MARKET NEWS

- In April, Treasury rates edged higher and credit spreads generally tightened, as overall market sentiment improved and investors crept back into risk assets
  - The 10-year Treasury rate increased 6bps to 1.83%, after dropping over 50bps in the first quarter¹
  - The US economy expanded a modest 0.5% in the first quarter, the weakest quarterly pace in two years, as US corporations slowed spending in response to weak global conditions¹
    - Fearing that global turmoil may slow the US recovery, the Federal Reserve kept short-term interest rates unchanged at the April meeting and officials gave no indication as to the timing of the next rate hike
- Corporate issuance totaled approximately $80 billion, the lowest monthly total so far in 2016, as first quarter earnings season kicked off²
- Over half of S&P 500 constituents reported first quarter earnings during the month – earnings-per-share (EPS) growth declined 8.9% on average, dragged down by the weak oil market³
  - However, results have generally surprised to the upside, as companies navigated the weak environment better than anticipated
- Investment-grade corporate spreads closed the month at 146bps, the tightest level since July 2015 and 69bps tighter than the year-to-date wide of 215bps reached in mid-February³
- In the commercial mortgage-backed security (CMBS) sector, relatively slow supply supported trading levels in the secondary market, and the sector outperformed Treasuries by 43bps³
- Municipal bonds posted a fourth consecutive month of positive absolute returns in 2016, as relatively low municipal supply has contributed to a positive technical environment
  - Year-to-date issuance totaled roughly $122 billion, which is down 11% compared to the same period last year, as refunding supply has fallen¹
  - Municipal fund flows have remained positive for 29 consecutive weeks, despite April typically suffering from tax-related outflows¹

MARKET STATISTICS

**Treasury Yield Curve¹**

<table>
<thead>
<tr>
<th>Maturity</th>
<th>2-year</th>
<th>5-year</th>
<th>10-year</th>
<th>30-year</th>
</tr>
</thead>
<tbody>
<tr>
<td>4/30/2016</td>
<td>0.78</td>
<td>1.30</td>
<td>1.83</td>
<td>2.68</td>
</tr>
<tr>
<td>MTD Change</td>
<td>0.06</td>
<td>0.09</td>
<td>0.06</td>
<td>0.07</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Maturity</th>
<th>2-year</th>
<th>5-year</th>
<th>10-year</th>
<th>30-year</th>
</tr>
</thead>
<tbody>
<tr>
<td>4/30/2016</td>
<td>0.78</td>
<td>1.30</td>
<td>1.83</td>
<td>2.68</td>
</tr>
<tr>
<td>MTD Change</td>
<td>0.06</td>
<td>0.09</td>
<td>0.06</td>
<td>0.07</td>
</tr>
</tbody>
</table>

**April Excess Returns²**

- Corporates: 1.50
- Financials: 0.93
- Industrials: 1.81
- Utilities: 1.18
- MBS Pass-Throughs: 0.16
- MBS Hybrid ARMs: -0.07
- ABS: 0.21
- CMBS: 0.43

---

¹Excess returns are the curve-adjusted excess return of a given index relative to a term structure-matched position in Treasuries.
²The views contained in this report are those of IR+M and are based on information obtained by IR+M from sources that are believed to be reliable. This report is for informational purposes only and is not intended to provide specific advice, recommendations, or projected returns for any particular IR+M product. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission from Income Research + Management.