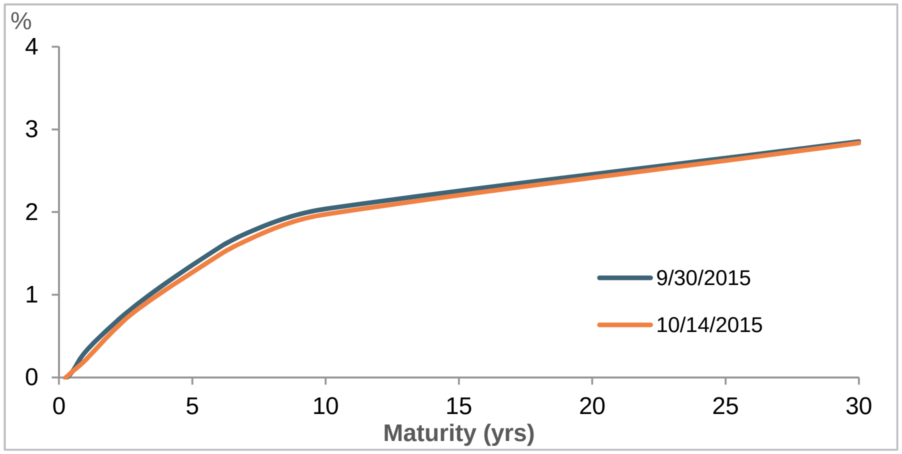
INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE

October 9 – 15, 2015

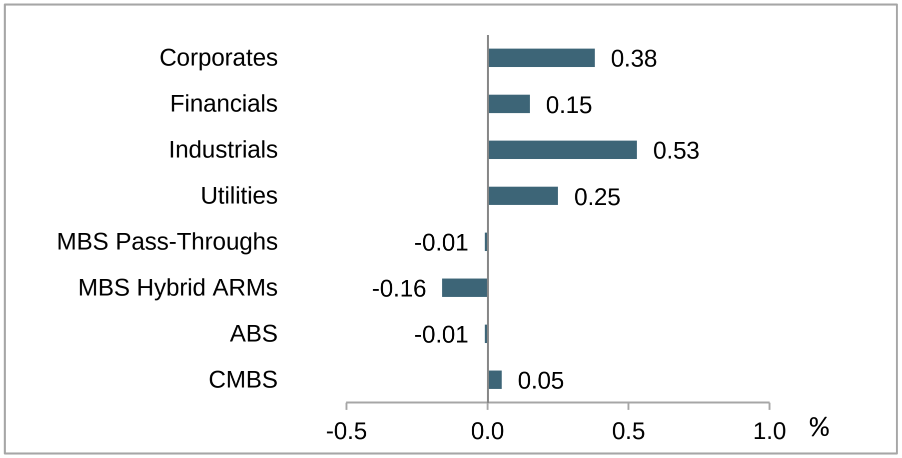
- US Treasuries posted gains as weak economic data signaled to the market that accommodative monetary policy will remain in place for the near-term
  - The 10-year Treasury yield closed below 2.00% this week for the first time since late April[1]
- Consumer prices fell 0.2% month-over-month driven by weak commodity prices and the strong US dollar[1]
  - Excluding food and energy, the cost of living rose 0.2% on higher housing costs; however, annual inflation continued to fall short of the Federal Reserve's 2% target
- Corporate supply totaled less than $28 billion month-to-date, as the pace of issuance slowed entering third quarter earnings season[2]
  - Year-to-date new issue has totaled nearly $940 billion, with full-year estimates calling for nearly $1.2 trillion in 2015
- Third quarter earnings season kicked off with many of the large financial institutions reporting results
  - Thus far, bank earnings came in weaker than expected as market volatility and post-crisis financial reform hurt trading revenues
- Energy and basic sectors led a corporate rally as oil prices rebounded modestly month-to-date following weakness in September
  - Crude oil prices increased $2 to $47, driving corporate spreads 3bps tighter to 166bps[3]
- Commercial mortgage-backed securities (CMBS) outperformed Treasuries month-to-date as new-issue underwriting fundamentals showed signs of stabilization
- In the municipal market, Puerto Rico entered negotiations with the US Treasury to potentially issue a "superbond" that would help restructure the commonwealth's large debt pile

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
10/14/2015	0.55	1.27	1.97	2.84
MTD Change	-0.08	-0.09	-0.06	-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.