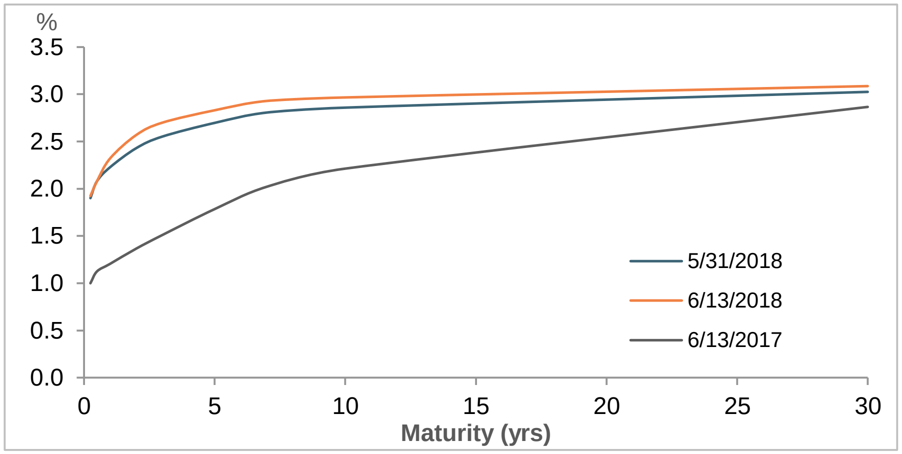
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

June 8 – June 14, 2018

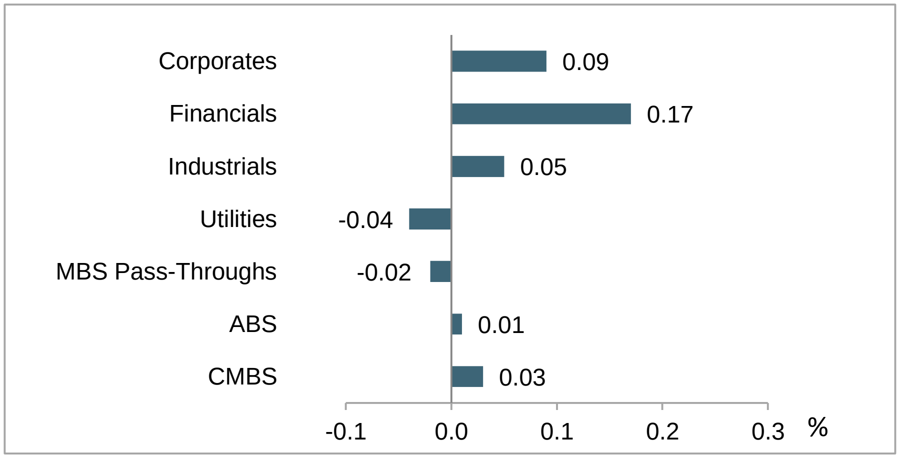
- The US Consumer Price Index (CPI) increased by 0.2% and 2.8% on the month and year, respectively, in line with expectations[1]
- The Federal Reserve (Fed) raised the fed funds rate by another 25bps and indicated its expectation for two additional hikes this year[1]
  - This was the second rate increase year-to-date, and the seventh since the Fed began raising rates in 2015
- The Treasury curve flattened post announcement given the more hawkish tone and the 2-year yield increased 3bps to 2.57%, 2bps off its highest level since 2008 of 2.59%[1]
  - The difference between the 2-year yield and 10-year yield reached a new post-crisis low of 40bps
- Investment-grade corporate supply was light early in the week, ahead of the Fed meeting, but issuers still managed to price over $22 billion[2]
  - Technology issuers, having issued just $10 billion of the $614 billion year-to-date total new supply, remain largely absent from the primary market
- Lighter issuance supported investment-grade corporates with spreads flat on the week at 114bps[1]
  - Continued equity market strength buoyed high-yield corporate spreads, which tightened 15bps to close at 329bps
- Mortgage-backed securities (MBS) struggled to keep pace with Treasuries month to date, as heightened interest rate volatility weighed on performance[1]
- Municipalities priced over $10 billion for a total of $136 billion so far this year, $26 billion less than this time last year[1]
  - Positive fund flows continued for the fifth straight week as investors added $327 million to municipal bond mutual funds

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
6/13/2018	2.57	2.83	2.97	3.09
MTD Change	0.14	0.13	0.11	0.06

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.