MARKET NEWS

• Intermediate Treasury yields staged a modest rally in March after the market pushed out expectations regarding when the Federal Reserve (Fed) will start raising benchmark interest rates
  • The 5-year Treasury rate, most sensitive to changes in monetary policy, fell 13bps to 1.37%¹
• March’s Federal Open Market Committee (FOMC) meeting was largely supportive of the bond market, despite dropping accommodative interest rate guidance from the statement
  • The FOMC reassured the market that future rate hikes will be gradual as the economy continues to heal
• February’s employment report suggested that economic conditions have improved in the first quarter, surprising investors who anticipated growth to be mitigated by harsh winter weather
  • The economy added a better-than-anticipated 295,000 jobs as unemployment fell 0.2% to 5.5%¹
• The continued recovery in the labor market drove improved consumer sentiment, as the US consumer confidence index climbed more-than-anticipated to 101.3 in March¹
• An increase in merger and acquisition (M&A) activity drove robust corporate bond issuance in March – sales of investment-grade corporate bonds totaled over $134 billion during the month²
  • First quarter issuance reached over $320 billion, which is a 17% increase over last year’s first quarter supply and the heaviest quarterly total in history
• Corporate bonds underperformed Treasuries amid the onslaught of supply and weakness in the equity markets, but wrapped up the quarter with solid absolute gains
  • Corporate bonds generated a first quarter total return of 2.32%, but trailed duration-matched Treasuries by 0.43% on the month³
• Agency MBS underperformed Treasuries modestly as low mortgage rates kept fears of increased prepayments alive
• Commercial mortgage-backed securities (CMBS) and asset-backed securities (ABS) outperformed Treasuries on account of low correlation to macro headwinds, favorable technicals, and improving fundamentals
• Increased refinancing activity drove heavy municipal issuance in the first quarter, as issuers took advantage of low interest rates to refund obligations – first quarter issuance totaled nearly $101 billion, a 59% increase over 2014¹
  • Demand for tax-exempt debt remained strong – municipal bonds outpaced Treasuries during the month, as the 10-year municipal relative value ratio fell 3% to 103%

MARKET STATISTICS

<table>
<thead>
<tr>
<th>Maturity</th>
<th>2-year</th>
<th>5-year</th>
<th>10-year</th>
<th>30-year</th>
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</thead>
<tbody>
<tr>
<td>3/31/2015</td>
<td>-0.06</td>
<td>-0.13</td>
<td>-0.07</td>
<td>-0.05</td>
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<tr>
<td>MTD Change</td>
<td>-0.06</td>
<td>-0.13</td>
<td>-0.07</td>
<td>-0.05</td>
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*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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