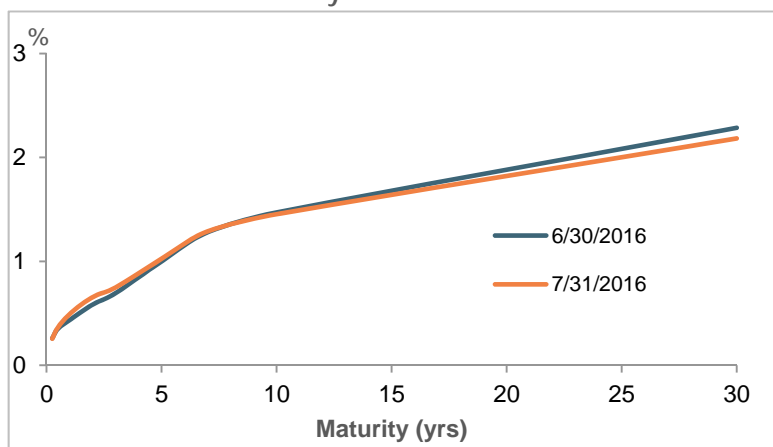


MARKET NEWS

- Persistent geopolitical uncertainty drove Treasury rates lower across the curve in early July; however, positive US economic data and the Federal Reserve’s more hawkish tone drove a sell-off in short- and intermediate-term Treasuries through the end of the month
 - Last Wednesday, the Federal Open Market Committee (FOMC) left the federal funds rate unchanged, citing inflation and weak global growth as major concerns
 - Despite the cautious stance, the Committee acknowledged that “near-term risks to the economic outlook have diminished”, and the market-implied probability of a rate hike before year-end is around 30%¹
- US investor sentiment remained positive despite mixed economic data – non-farm payrolls added a more-than-anticipated 287,000 jobs, while the gross domestic product (GDP) estimate for the second quarter was 1.2%, less than half of consensus¹
- Over 60% of the S&P 500 companies reported second quarter earnings with the majority beating estimates, but earnings and revenue growth remain in negative territory year-over-year¹
- Investment-grade supply totaled nearly \$100 billion on the month, as issuers took advantage of the low rate environment and attractive concessions – Apple, Verizon, and Teva Pharmaceuticals all priced large deals²
 - Shareholder-friendly activity has picked up recently given low organic growth – most recently, Microsoft is issuing about \$20 billion to fund their acquisition of LinkedIn
- A reach for yield coupled with continued geopolitical fears supported the US investment-grade corporate bond market with spreads closing 11bps tighter month-to-date at 145bps³
 - Precious metal prices rebounded in July, driving strong performance within the industrial sector
- Heavy supply in the securitized market met sizable demand from investors, and most sub-sectors outperformed Treasuries¹
 - Mortgages generated slightly positive excess returns as refinancing activity eased to pre-Brexit levels, and encouraging housing data indicated an improving real estate market
- Issuance in the municipal market was substantial as well, but the sector benefitted from consistent inflows, which have been positive for 43 consecutive weeks¹

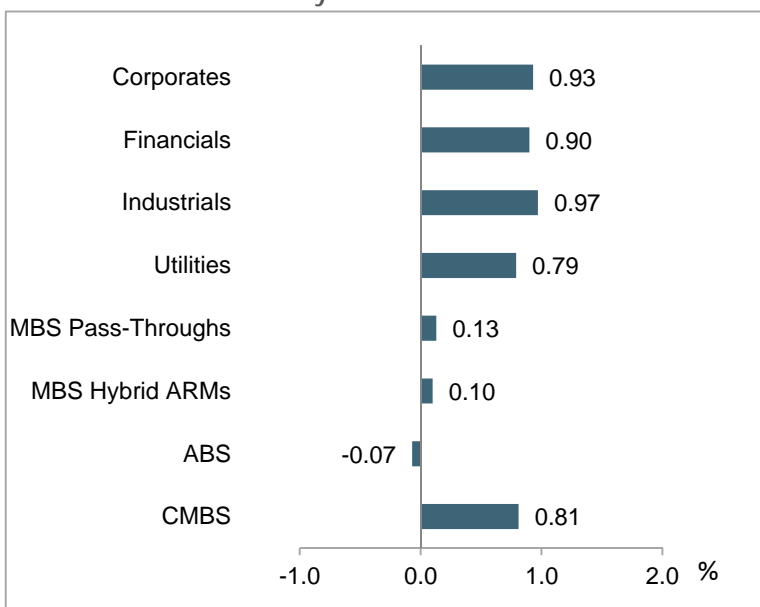
MARKET STATISTICS

Treasury Yield Curve¹



Maturity	2-year	5-year	10-year	30-year
7/31/2016	0.66	1.03	1.45	2.18
MTD Change	0.07	0.02	-0.02	-0.10

July Excess Returns^{3*}



As Of: 7/31/16. Sources: 1. Bloomberg 2. Citigroup 3. Barclays

*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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