IR+M MARKET UPDATE
FIRST QUARTER REVIEW + OUTLOOK
April 19, 2016

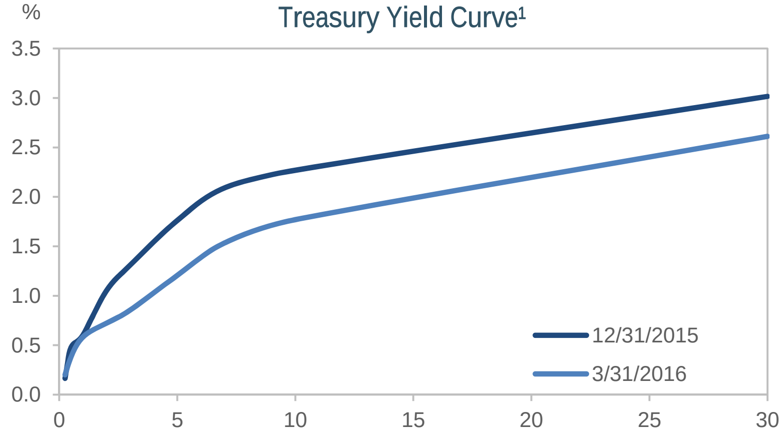
FIRST QUARTER RECAP

- Static global growth and continued pressure on commodities spurred market volatility
- Foreign central banks boosted monetary stimulus to combat the weaker global climate, while the Fed put its hiking cycle on hold
- Despite volatile conditions, high-quality corporate issuers remained active as a result of continued M&A and shareholder-friendly activity
    - New issue supply topped $318bn during the quarter, only slightly behind last year's record pace[1]
- Corporate spreads widened to a three-year high of 215bps in mid-February, before rallying to close the quarter at 163bps as oil prices stabilized[2]
- Compared to corporate bonds, mortgage- and asset-backed securities benefitted from a lower correlation to commodities
- The securitized new-issue market remained quiet, providing a positive technical for the asset class

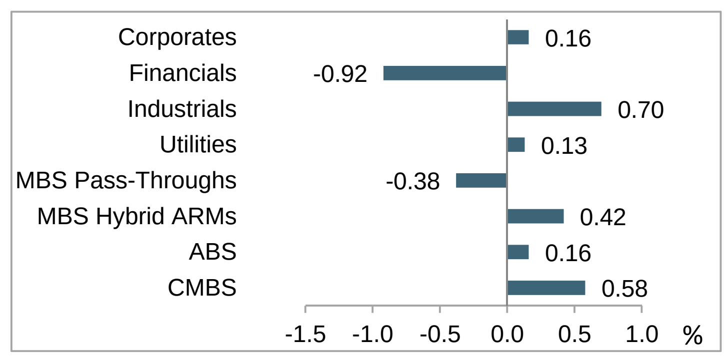
2016 GOING FORWARD

- The first quarter of 2016 marked one of the most volatile starts to the year in recent history
- Treasury rates are expected to remain at low levels until the global economy shows signs of improvement
    - Fed messaging suggests that the next rate hike won't happen until the second half of 2016
- The investment-grade corporate bond market may face challenges as lower commodity prices impact profitability in some sectors
    - However, financial and industrial issuers may offer value given above-average spread levels
- Corporate new-issue supply is anticipated to fall slightly in 2016, but heavy M&A activity could have a dramatic impact on issuance
- Securitized sectors should continue to be supported by solid liquidity and limited energy exposure

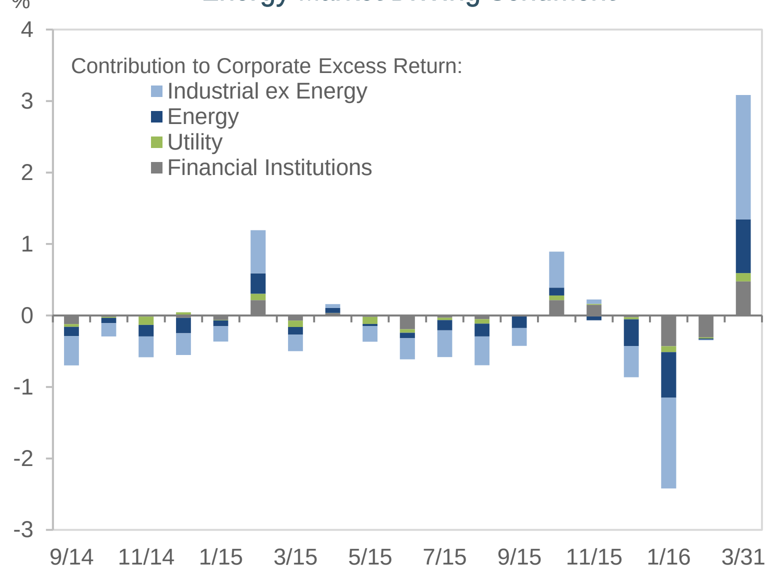
Treasury Yield Curve[1]



First Quarter Excess Returns[2,3]



Energy Market Driving Sentiment[2]



At IR+M, we believe the recent market turbulence creates opportunities for active bond managers. We expect spread product to outperform during the Fed's hiking cycle but are taking a cautious approach to adding risk. We hold a healthy overweight to high-quality corporate and securitized bonds supported by bottom-up security selection.

As of: 3/31/16. 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.