INCOME RESEARCH + MANAGEMENT

IR+M CLIENT UPDATE
April 2016

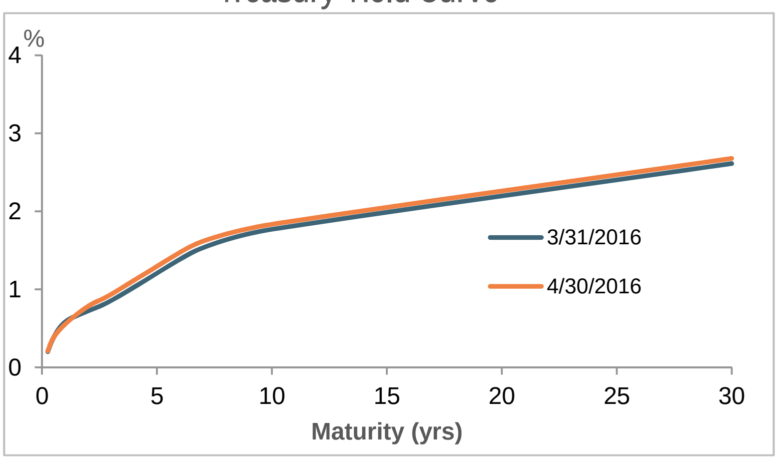
May 2, 2016

MARKET NEWS

- In April, Treasury rates edged higher and credit spreads generally tightened, as overall market sentiment improved and investors crept back into risk assets
    - The 10-year Treasury rate increased 6bps to 1.83%, after dropping over 50bps in the first quarter[1]
- The US economy expanded a modest 0.5% in the first quarter, the weakest quarterly pace in two years, as US corporations slowed spending in response to weak global conditions[1]
    - Fearing that global turmoil may slow the US recovery, the Federal Reserve kept short-term interest rates unchanged at the April meeting and officials gave no indication as to the timing of the next rate hike
- Corporate issuance totaled approximately $80 billion, the lowest monthly total so far in 2016, as first quarter earnings season kicked off[2]
- Over half of S&P 500 constituents reported first quarter earnings during the month – earnings-per-share (EPS) growth declined 8.9% on average, dragged down by the weak oil market[1]
    - However, results have generally surprised to the upside, as companies navigated the weak environment better than anticipated
- Investment-grade corporate spreads closed the month at 146bps, the tightest level since July 2015 and 69bps tighter than the year-to-date wide of 215bps reached in mid-February[3]
- In the commercial mortgage-backed security (CMBS) sector, relatively slow supply supported trading levels in the secondary market, and the sector outperformed Treasuries by 43bps[3]
- Municipal bonds posted a fourth consecutive month of positive absolute returns in 2016, as relatively low municipal supply has contributed to a positive technical environment
    - Year-to-date issuance totaled roughly $122 billion, which is down 11% compared to the same period last year, as refunding supply has fallen[1]
    - Municipal fund flows have remained positive for 29 consecutive weeks, despite April typically suffering from tax-related outflows[1]

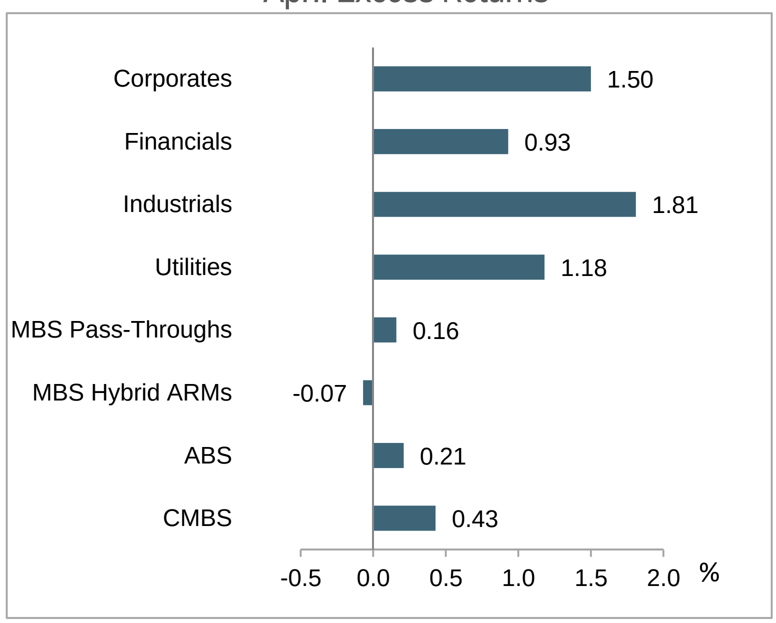
MARKET STATISTICS

Treasury Yield Curve[1]



Maturity	2-year	5-year	10-year	30-year
4/30/2016	0.78	1.30	1.83	2.68
MTD Change	0.06	0.09	0.06	0.07

April Excess Returns[2*]



As Of: 4/30/16. 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.