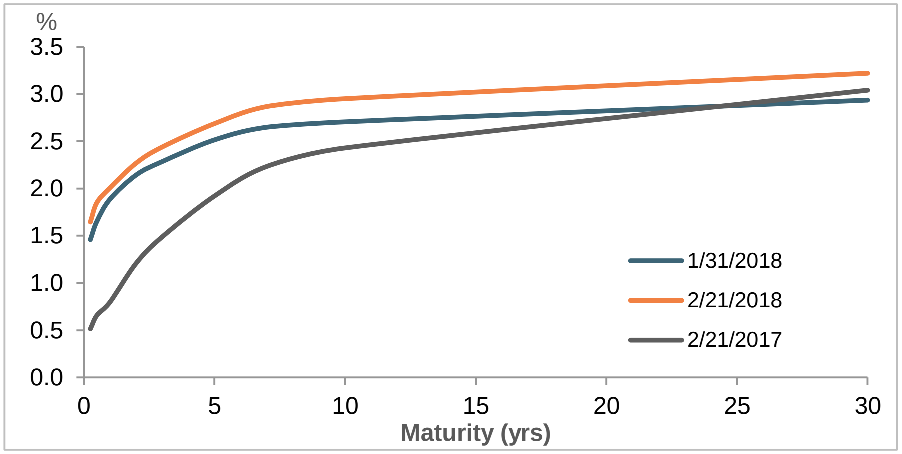
IR+M
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
February 16 – February 22, 2018

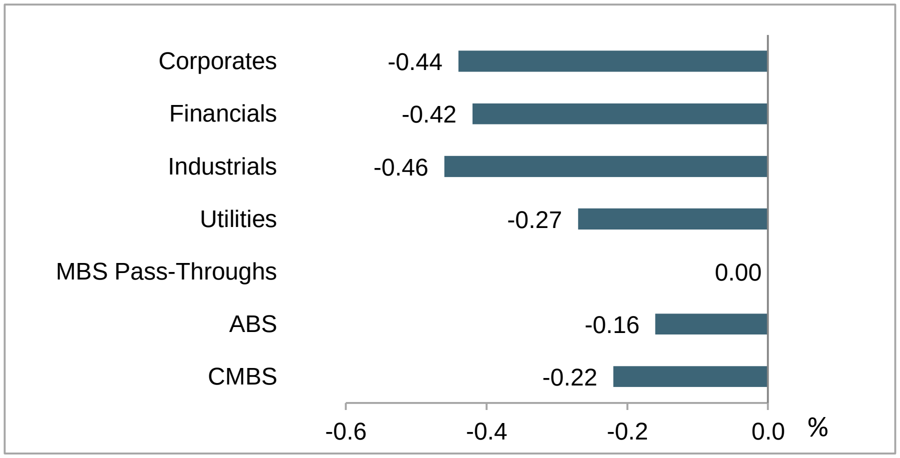
- Minutes from the January Federal Reserve (Fed) meeting showed that members are generally optimistic regarding the outlook for economic growth and inflation[1]
- Treasury yields rose across the curve and most significantly in the front end, where the 2-year yield jumped 10bps[1]
  - Some investors interpreted the Fed meeting minutes as somewhat hawkish, placing upward pressure on rates
  - The 10-year yield closed 5bps higher at 2.95% and is nearing 3.00%, a level that the market has not seen since early 2014
- Supply started to gain some steam with investment-grade corporate issuers pricing over $10 billion during the holiday-shortened week[2]
  - Investment-grade corporate issuance is approximately 25% behind last year's pace of supply
- Equity volatility subsided and the market tone improved, supporting investment-grade corporate spreads, which tightened 1bp to 93bps[1]
  - The stronger market tone also aided high-yield spreads, which tightened 22bps to 334bps
- Mortgage-backed securities (MBS) outperformed during the week as demand for high-quality bonds benefited MBS spreads[1]
- Municipals generally performed in line with Treasuries during the week as supply remained subdued and fund flows turned slightly negative for the first time in five weeks[1]
  - The 10-year municipal/Treasury ratio remained range bound before closing unchanged at 85%

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
2/21/2018	2.27	2.69	2.95	3.22
MTD Change	0.13	0.17	0.24	0.28

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.