IR+M

INCOME RESEARCH + MANAGEMENT

IR+M MARKET UPDATE

2015 REVIEW + 2016 OUTLOOK

January 22, 2016

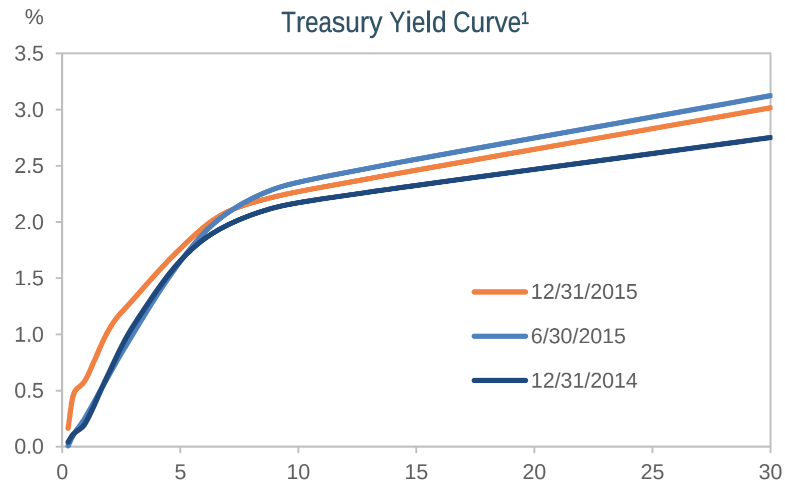
2015 RECAP

- In 2015, weak commodity markets and slowing world economies drove an increase in market volatility
- In December, the Federal Reserve (Fed) raised their target for the federal funds rate for the first time in 10 years, which pressured short-term Treasuries
- In the corporate market, increased consolidation and shareholder-friendly activity spurred heavy primary market activity
    - 2015 issuance set a new annual record at over $1.1 trillion[2]
- Investment-grade corporate bonds displayed strong resilience to the difficult market environment, but underperformed Treasuries during the year
- Securitized sectors generally outpaced corporate bonds, as strength in the real estate and consumer markets drove a favorable fundamental environment
- The Fed's commitment to reinvesting mortgage-backed security (MBS) proceeds from its asset portfolio boosted Agency MBS in the fourth quarter

2016 GOING FORWARD

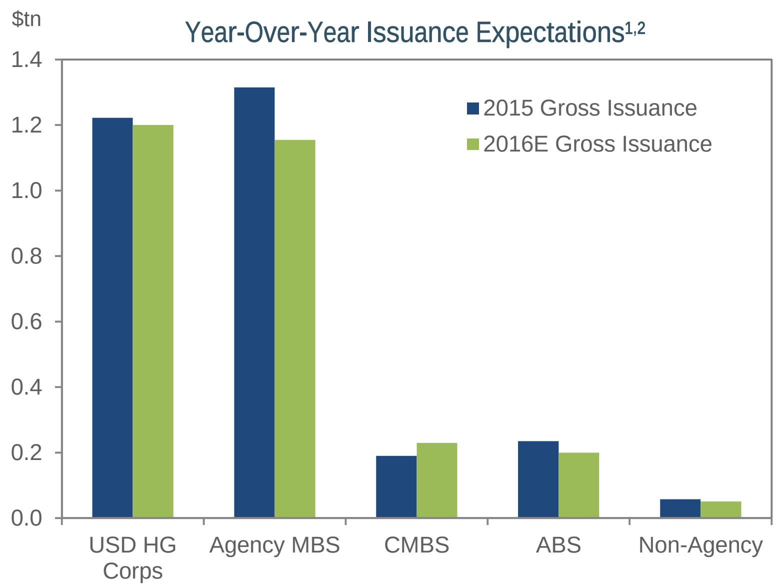
- Recent economic data suggests the US economy is healthy, but uncertainty surrounding future Fed action could distort the Treasury market
- Liquidity remains a headwind as the role of banks evolves in the post-crisis world
- The investment-grade corporate bond market may face challenges in 2016 as lower commodity prices impacts profitability in some sectors
    - However, with investment-grade corporate spreads at above-average levels, compensation looks attractive
- Corporate new-issue supply is anticipated to fall slightly in 2016, but heavy M&A activity could have a dramatic impact on issuance
- Securitized issuance is also expected to decline year-over-year in most sectors, and the market may benefit from a more favorable supply/demand relationship

Treasury Yield Curve[1]



Market Sector	Excess Returns[3] (%)		Yield Differential over Treasuries[2,4] (bp)	
	4Q15	2015	12/31/2014	12/31/2015
Corporates	0.45	-1.61	131	165
MBS Pass-Throughs	0.62	-0.06	60	57
MBS Hybrid ARMs	-0.13	-0.06	25	41
ABS	-0.07	0.44	58	72
CMBS	-0.28	-0.28	98	121

Year-Over-Year Issuance Expectations[1,2]



Investors anticipate that financial markets will remain unsettled in 2016, given divergent central bank action and the weak geopolitical climate. At IR+M, we believe high-quality corporate and securitized bonds are attractive, offering beneficial carry that will provide some protection from the uncertain environment in the coming year.

As of: 12/31/15 Sources: 1. Bloomberg 2. Barclays 3. Excess returns are the curve-adjusted excess return of a given index relative to a term structure-matched position in Treasuries. 4. Option-Adjusted Spread