INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
August 2015

September 1, 2015

MARKET NEWS

- Global financial markets experienced an uptick in volatility during August as China's devaluation of its local currency drove fears of a slowdown in the world's second-largest economy
    - The Dow Jones Industrial Average traded in an over 2000 point range during the month and closed August down almost 6.6%[1]
    - Weakness in China's economy hurt commodity demand, driving fears of deflation – crude oil fell to $38 per barrel mid-month for the first time since 2009, before surging 29% to $49 as producers alluded to cutting supply[1]
- The US economy displayed strength amid weakening global financial conditions – the second reading of US gross domestic product (GDP) revealed the economy grew 3.7% in the second quarter, up from an initial estimate of 2.3%[1]
    - Late last week, Federal Reserve (Fed) Vice Chairman Stanley Fischer suggested that the Committee is still on course to increase rates this year given the healthy US outlook
- Investment-grade bonds proved resilient as investors flocked to the relative safety of the fixed-income market, but expectations of tighter Fed policy continued to weigh on Treasuries
    - As illustrated below, the durability of high-quality bonds during times of market stress demonstrates the value of diversification, as fixed income can provide a cushion against equity market corrections
    - The 10-year Treasury rate closed the month a modest 4bps higher at 2.22% and traded as low as 1.90% during the equity sell-off last Monday[1]
- In the corporate market, new issue slowed given the late August timeline and overall weak market tone – investment-grade supply totaled less than $50 billion versus a monthly average of over $100 billion year-to-date[2]
    - The primary market is anticipated to pick up between Labor Day and the Fed's mid-September meeting, with over $100 billion expected this month
- Investment-grade spreads widened 14bps to 168bps mid-month, but recovered 5bps to close August at 163bps as investors stepped in to buy at cheap levels[3]
- Agency mortgage-backed securities (MBS) generally benefitted from a lower correlation to macro headlines and more balanced net supply expectations through year-end versus other spread sectors
- The municipal bond market performed strongly amid higher Treasury yields and spread widening in corporate sectors – the 10-year municipal/Treasury ratio fell 6% to 100% during the month[1]

MARKET STATISTICS

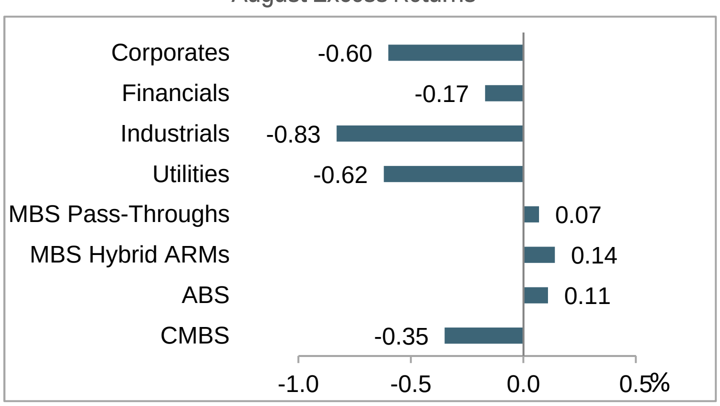
Treasury Yield Curve[1]

Maturity	2-year	5-year	10-year	30-year
8/31/15	0.74	1.55	2.22	2.96
MTD Change	0.08	0.02	0.04	0.06

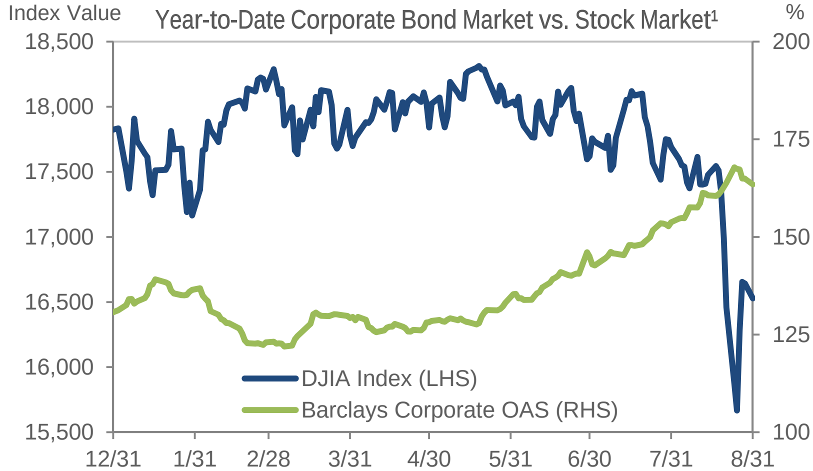
Market Returns[1]

Market	Close	MTD	YTD
Dow Jones IA Index	16,528	-6.6%	-7.3%
Barclays Agg Index	1,923	-0.1%	0.5%
Oil	$49.20	3.5%	-15.4%

August Excess Returns[2*]



Year-to-Date Corporate Bond Market vs. Stock Market[1]



As Of: 8/31/15. Sources: 1. Bloomberg 2. JPMorgan 3. Barclays

*Excess returns are the curve-adjusted excess return of a given index relative to a term structure-matched position in Treasuries.

100 Federal Street, 30th Floor Boston, MA 02110 (617) 330-9333 www.incomeresearch.com