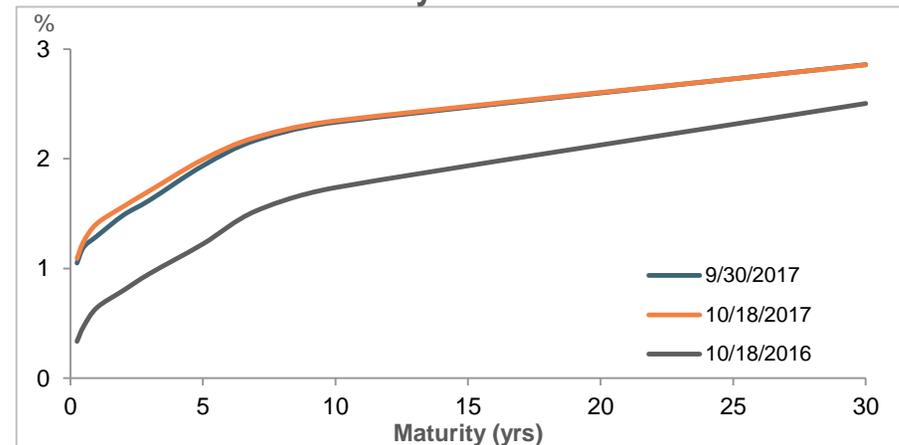




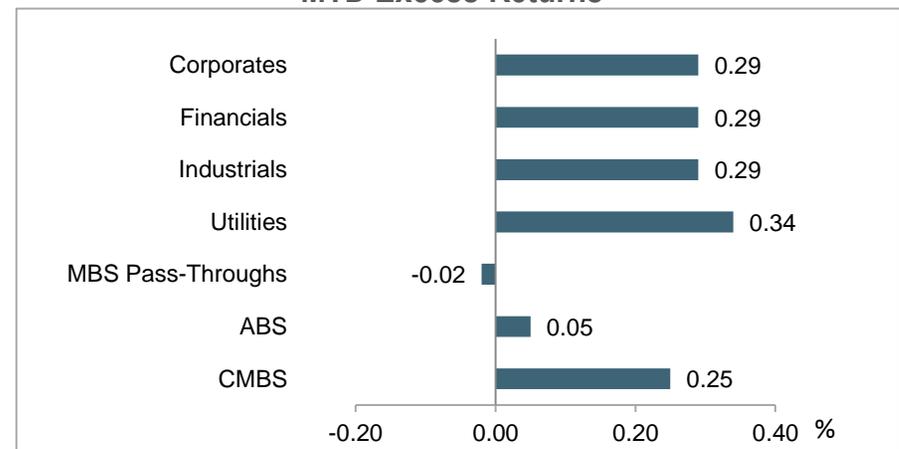
- The year-over-year increases in US Consumer Price Index (CPI) and Core CPI came in at 2.2% and 1.7%, respectively, and both were 0.1% below expectations<sup>1</sup>
- The Treasury curve flattened as declining inflation expectations applied downward pressure on the long end while rising confidence in continued interest rate hikes lifted rates in the front end<sup>1</sup>
  - The 2-year yield rose 5bps during the week, and the 30-year yield fell 2bps
  - The 10-year breakeven inflation rate declined 6bps to close at 1.83%, and the implied probability of another rate hike this year increased 3% and now sits at 80%
- Investment grade corporate supply was steady this week, as issuers priced roughly \$19 billion<sup>2</sup>
  - Issuance has been skewed towards financial issuers, as those borrowers have come to market following third quarter earnings releases
- Robust demand met moderate supply, and investment grade spreads tightened 1bp to 97bps, matching post-crisis tights from 2014<sup>1</sup>
  - High-yield spreads tightened 4bps during the week to 337bps, but remain 14bps off of post-crisis tights
- Mortgage-backed securities (MBS) have modestly underperformed Treasuries month-to-date, and continued balance sheet tapering coupled with additional Fed rate hikes could weigh on the sector<sup>1</sup>
- A strong technical backdrop supported municipals, which outperformed Treasuries, as the 10-year municipal/Treasury ratio fell 3% to close at 83%<sup>1</sup>

Treasury Yield Curve<sup>1</sup>



| Maturity   | 2-year | 5-year | 10-year | 30-year |
|------------|--------|--------|---------|---------|
| 10/18/2017 | 1.57   | 1.99   | 2.35    | 2.86    |
| MTD Change | 0.08   | 0.05   | 0.02    | 0.00    |

MTD Excess Returns<sup>1\*</sup>



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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