IR+M

INCOME RESEARCH + MANAGEMENT

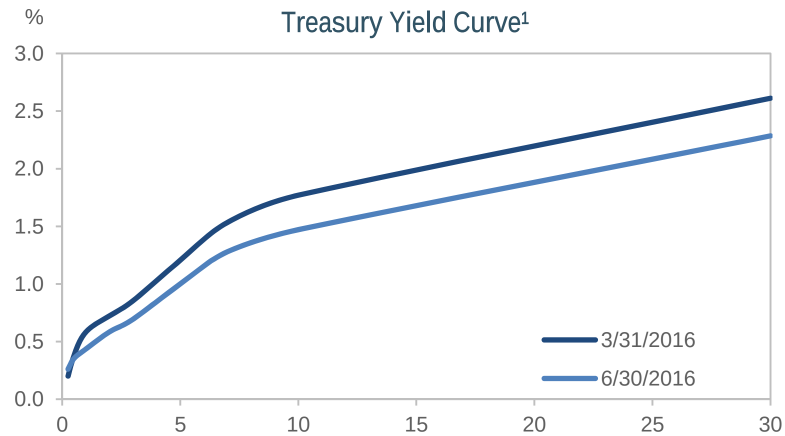
IR+M MARKET UPDATE
SECOND QUARTER REVIEW + OUTLOOK

July 15, 2016

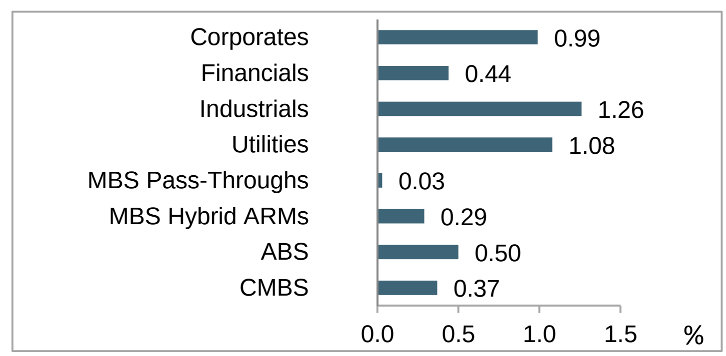
SECOND QUARTER RECAP

- Treasury rates fell across the curve in the second quarter as weak economic signals from Europe drove demand for safe, US debt
- The Brexit referendum dominated headlines at the end of the quarter, and the “leave” vote certainly caught the market off-guard
- In the corporate sector, the fundamental picture continued to deteriorate as investment-grade balance sheets increased leverage, most notably in the energy and materials industries
- Corporate issuers came to market with over $650 billion in supply year to date, met with robust foreign demand as sovereign yields reached record lows[1]
- Corporate bonds outpaced Treasuries by 99bps, as investment-grade spread levels moved 7bps tighter to 156bps during the quarter[2]
- CMBS and ABS benefited from positive momentum in the housing and consumer markets, while remaining largely insulated from the volatility post-Brexit
- Agency MBS came under pressure in June as prepayment fears resurfaced following the rate rally

Treasury Yield Curve[1]



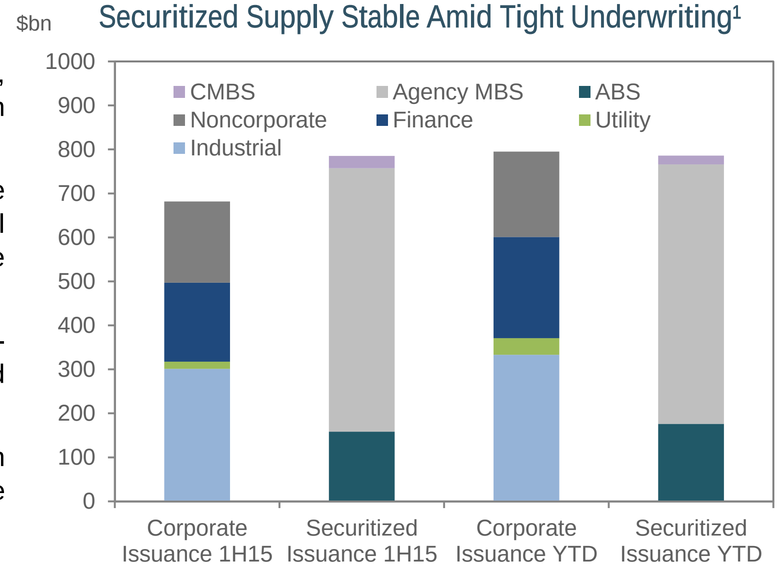
Second Quarter Excess Returns[2,3]



2016 GOING FORWARD

- The consequences of Brexit are still uncertain in scope, and undoubtedly will remain an important theme within financial markets in the second half of 2016
- Market participants are pricing in one rate hike from the Fed before year-end given the growing roster of global headwinds – the risk-off tone could provide a positive catalyst for US Treasuries
- In corporates, manageable supply expectations and yield-driven buying are expected to support the market amid weakening fundamentals
- Despite lower borrowing rates, tighter credit conditions in the residential mortgage market may help moderate issuance levels in the securitized sector

Securitized Supply Stable Amid Tight Underwriting[1]



At IR+M, we look to capitalize on the bottom-up security selection opportunities that arise during periods of volatility. We are comfortable with our current spread product exposure, as historically low rates make Treasuries less attractive. Amid the current environment, we believe our portfolios will continue to benefit from a high-quality, US fixed income focus over the near term.

As of: 6/30/16. 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.