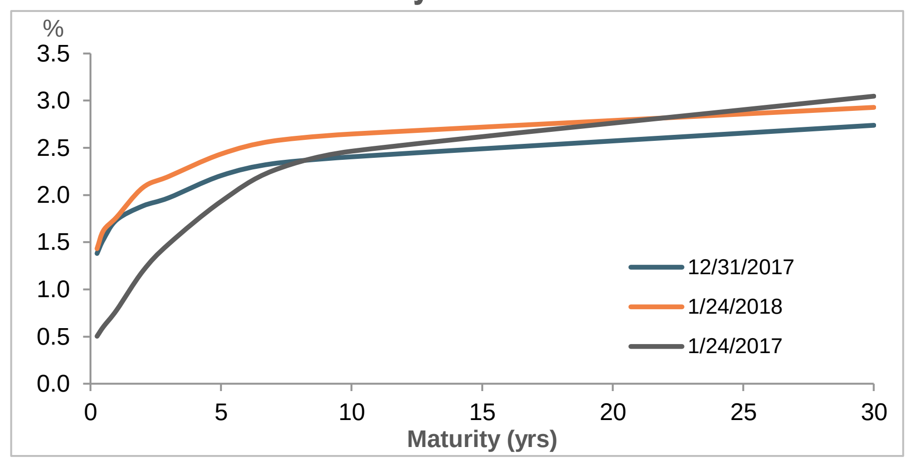
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

January 19 – January 25, 2018

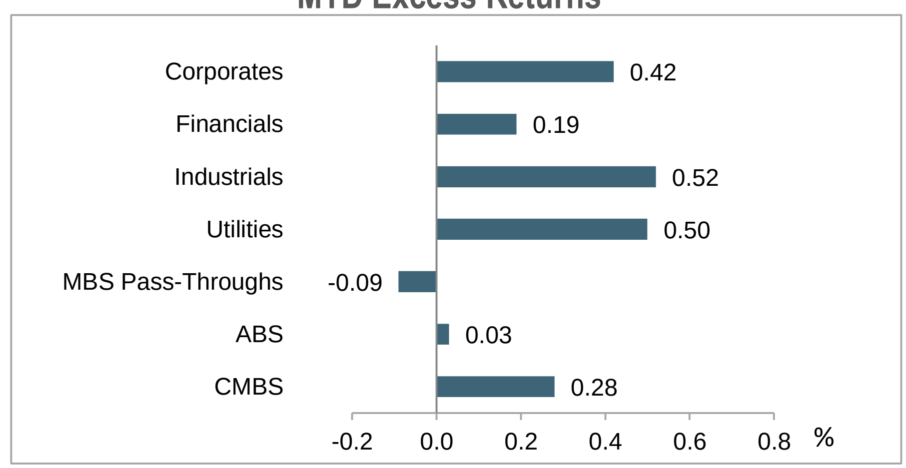
- Congress voted Monday to end the government shutdown, which lasted three days with minimal spillover impact on the bond market[1]
- Treasury yields rose and the curve modestly steepened this week as investors placed more weight on a rate hike in March, and inflation expectations remain above 2%[1]
    - The 2-year yield climbed 3bps to 2.08% as the implied probability for a rate hike in March climbed 7% to 95%
    - The 30-year yield jumped 7bps to 2.93% as the 10-year breakeven inflation rate held above 2% and closed at 2.07%
- Supply slowed significantly, as investment-grade corporate issuers priced less than $10 billion following a supply surge last week[2]
- Investment-grade corporate spreads traded in a 1bp range during the week and closed at 89bps, unchanged from last week[1]
- A firm market tone, buoyed by generally strong earnings reports, led to high-yield market strength, with spreads tightening 5bps to 313bps[1]
- The significant rise in Treasury yields led to weakness in the mortgage-backed securities (MBS) sector as concerns regarding potential extension led to selling[1]
- Commercial mortgage-backed securities (CMBS) outperformed Treasuries despite a pickup in supply, as strong demand for high-quality bonds persisted[1]
- Municipals broadly performed in line with Treasuries during the week as issuance began to pick up following weeks of light supply[1]
    - The 10-year muni/Treasury ratio climbed 1% to 83%

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
1/24/2018	2.08	2.44	2.65	2.93
MTD Change	0.19	0.23	0.24	0.19

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.

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