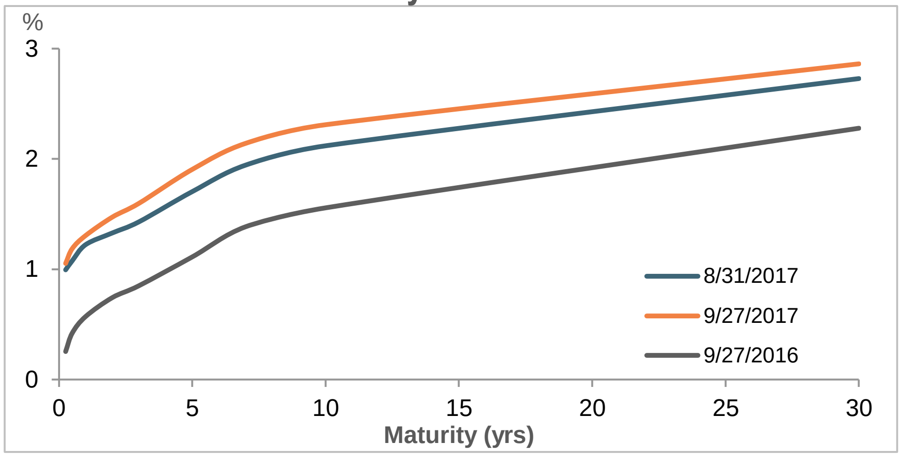
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

September 22 – September 28, 2017

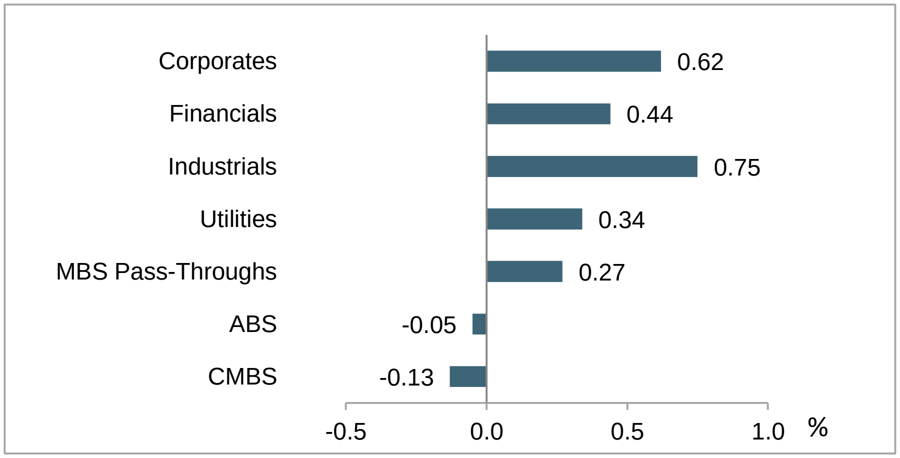
- The Trump administration released a basic framework for tax reform, although the plan may not be in its final form[1]
- Federal Reserve Chair Janet Yellen discussed inflation during a speech on Tuesday, reiterating her view that recent softness is likely transitory and should not delay gradual rate increases[1]
    - The implied probability for another rate hike this year rose from 64% to 70% following her speech
- After briefly falling earlier in the week, Treasury yields rose and the curve steepened as investors adjusted inflation expectations[1]
    - Breakeven inflation rates jumped as the 10-year breakeven rose 3bps to close at 1.88%, the highest level since May
    - The 2-year yield increased 3bps, and the 30-year yield climbed 5bps
- Supply was modest, with investment grade corporate issuers pricing approximately $16 billion this week[2]
- Strong demand persisted, and given moderate supply, investment grade corporate spreads tightened 2bps to 104bps, which are only 2bps off year-to-date tights and 7bps off post-crisis tights[1]
    - High yield corporate spreads also tightened 2bps during the week to close at 350bps, 6bps wide to year-to-date tights
- Although many investors expected the Fed's balance sheet reduction plan to negatively impact mortgage-backed securities (MBS), the sector has outperformed Treasuries by 0.27% during the month[1]
- Municipals underperformed Treasuries this week, and the 5-year muni/Treasury ratio increased 3% to close at 71%[1]

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
9/27/2017	1.47	1.91	2.31	2.86
MTD Change	0.14	0.21	0.19	0.13

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.