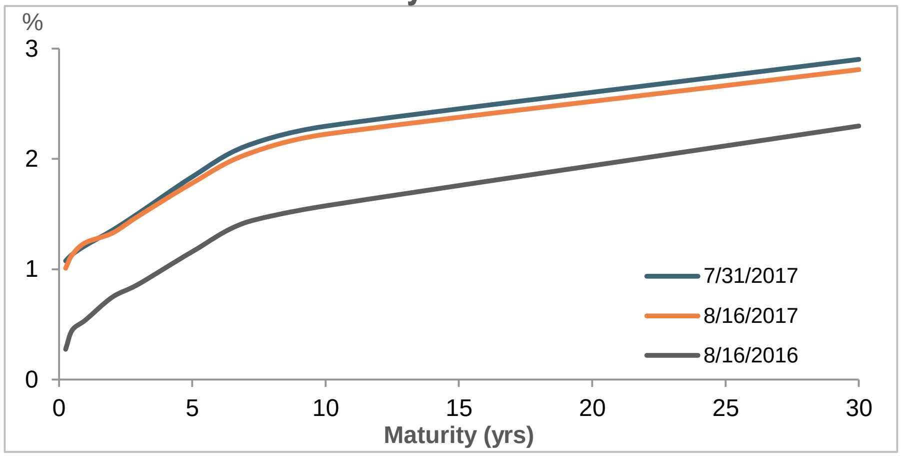
IR+M INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
August 11 – August 17, 2017

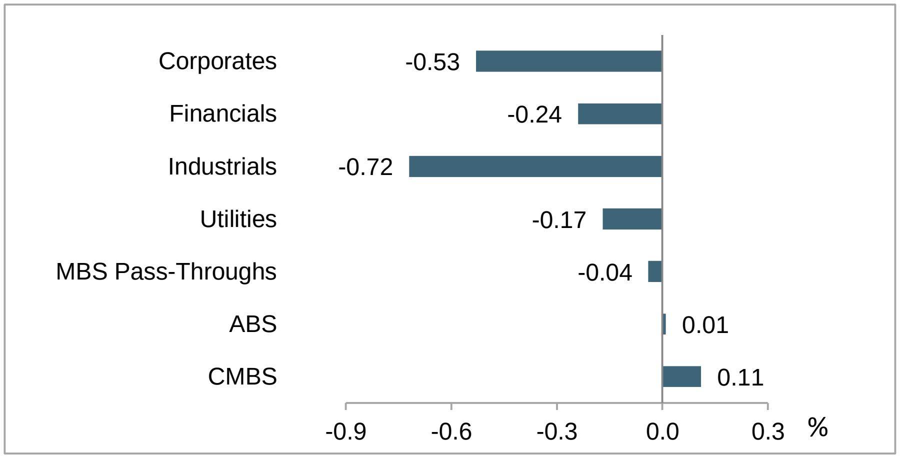
- Minutes from the Federal Open Market Committee's (FOMC) July meeting highlighted a divide in the members' expectations for inflation[1]
  - Many indicated concern that inflation will remain below the 2% target, while others cautioned that delaying policy tightening could lead to overshooting the target
  - The FOMC did not offer details on the timing for the balance sheet tapering and expects to address that at the next meeting in September
- Treasury yields fell modestly across the curve amid mixed economic reports and heightened US political uncertainty[1]
  - Both the 10-year and 30-year Treasury rates fell 2bps to 2.22% and 2.81%, respectively
- Investment grade corporate supply totaled around $30 billion, led by Amazon, which priced $16 billion to fund its Whole Foods acquisition[2]
  - Month-to-date issuance of $90 billion has already surpassed the supply estimate for the entire month of August
- Corporate spreads softened at the beginning of the week, on the heels of increased geopolitical risks, but rallied to close flat at 109bps, 7bps off the year-to-date tights[1]
- In the securitized market, commercial mortgage-backed securities (CMBS) outperformed Treasuries, benefitting from healthy demand, despite a recent uptick in supply[1]
- Low new issuance, coupled with strong demand, supported municipal bonds, which kept pace with Treasuries[1]
  - The year-to-date trend lower in municipal yield volatility, in sympathy with the general market, has benefitted the sector

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
8/16/2017	1.33	1.78	2.22	2.81
MTD Change	-0.02	-0.06	-0.08	-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.