sheet, and plans to allow a small but increasing amount of securities to mature each month without reinvestment, starting later this year
- The Treasury curve flattened in June, as the FOMC affirmed its stance to move forward with normalizing monetary policy, despite some unconvincing economic data[1]
    - The 2-year Treasury yield rose 10bps to 1.38%, and the 30-year Treasury yield fell 2bps to 2.84%
- Investment grade corporate issuers priced around $80 billion over the month, which was in line with expectations[2]
    - Year-to-date supply totaled $675 billion and remains 3% ahead of last year's pace
- Corporate spreads traded in a narrow range and closed 4bps tighter at 109bps – a level the market hasn't seen since 2014[1]
    - Oil prices fell below $43 a barrel, but most of the weakness was confined to the energy space
- In the mortgage-backed securities (MBS) market, increased focus on the FOMC's tapering plan to reduce its agency MBS holdings weighed on the sector, which underperformed Treasuries by 0.20% in June[1]
- Illinois lawmakers failed to agree on a budget resolution, but extended the legislative session to continue the negotiations[1]
    - S&P warned that a downgrade to high-yield could follow if a budget wasn't passed by the end of June; if S&P takes action, Illinois would be the first ever junk-rated US state

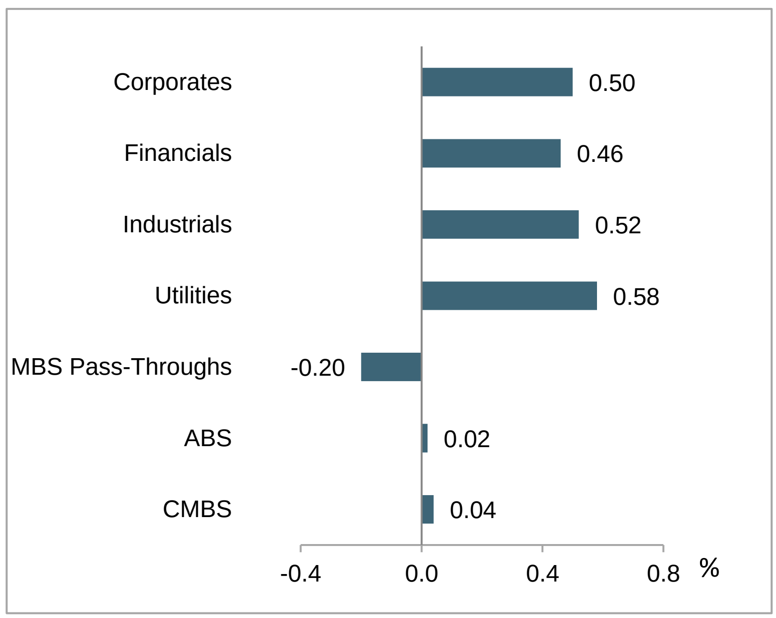
MARKET STATISTICS

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
6/30/2017	1.38	1.89	2.31	2.84
MTD Change	0.10	0.14	0.11	-0.02

June Excess Returns[1*]



As of: 6/30/17. 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.