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INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
December 2017

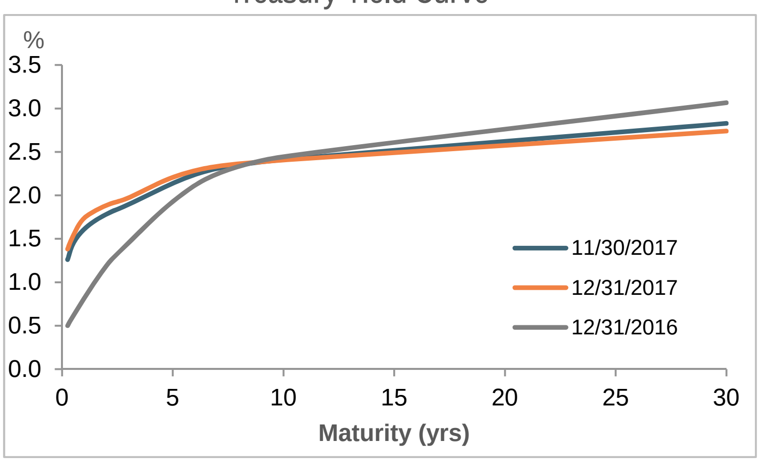
January 2, 2018

MARKET NEWS

- President Trump signed the Tax Cuts and Jobs Act (TCJA) into law, introducing several new policies, including a cap on state and local tax deductions, a one-time repatriation tax on overseas cash, a move to a territorial tax system, and a permanent drop in the corporate tax rate from 35% to 21%[1]
- As expected, the Federal Reserve (Fed) hiked rates another quarter point, setting the federal funds target at 1.25-1.50%[1]
    - The market-implied probability for another hike in March is around 70%
- The Treasury curve flattened over the month with the spread between the 2-year and 30-year Treasury yields narrowing 20bps to 85bps[1]
    - Since 2012, the average spread between 2-year and 30-year Treasuries was 230bps
- Investment-grade corporate supply slowed heading into year end with issuers pricing $23 billion in the final month of 2017[2]
    - Year-to-date issuance totaled $1.2 trillion, which was modestly higher than supply in 2016
- Generally healthy fundamentals and a relatively firm economic environment supported corporate spreads, which gradually tightened through December and closed at 93bps, a new post-crisis tight level[1]
- Securitized sectors lagged corporates, amid robust issuance, particularly in the asset backed securities (ABS) market[1]
    - Annual supply increased across sub sectors year over year, most notably credit cards, which jumped nearly 40%
- Tax reform spurred increased volatility within the municipal market as the new policies are expected to have meaningful implications for both investors and issuers[1]
    - Supply spiked, as issuers tapped the market, ahead of the removal of the tax exemption for advance refundings
    - Despite the deluge of supply, municipal bonds rallied as investors shifted focus to 2018 and the potential for a strong January effect amid lighter issuance

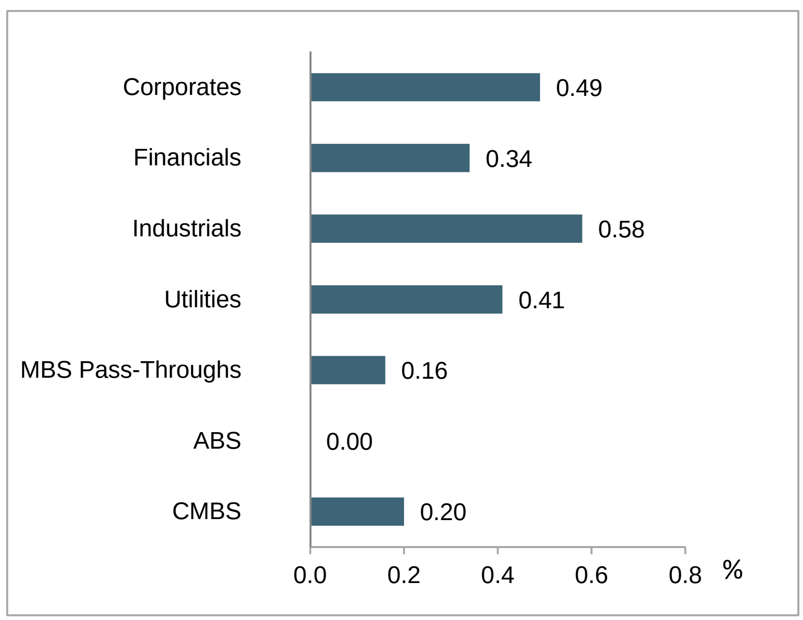
MARKET STATISTICS

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
12/31/2017	1.89	2.21	2.41	2.74
MTD Change	0.11	0.07	0.00	-0.09

December Excess Returns[1*]



As of: 12/31/17. 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.