INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
February 2016

March 1, 2016

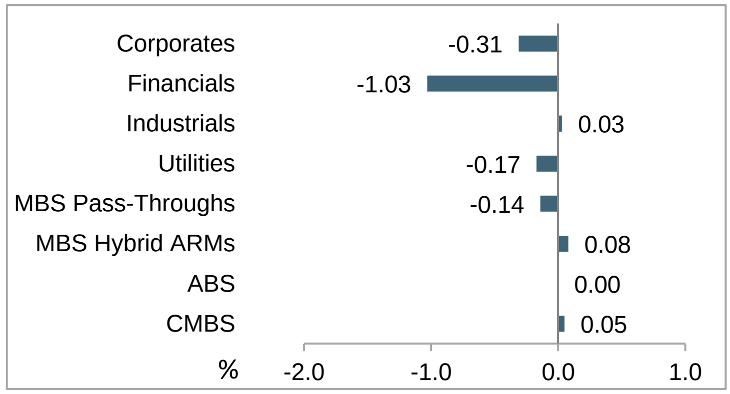
MARKET NEWS

- 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 year[2]
- Corporate spreads widened 22bps mid-month to 215bps, but rallied to close the month at 197bps[3]
- 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

Treasury Yield Curve[1]

Maturity	2-year	5-year	10-year	30-year
2/29/2016	0.78	1.21	1.74	2.62
MTD Change	0.00	-0.12	-0.19	-0.13

February Excess Returns[3*]

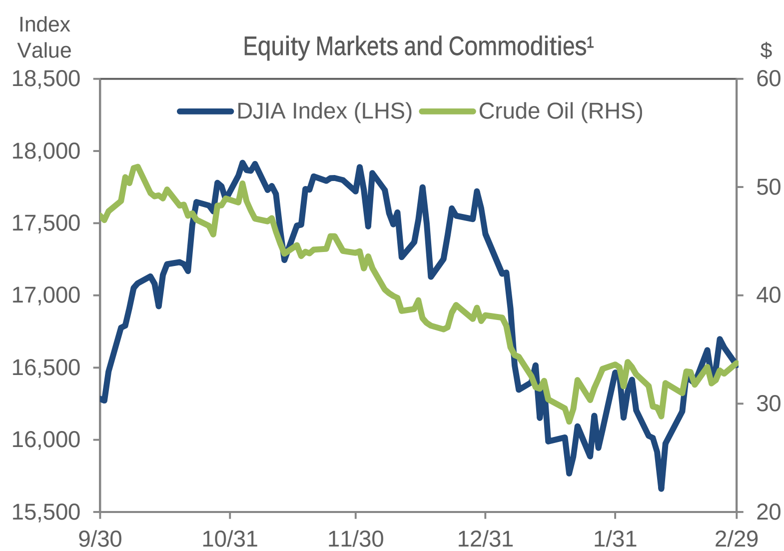


TOPICAL UPDATE: ENERGY

- 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 $26.21[1]
- 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

Market Returns[1]

Market	Closing Level	MTD Return	YTD Return
Dow Jones IA Index	16,517	0.3%	-5.2%
BC US Agg Index	1,966	0.7%	2.1%
US Treasury Index	2,192	0.9%	3.0%
Oil	$33.75	0.4%	-8.9%
Gold	$1,239	10.8%	16.7%
Copper	$2.13	3.0%	-0.3%



As Of: 2/29/16. Sources: 1. Bloomberg 2. Citi 3. Barclays

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