MARKET NEWS

- Strong data in February showed that the US economy continued to navigate through weak global conditions.
- The unemployment rate fell to an eight-year low of 4.9% and consumer prices increased by the most in four years, rising 2.2% year-over-year (excluding food and energy)¹.
- Treasuries rallied across the curve in response to continued volatility in the stock market that drove a flight to quality.
- In the corporate market, primary activity surged in the second half of the month as the market’s tone improved amid a rebound in oil prices.
- For the month, issuance totaled $105 billion, bringing year-to-date supply to $218 billion, a 17% increase over the same period last year².
- Corporate spreads widened 22bps mid-month to 215bps, but rallied to close the month at 197bps³.
- Agency MBS underperformed Treasuries as lower rates drove fears that attractive refinancing opportunities would spur an uptick in prepayments.
- The municipal market lagged the Treasury rally given negative seasonal factors related to the upcoming tax season.

TOPICAL UPDATE: ENERGY

- The US equity market moved in lock-step with oil prices, recovering in the second half of February as crude oil jumped to $33.75 from a mid-month low of $26.21¹.
- Ratings agencies Standard & Poor’s and Moody’s are in the process of reviewing a number of companies for downgrade in response to lower commodity prices.
- For companies with energy exposure, deteriorating industry conditions are expected to reduce profitability, hurt asset valuations, and restrict access to financing.
- So far, downgrade action has appeared to rate companies at the bottom of the credit cycle, causing numerous multi-notch downgrades that have surprised market participants.
- OPEC, the Organization of Petroleum Exporting Countries, proposed reducing oil production to stabilize prices; however, some larger producing nations opposed these efforts.
- Despite challenging conditions, companies are taking steps to improve balance sheet health by lowering costs, increasing efficiency, and stalling capital expenditure.
- At IR+M, we are continuously monitoring our holdings in the energy sector and believe that technical factors have driven pricing below fair value for many credits.
- We believe many of these companies will recover and offer attractive long-term value as the sector adapts to shifting industry conditions.


¹Excess returns are the curve-adjusted excess return of a given index relative to a term structure-matched position in Treasuries.
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