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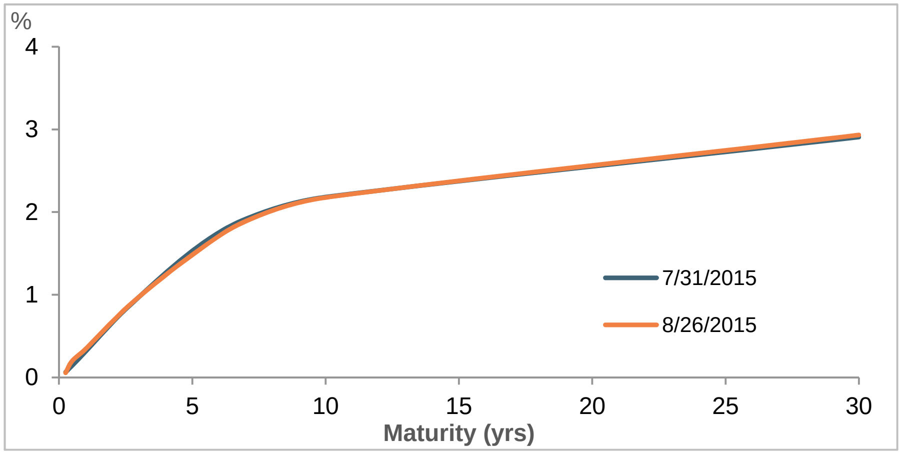
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

August 21 – 27, 2015

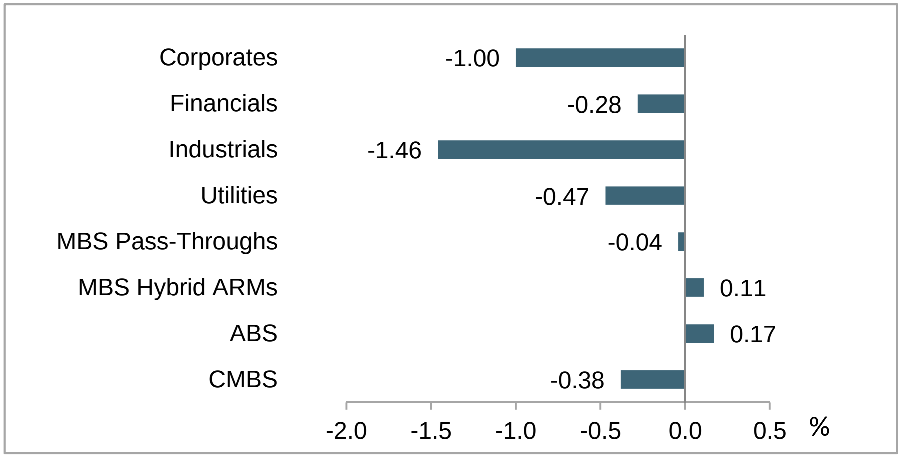
- The investment-grade bond market exhibited resilience week-over-week as investor concerns regarding a hard landing in China drove volatility in global equity markets
    - Amid the equity sell-off, the S&P 500 lost nearly 6.7% while the Barclays US Aggregate bond index fell just 0.36%[1]
- Short-dated Treasury bonds, most sensitive to changes in monetary policy, posted gains week-over-week as recent market turmoil reduces the probability that the Federal Reserve will raise rates in September
    - The 5-year Treasury rate fell to 1.37% on Monday, the lowest level since late April[1]
- Despite weaker global economic data and falling energy prices, the US economy continued to show positive trends – the Commerce Department revised second quarter gross domestic product (GDP) upward to 3.7% from 2.3%[1]
- In the corporate market, primary issuance fell sharply given the weak tone in the market
    - Investment-grade supply totaled less than $50 billion month-to-date versus a monthly average of over $100 million in 2015, and investors expect no new issuance through Labor Day[2]
- Low corporate supply provided support for secondary spreads, but China concerns continued to weigh on risk markets
    - Investment-grade spreads widened 5bps to 167bps, the highest level since September 2012[3]
- Agency mortgage-backed securities (MBS) moved slightly wider in sympathy with corporates, given a lack of demand at current yield levels
- Puerto Rico's water utility delayed the $750 million bond sale planned for last week given volatile market conditions[1]

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
8/26/2015	0.67	1.48	2.18	2.93
MTD Change	0.01	-0.05	0.00	0.02

MTD Excess Returns[3*]



Sources: 1. Bloomberg 2. JPMorgan 3. Barclays

*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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