IR+M CLIENT UPDATE
January 2016

INCOME RESEARCH + MANAGEMENT

February 1, 2016

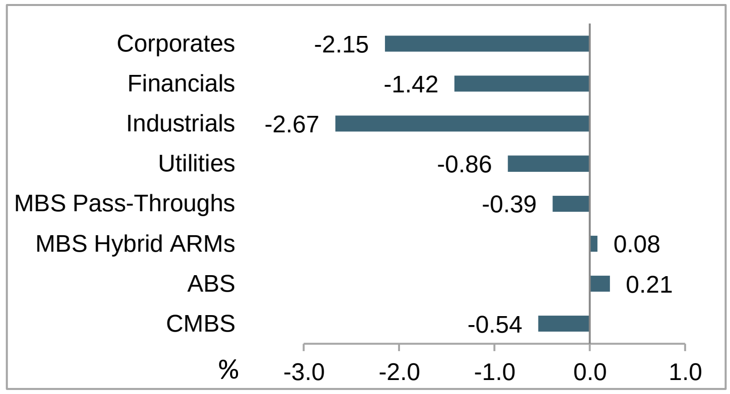
MARKET NEWS

- The Federal Reserve (Fed) met last week for the first time since raising the federal funds rate, and while acknowledging recent market turmoil, the committee's statement gave little guidance as to the timing of the next hike
- US economic indicators suggested that growth tempered as consumer spending slowed and businesses reduced capital investment – fourth quarter Gross Domestic Product (GDP) rose just 0.7%, versus a 2.0% gain in the third quarter[1]
- Heavy primary activity proved a headwind for the investment-grade corporate bond market – issuance topped over $100 billion in January, hallmarked by the $46 billion mega-deal from Anheuser-Busch InBev to finance the takeover of rival brewer SABMiller[2]
- Securitized bonds fared better than other spread sectors, benefitting from a lower correlation to the weak energy complex and stronger relative liquidity in the strained environment
- In the municipal market, the "January Effect" lived on as investors had cash to allocate to defensive assets following tax-loss harvesting at the end of 2015

Treasury Yield Curve[1]

Maturity	2-year	5-year	10-year	30-year
1/31/16	0.78	1.33	1.92	2.74
MTD Change	-0.27	-0.43	-0.35	-0.27

January Excess Returns[3*]



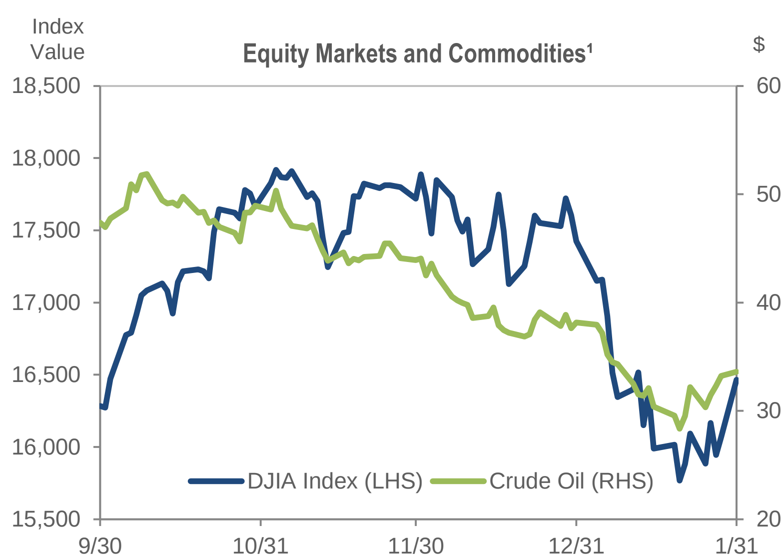
TOPICAL UPDATE: ENERGY

- Since mid-2014, commodity prices have trended lower as a result of a number of macro factors, most notably: an industrial slowdown in China, the removal of export sanctions in Iran, and the end of Fed easing
- January was a continuation of this trend, led by a precipitous drop in oil prices, and financial markets experienced weakness to begin the new year – crude oil dropped below $30 mid-month, while equity markets fell roughly 5%[1]
- Market expectations called for higher rates in 2016; however, the fixed-income markets caught a strong bid from investors looking to reduce risk amid the volatile environment
- In the investment-grade corporate market, energy and basic material credits came under pressure as profitability in these sectors is highly correlated to commodity performance
  - Amid the challenging commodity price environment, issuers in these sectors are taking steps to improve balance sheet health by lowering cost of production, increasing reserves, and stalling capital projects
  - Despite attempts to respond to deteriorating market conditions, many issuers are expected to face downgrades in 2016 as rating agencies respond to changing industry trends
- January marked one of the most volatile starts to the year in recent history; however, we believe the market activity signified a technical correction rather than a major shift in the US corporate outlook

Market Returns[1]

Market	Closing Level	YTD Return
Dow Jones IA Index	16,466	-5.5%
Barclays US Agg Index	1,952	1.4%
US Treasury Index	2,172	2.1%
Oil	$33.74	-8.9%
Gold	$1,118.21	5.4%
Copper	$2.07	-3.2%

Equity Markets and Commodities[1]



As Of: 1/31/16. 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.