

Global fixed income focus – February 2016

Leveraged loans • Credit default swaps • Global corporate bonds • Sovereigns • Municipal bonds • Securitised products

February was a very volatile month in the credit markets as oil prices and concerns out of China continued to exert pressure. The month kicked off with a significantly weaker than expected US employment report. This set the tone and added to huge swings in the government bond markets. The impact of oil price action on equity markets persisted, as weekly inventories continued to grow in the US, but occasional rhetoric around production cuts or freezes from major oil producing countries provided periods of respite from declining prices.

- The leveraged loan market, as tracked by the [Markit iBoxx USD Leveraged Loans Index \(MiLLi\)](#) reached its lowest point on February 12th, down 1.1%, but managed to pare most of the losses and ended the month only 54bps lower on a total return basis.
- The CDS market picked up where it left off in January by continuing to widen in earnest in the opening week of February. This trend prevailed, with various CDS indices surging to multi year highs on February 11th, before retreating in the following three weeks.
- Downward pressure on crude oil prices and fresh worries around Europe's banking sector dominated negative risk sentiment in the first half of February. A rebound in commodity prices bode well for US corporate bonds, driving both [Markit iBoxx \\$ Corporate Bond Indices](#) investment grade (IG) and \$ high yield (HY) sub-indices to end the month on a positive note: 0.7% and 0.9% total returns, respectively.
- Among developed nation government bonds, [Markit iBoxx € Germany](#) was the best performing government bond index, returning 1.6% in February. Despite the renewed appetite for risky assets during the latter half of the month, safe haven government bond yields have continued to slide, with 10-yr German bonds 24bps tighter.
- Municipal bonds had a relatively strong month in February, with benchmark 10-year general obligation bonds from California concluding the month 2bps tighter.
- Pressure on securitised products lingered, with credit paper feeling the most stress. CMBS experienced some of the worst spread performance across the entire credit curve, with all rating categories widening sharply and hitting new one year wides.

Leveraged loans

Much like bonds, February was a very volatile month for the leveraged loan market. The asset class, as tracked by the [Markit iBoxx USD Leveraged Loans Index \(MiLLi\)](#) was down as much as 1.1% at its lowest point on the February 12th, but managed to pare back most of its losses to end the month only 54bps lower on a total return basis. While this marked an improvement on last month's 75bps decline, the index still managed to extend its losing streak to nine consecutive months: it's longest since its inception in 2006.

Energy sector weakens significantly this month

This poor performance was in large parts driven by deterioration in loans made to energy firms over the month (**Figure 1**). North American loans made to energy companies widened by over 150bps in each of the ratings spectrum. This same trend was also evidenced among single name issuances as energy names made up four of the five worst performing distressed single names over the month.

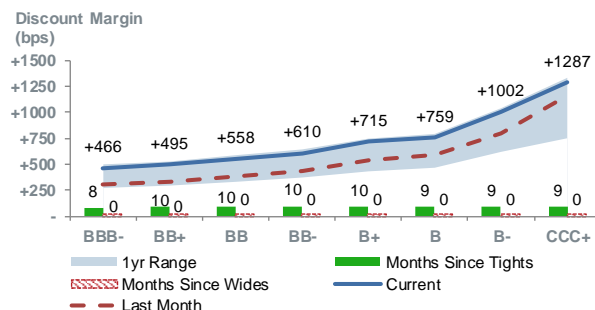
While energy was by far the worst performing sector in terms of credit deterioration, this jump was by no means isolated as five other sectors, also saw a jump in spread over the month, including: consumer goods, consumer services, financials, technology and utilities (**Table 3**).

European loans had an even tougher month than their North American peers as spreads widened by an even greater margin in the region. This trend was apparent across every single ratings bucket and every sector saw spreads widen over 10bps more than the corresponding sector/ratings bucket on the other side of the Atlantic.

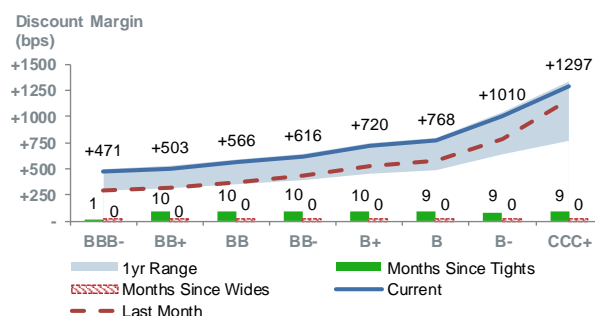
Copper mining company best performer globally

Interestingly, basic materials loans managed to buck the trend despite the fact that global growth continued to slump over the month (**Table 1**). Corporate actions played a part in the sector's performance, as copper miner Freeport McMoRan saw its 2013 and 2015 vintage TLA loans top the best performing tables over the month after the firm's decision to sell a \$1bn stake in its Arizona based Morenci mine to shore up its balance sheet.

Figure 1: Leveraged loan energy sector spreads North America



Europe



Source: Markit

Table 1: February North American loans best and worst price performance¹

North America

LXID	Loan Name	Sector	Country	Liq score	2/29 price	% change	One year low	Date	One year high	Date	
Best Performers											
Par											
1	LX128443	Freeport McMoran 2/13 TLA Delayed TL	Basic Materials	USA	4	86.80	+15.7%	72.67	1/26/16	98.58	7/24/15
2	LX132914	Caesars Entertainment (Harrah's) 10/13 TLB	Consumer Services	USA	2	90.67	+4.3%	84.75	2/11/16	96.44	5/8/15
3	LX128960	Cooper Gay Swett & Crawford 4/13 2nd Lien TL	Financials	USA	4	98.33	+4.2%	86.00	4/3/15	98.33	2/29/16
4	LX132841	Mitchell International 10/13 Cov-Lite TL	Technology	USA	2	91.38	+3.6%	87.80	1/22/16	100.50	4/13/15
5	LX136188	Federal Mogul 4/14 TLB	Consumer Goods	USA	2	86.00	+3.4%	80.18	2/4/16	99.70	4/10/15
Distressed											
1	LX147256	Freeport McMoran 2/15 Extended TLA	Basic Materials	USA	3	78.69	+35.3%	57.17	1/26/16	86.00	9/7/15
2	LX129276	Securus Technologies 4/13 2nd Lien Cov-Lite TL	Telecom Services	USA	4	63.75	+18.3%	52.50	1/26/16	98.60	3/6/15
3	LX129695	Global Tel Link 5/13 Cov-Lite TL	Technology	USA	3	82.08	+14.0%	71.33	1/11/16	98.90	4/27/15
4	LX129228	Securus Technologies 4/13 TL	Telecom Services	USA	3	83.25	+13.3%	69.33	10/23/15	98.78	3/5/15
5	LX139218	Southcross Energy 7/14 TL	Energy	USA	4	51.25	+13.1%	41.25	1/27/16	93.00	9/16/15
Worst Performers											
Par											
1	LX144606	Epicor 6/15 Cov-Lite TL	Technology	USA	2	87.75	-7.9%	87.75	2/29/16	100.28	7/22/15
2	LX136042	Gypsum 3/14 Cov-Lite 2nd Lien TL	Industrials	USA	5	87.67	-7.3%	87.67	2/29/16	96.71	11/17/15
3	LX133987	Intelsat Jackson 11/13 TLB2	Telecom Services	BMU	1	88.89	-7.1%	86.89	2/23/16	99.96	4/16/15
4	LX141710	Bluestem 11/14 TL	Consumer Services	USA	5	86.67	-6.8%	85.33	2/23/16	99.92	4/20/15
5	LX137852	Gates Global 7/14 (EUR) Cov-Lite TL	Industrials	USA	3	87.81	-6.4%	87.81	2/29/16	100.66	6/3/15
Distressed											
1	LX136541	Frac Tech International 4/14 Cov-Lite TL	Energy	USA	4	9.00	-56.3%	10.20	2/19/16	88.33	5/14/15
2	LX118284	Walter Energy (4/11) TLb	Energy	USA	4	13.83	-45.1%	13.83	2/29/16	66.25	3/9/15
3	LX143607	C&J Energy 3/15 Cov-Lite TLB2	Energy	USA	3	35.67	-24.5%	35.67	2/29/16	94.58	5/15/15
4	LX138431	American Energy Marcellus 8/14 Cov-Lite TL	Energy	USA	3	15.50	-21.7%	15.50	2/29/16	85.83	3/9/15
5	LX135161	RCS Cap 3/14 TL	Financials	USA	5	55.00	-20.5%	55.00	2/29/16	99.25	8/6/15

Source: Markit

¹ Par is defined as a loan with a month end price of 85 or higher and distressed has a price lower than 85.

Table 2: February European loans best and worst price performance¹

Europe

	LXID	Loan Name	Sector	Country	Liq score	2/29 price	% change	One year low	Date	One year high	Date
Best Performers											
Par											
1	LX139585	Formula One 8/14 (USD) Cov-Lite 2nd Lien TL	Consumer Services	LUX	2	85.92	+3.5%	81.30	2/11/16	100.30	7/17/15
2	LX135580	Mallinckrodt 3/14 Cov-Lite TL	Healthcare	LUX	1	97.83	+1.6%	91.40	11/10/15	100.00	5/11/15
3	LX134783	HC Starck 12/13 (USD) 1 TLE	Basic Materials	DEU	2	93.38	+1.3%	88.58	11/10/15	98.38	7/21/15
4	LX146865	Numericable / YPSO 7/15 (USD) Cov-Lite B5 TL	Consumer Services	FRA	1	95.56	+0.6%	94.44	2/23/16	99.88	8/5/15
5	LX134782	HC Starck 12/13 (EUR) 1 TLE	Basic Materials	DEU	2	93.64	+0.6%	88.81	11/6/15	99.89	5/29/15
Distressed											
1	LX141286	Prisa 12/14 PPL TL3	Consumer Services	ESP	3	66.58	+4.0%	62.17	1/19/16	81.25	7/15/15
2	LX135384	Seadrill Partners 2/14 TL	Energy	GBR	1	41.25	+3.9%	34.88	12/14/15	83.50	5/20/15
3	LX064209	Fraikin 2/07 (GBP) Holdco TL	Consumer Services	FRA	5	54.25	+3.7%	51.50	1/25/16	69.67	8/20/15
4	LX134377	BARTEC 12/13 TLC	Industrials	DEU	1	84.07	+2.9%	79.50	1/19/16	99.88	6/26/15
5	LX137721	Natra 9/13 TLA	Consumer Goods	ESP	5	68.67	+0.5%	67.67	1/26/16	69.67	2/9/16
Worst Performers											
Par											
1	LX128950	Doncasters 4/13 (GBP) Cov-Lite TL	Industrials	GBR	4	91.50	-6.6%	91.38	2/19/16	100.05	5/7/15
2	LX139559	Endemol 8/14 (GBP) Cov-Lite TL	Consumer Services	NLD	4	89.25	-6.4%	88.33	2/23/16	100.00	5/29/15
3	LX118614	Sisal 10/06 TLB2	Consumer Services	ITA	3	91.58	-3.7%	91.58	2/29/16	96.63	9/18/15
4	LX143523	Springer 3/15 (USD) B9 TL	Consumer Services	DEU	3	92.08	-3.5%	91.42	2/19/16	100.13	7/22/15
5	LX146753	Numericable / YPSO / Altice 7/15 Cov-Lite TLB	Consumer Services	LUX	2	95.25	-3.5%	95.19	2/26/16	100.06	8/18/15
Distressed											
1	LX129817	Pacific Drilling 5/13 TL	Energy	LUX	3	19.19	-25.0%	19.19	2/29/16	89.25	5/19/15
2	LX137914	PagesJaunes 6/14 (EUR) A7 TL	Technology	FRA	2	50.21	-19.9%	50.17	2/18/16	84.57	4/28/15
3	LX141717	Autobar 10/14 Holdco PIK (w/ Equity) TL	Consumer Services	NLD	5	28.13	-19.6%	27.50	2/26/16	106.40	9/11/15
4	LX139193	Aenova 8/14 Cov-Lite 2nd Lien TL	Healthcare	DEU	4	71.20	-19.5%	70.50	2/24/16	100.25	6/24/15
5	LX132213	Consolis 8/13 ORA 1 PIK TL	Consumer Goods	FRA	3	9.50	-17.4%	10.33	1/18/16	35.00	6/23/15

Source: Markit

Table 3: North American and European loan sector curve monthly discount margin spread change in basis points

		BBB-	BB+	BB	BB-	B+	B	B-	CCC+
Basic Materials	NA	-13	-13	+1	-8	-2	-8	+25	-57
	EU	+1	+1	+15	+6	+10	+6	+38	-43
	Change NA-EU	-13.9	-14.7	-13.8	-13.7	-12.5	-13.9	-12.9	-14.3
Consumer Goods	NA	+4	+4	+18	+9	+15	+10	+43	-40
	EU	+18	+19	+32	+23	+28	+23	+56	-25
	Current NA-EU	-13.9	-14.7	-13.8	-13.7	-12.5	-13.9	-12.9	-14.3
Consumer Services	NA	+3	+2	+17	+8	+14	+8	+41	-41
	EU	+17	+17	+31	+22	+26	+22	+54	-27
	Current NA-EU	-13.9	-14.6	-13.7	-13.6	-12.5	-13.8	-12.8	-14.3
Energy	NA	+167	+166	+181	+172	+177	+172	+205	+123
	EU	+181	+181	+195	+186	+190	+186	+218	+137
	Current NA-EU	-14.2	-15.0	-14.1	-14.0	-12.8	-14.2	-13.2	-14.6
Financials	NA	+2	+2	+17	+8	+13	+8	+41	-42
	EU	+17	+17	+31	+22	+26	+22	+54	-27
	Current NA-EU	-14.3	-15.1	-14.2	-14.1	-12.9	-14.3	-13.3	-14.7
Healthcare	NA	+6	+6	+20	+11	+17	+11	+44	-38
	EU	+20	+20	+33	+24	+29	+25	+57	-24
	Current NA-EU	-13.5	-14.3	-13.4	-13.3	-12.1	-13.5	-12.5	-13.9
Industrials	NA	-11	-11	+3	-6	-0	-6	+27	-55
	EU	+2	+3	+16	+7	+12	+8	+40	-41
	Current NA-EU	-13.4	-14.2	-13.3	-13.2	-12.0	-13.4	-12.4	-13.8
Technology	NA	+8	+7	+22	+13	+18	+13	+46	-36
	EU	+20	+21	+34	+25	+30	+26	+58	-23
	Current NA-EU	-12.8	-13.5	-12.6	-12.6	-11.4	-12.8	-11.8	-13.2
Telecommunication Services	NA	+7	+6	+21	+12	+17	+12	+45	-38
	EU	+22	+22	+36	+27	+31	+27	+59	-22
	Current NA-EU	-15.2	-15.9	-15.1	-15.0	-13.8	-15.2	-14.2	-15.6
Utilities	NA	+2	+1	+16	+7	+12	+7	+40	-42
	EU	+17	+17	+31	+22	+26	+22	+54	-27
	Current NA-EU	-15.1	-15.8	-14.9	-14.9	-13.7	-15.1	-14.1	-15.5

Source: Markit

Credit default swaps

The CDS Market picked up where it left of in January by continuing to widen in earnest in the opening week of February (**Figure 2**). This trend continued with various CDS indices surging to multi year highs on the February 11th, before retreating in the subsequent three weeks. This pullback in credit risk was not enough to overtake initial rise however and CDS spreads ended the month wider across all ratings bucket.

The largest surge in credit risk in North America can't be attributed to this trend however as Honeywell saw its five year spread more than double after speculation that it may be mulling a takeover bid of its rival Applied Materials came to light (**Table 5**). However, this potential deal had been proven to be very unlikely and the firm has since seen its spread recover.

The widening was most severe among European investment grade names (**Figure 3**). Liquid single A credit in the region ended the month with an average spread of 61bps, 6bps wider than the spread seen by firms with the same credit rating in North America.

Commodity firms led the best performers globally

Commodities firms dominated the list of single name CDS that bucked the global trend and trade tighter over the month (**Table 4**). Copper miner Freeport-McMoRan saw the most credit improvement globally during the month, as its five year spread fell by half over the month to settle at 1037bps. As mentioned in the leverage loan section, this was driven by the firm's decision to sell a \$1bn stake in its Arizona based Morenci mine to shore up its balance sheet.

The best improvement in terms of absolute spread was by Venezuelan oil company Petroleos de Venezuela, which saw its spread tighten by a substantial 3087bps over the month as it defied default speculation by paying off \$1.5bn of maturing bonds. The company is still not out of the woods, as its five year spread at the end of the month was over 6,600bps; over ten times that of the worst rated North American CDS ratings bucket.

Gold miners were also benefited from the broader market volatility, as investors sought shelter in the precious commodity. This saw Barrick Gold make the list of North American best performers, as concerns about its debt pile waned due to the rising price of gold.

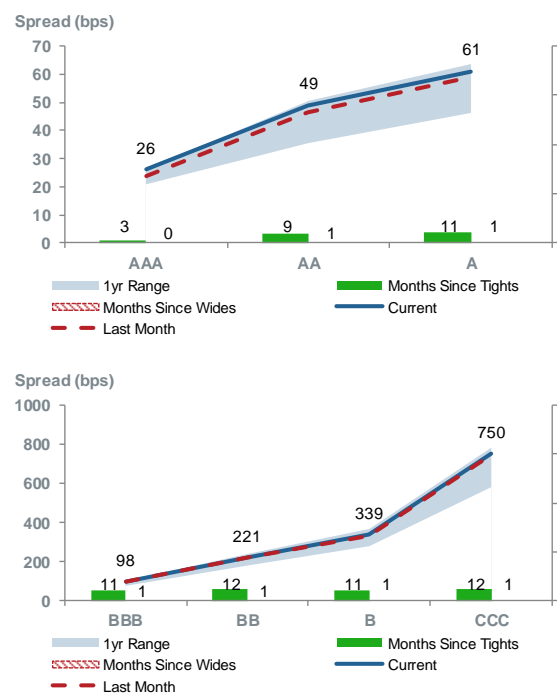
Worst performers globally were largely industrial and financial firms

On a single name basis, the firms leading the widening were industrial and financial firms, all of which saw a surge in credit risk as market participants raised concerns about growth in the current low yield environment. Names standing out this month included

Boeing, American International Group, Barclays and Credit Suisse (**Table 5**).

In Europe, Portugal Telecom International BV saw its spread more than triple as investors were concerned about the health of its Brazilian parent company Oi, which acquired the company over 18 months ago. Its spread is now the equivalent of over 10,000bps (73 points upfront +500bps per annum), which is a staggering 30 times wider spread than the levels seen a year ago.

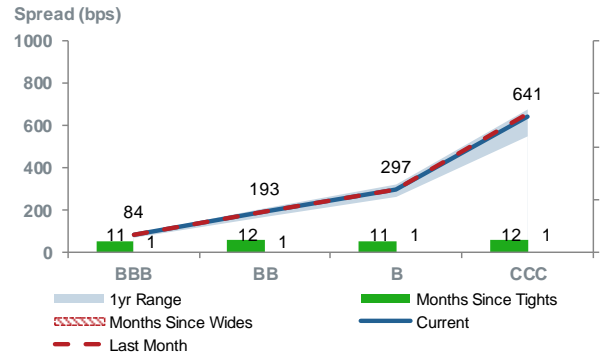
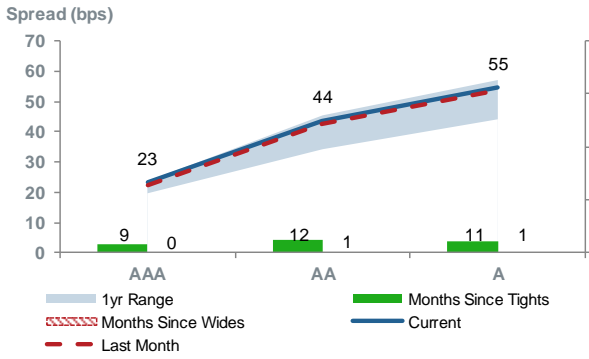
Figure 2: Global CDS sector summary
Global spreads by rating



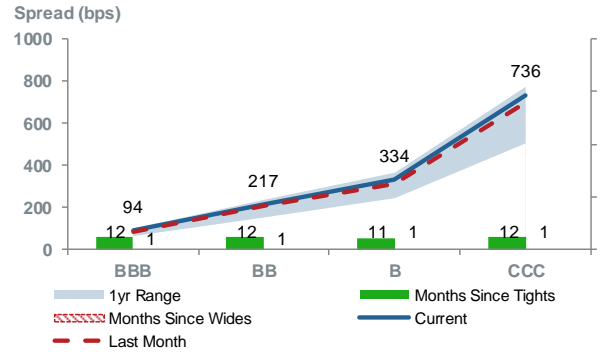
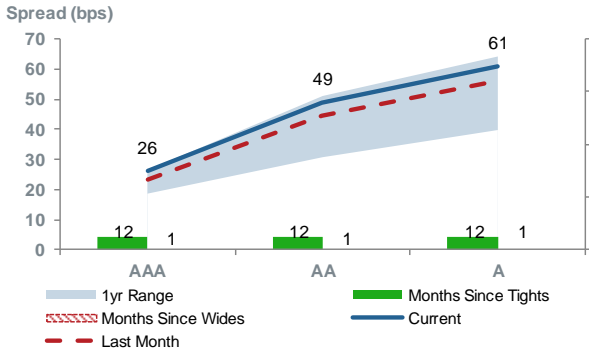
Source: Markit

Figure 3: February regional CDS sector spread summary

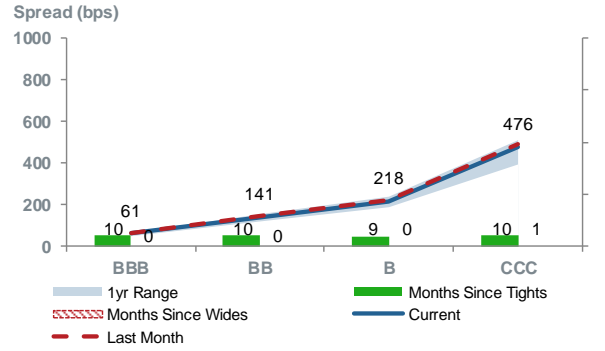
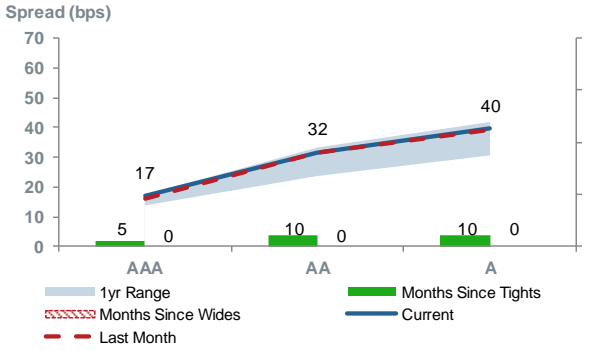
North America



Europe



Japan



Source: Markit

Table 4: February liquid 5yr corporate CDS best spread performance²

Best performers

	Ticker	Company	Sector	Country	Liq score	2/29 spread	Change	% change	One year tight	Date	One year wide	Date
Americas												
1	FREEPIN	FreeportMcMoRan Inc	Basic Materials	USA	1	1037	-971	-48.4%	215	5/4/15	2221	1/25/16
2	AKS-Corp	AK Stl Corp	Basic Materials	USA	2	2152	-1222	-36.2%	777	5/14/15	3928	1/25/16
3	PDV	Petroleos de Venezuela Sa	Energy	VEN	2	6632	-3087	-31.8%	3702	5/11/15	11163	2/11/16
4	ABX	Barrick Gold Corp	Basic Materials	CAN	2	219	-100	-31.4%	149	5/15/15	379	11/26/15
5	X	Utd Sts Stl Corp	Basic Materials	USA	1	1719	-729	-29.8%	457	5/14/15	2755	1/27/16
EMEA												
1	AAUK	Anglo Amern plc	Basic Materials	GBR	1	776	-408	-34.4%	145	3/5/15	1387	1/14/16
2	ARMLL	ArcelorMittal	Basic Materials	LUX	1	745	-277	-27.1%	239	3/5/15	1147	1/15/16
3	GLCORE	Glencore Intl AG	Basic Materials	CHE	1	669	-228	-25.4%	137	3/5/15	1128	1/20/16
4	GENP	Rallye	Consumer Services	FRA	1	1242	-416	-25.1%	204	3/6/15	1760	1/21/16
5	GROUPE	Casino Guichardperrachon	Consumer Services	FRA	1	386	-51	-11.7%	78	3/9/15	519	1/18/16
APAC												
1	MARUB	Marubeni Corp	Energy	JPN	2	111	-24	-17.8%	61	6/11/15	196	1/21/16
2	CITOH	ITOCHU Corp	Industrials	JPN	2	64	-13	-17.3%	46	5/28/15	104	10/1/15
3	NPG-NPI	Nippon Paper Inds CoLtd	Basic Materials	JPN	2	102	-18	-15.0%	74	4/27/15	146	1/21/16
4	NIPYU	Nippon Yusen Kabushiki Kaisha	Industrials	JPN	2	99	-10	-8.9%	45	4/30/15	136	2/12/16
5	BHP	BHP Billiton Ltd	Basic Materials	AUS	2	211	-19	-8.4%	66	3/3/15	252	1/21/16

Source: Markit

² A liquid CDS is defined as an entity with a current liquidity score of 1 or 2. Markit liquidity scores range from 1-5, with 1 being the most liquid and 5 the least liquid.

Table 5: February liquid 5yr corporate CDS worst spread performance²

Worst performers

	Ticker	Company	Sector	Country	Liq score	2/29 spread	Change	% change	One year tight	Date	One year wide	Date
Americas												
1	HON	Honeywell Intl Inc	Industrials	USA	1	38	+22	+134.8%	15	3/12/15	38	2/29/16
2	BA	Boeing Co	Industrials	USA	1	42	+17	+67.4%	15	3/10/15	60	2/11/16
3	EQR-ERPOperLP	ERP Oper Ltd Pship	Financials	USA	2	60	+24	+66.2%	35	2/1/16	75	2/11/16
4	NRUC	Natl Rural Utils Coop Fin Corp	Financials	USA	1	33	+13	+61.3%	20	2/3/16	48	7/8/15
5	AIG	Amern Intl Gp Inc	Financials	USA	2	120	+46	+61.1%	45	10/23/15	162	2/15/16
EMEA												
1	PLTMPL-IntFin	Portugal Telecom Intl Fin B V	Telecom Services	NLD	2	10761 ³	+7813	+265.1%	362	3/9/15	10761	2/29/16
2	EDP	EDP Energias de Portugal SA	Utilities	PRT	2	336	+137	+68.4%	91	3/5/15	355	2/24/16
3	RBOS-RBOSplc	Royal Bk of Scotland Pub Ltd Co	Financials	GBR	1	137	+55	+67.2%	52	3/2/15	147	2/11/16
4	BACR-Bank	Barclays Bk plc	Financials	GBR	1	131	+50	+61.4%	43	3/5/15	152	2/8/16
5	CSGAG	Credit Suisse Gp AG	Financials	CHE	2	153	+58	+61.1%	49	3/6/15	178	2/12/16
APAC												
1	KAWHI	Kawasaki Heavy Inds Ltd	Industrials	JPN	2	104	+33	+47.2%	32	4/24/15	120	2/17/16
2	TOSH	TOSHIBA Corp	Industrials	JPN	2	499	+158	+46.4%	44	4/29/15	739	2/9/16
3	NAB	Natl Aust Bk Ltd	Financials	AUS	2	137	+40	+41.0%	56	3/6/15	141	2/25/16
4	NECORP	NEC Corp	Technology	JPN	2	83	+23	+38.5%	42	4/29/15	97	2/12/16
5	HITACH	Hitachi Ltd	Industrials	JPN	2	45	+11	+33.2%	20	4/29/15	55	2/12/16

Source: Markit

³ The spread represents the equivalent of 73 points upfront +500bps per annum.

Global corporate bonds

Oil and financials continues to take centre stage in the credit markets

Further downward pressure on crude oil prices and fresh worries around Europe's banking sector dominated negative risk sentiment for the first half of February. But as the month progressed, an announcement between oil producing nations to freeze output to January levels and soothing tensions around European banks saw a more positive risk perception emerge as the dominant narrative for the month.

February's reversal in fortunes saw risky assets claw back heavy losses made in the first half of the month. A rebound in commodity prices boded well for US corporate bonds, which saw both [Markit iBoxx \\$ Corporate Bond Indices](#) investment grade (IG) and \$ high yield (HY) sub-indices ended the month on a positive note, 0.7% and 0.9% total returns, respectively (Error! Reference source not found.).

The European bond market saw heightened volatility, which centred around the banking sector. € HY returned -0.7% over the month, while € IG proved more resilient and returned 0.5% on a total return basis despite bond spreads widening 12bps over the month. One of the protagonists among the euro financial sector was contingent convertible bonds (cocos), a riskier form of bank debt. The [Markit iBoxx € Contingent Convertibles Index](#) returned -5.54% in February as coco bond prices in entities such as Deutsche Bank tumbled.

UK corporate bonds continued to be impacted by Brexit concerns and the possible negative economic consequences of leaving the EU, with £ IG returning -0.8% and severely underperforming \$ and € counterparts in February. Despite PM Cameron's support for a 'yes to EU' vote, prominent British politicians have joined the 'no to EU' campaign, adding further investor uncertainty into the equation.

Very solid month for the basic materials sector

Across IG corporate bonds, the basic materials sector proved to be the most fruitful over February, owing much to the bounce in already depressed commodity prices. \$ basic materials returned 3.32%, while its euro counterpart returned 3.64%, as spreads tightened 43bps. The sector was also one of the rare outperformers among £ IG corporates, with a 4.53% return in February. It is no surprise then that the best performing individual bonds during the month came from the basic materials sector. In the Americas, it was Ak Steel Corporation's 7.625% 5/2020, which saw its price gain from distressed levels of 28.82 in December to 60.5 this month. Similarly, in EMEA, Anglo American Capital saw its 4.125% 9/2022 gain 34% in price during the month.

Low interest rates drive insurance sector lower

In contrast, the financial sector was the big underperformer in February, led by Insurance. With Japan introducing negative interest rates and the ECB looking set to cut interest rates further into negative territory, credit risk within the sector has increased as insurance companies react to the expectation of a low yield environment. \$ insurance returned -0.34%, € insurance -0.89%, while £ insurance bonds suffered a -3.35% return over February. Despite the insurance sectors woes in Europe, the worst performing bond in the region was actually Portugal Telecom International Finance's 4.375% 3/2017, which lost 59% of its value during the month, as a result of its parent company Oi's credit rating downgrade (**Table 8**).

Table 6: February corporate bond US and European iBoxx indices performance

	Total Return						Yield						Duration		
	Month			YTD			Current			Month			\$	€	£
	\$	€	£	\$	€	£	\$	€	£	\$	€	£			
Corporates	+0.73%	+0.47%	-0.81%	+0.94%	+1.00%	-0.14%	4.24%	1.64%	4.01%	-0.09%	-0.07%	+0.13%	6.5	5.0	7.8
Corporates AAA	+1.72%	+1.30%	+1.03%	+2.86%	+3.15%	+4.96%	3.38%	0.98%	2.67%	-0.15%	-0.15%	-0.06%	8.7	7.3	14.3
Corporates AA	+0.67%	+0.75%	-0.28%	+1.53%	+2.02%	+1.29%	3.34%	0.95%	3.22%	-0.12%	-0.12%	+0.05%	6.0	5.4	8.6
Corporates A	+0.73%	+0.41%	-0.94%	+1.35%	+1.22%	-0.17%	3.71%	1.28%	3.88%	-0.05%	-0.06%	+0.13%	6.2	5.0	8.4
Corporates BBB	+0.71%	+0.43%	-0.85%	+0.29%	+0.48%	-0.53%	5.03%	2.22%	4.42%	-0.10%	-0.07%	+0.16%	6.8	4.8	7.1
Banks	-0.06%	-0.21%	-2.14%	+0.38%	+0.41%	-1.73%	3.73%	1.33%	4.10%	+0.07%	+0.08%	+0.36%	4.7	4.2	6.2
Basic Materials	+3.32%	+3.64%	+4.53%	+1.37%	+3.43%	+2.01%	5.61%	2.54%	5.21%	-0.69%	-0.61%	-0.61%	6.6	4.9	6.6
Consumer Goods	+1.12%	+0.89%	+0.46%	+2.03%	+1.74%	+1.60%	3.70%	1.37%	3.11%	-0.08%	-0.15%	-0.05%	6.3	5.4	5.6
Consumer Services	+1.30%	+1.23%	+0.01%	+1.83%	+1.45%	+1.47%	4.31%	1.75%	3.70%	-0.13%	-0.18%	+0.03%	8.1	5.7	9.0
Financials	-0.03%	-0.18%	-2.02%	+0.51%	+0.28%	-1.65%	3.82%	1.69%	4.25%	+0.06%	+0.07%	+0.32%	5.2	4.5	6.7
Health Care	+0.90%	+0.89%	-0.24%	+2.15%	+2.06%	+2.20%	3.76%	1.22%	3.59%	-0.08%	-0.14%	+0.04%	7.5	5.8	12.1
Industrials	+0.93%	+0.69%	+0.16%	+2.08%	+1.57%	+1.55%	3.85%	1.21%	3.55%	-0.11%	-0.12%	+0.01%	7.2	4.9	8.5
Insurance	-0.34%	-0.89%	-3.35%	+0.11%	-1.72%	-4.24%	4.49%	3.59%	5.55%	+0.07%	+0.19%	+0.56%	7.4	5.9	6.7
Non-Financials	+1.17%	+0.95%	-0.01%	+1.20%	+1.55%	+0.87%	4.41%	1.60%	3.88%	-0.15%	-0.15%	+0.03%	7.2	5.4	8.6
Oil & Gas	+0.47%	+0.62%	-0.27%	-2.07%	+0.88%	-0.71%	5.88%	2.10%	3.61%	-0.04%	-0.13%	+0.06%	6.6	5.8	6.6
Technology	+1.41%	+1.07%	N/A	+1.89%	+2.89%	N/A	3.70%	1.05%	N/A	-0.16%	-0.14%	N/A	6.8	7.1	N/A
Telecommunications	+1.51%	+0.80%	-0.19%	+1.47%	+1.72%	+0.45%	4.70%	1.65%	4.23%	-0.13%	-0.11%	+0.06%	8.4	5.6	8.5
Utilities	+1.06%	+0.59%	-0.43%	+2.05%	+0.80%	+0.35%	4.40%	1.68%	4.08%	-0.09%	-0.09%	+0.07%	8.3	5.2	9.3
High Yield Liquid High Yield	+0.93%	-0.71%	-1.12%	-0.29%	-1.71%	-1.49%	8.18%	5.78%	6.91%	-0.18%	+0.17%	+0.47%	4.0	3.7	4.0
Convertible CVBX	+0.41%	-5.54%	+1.29%	-6.36%	-8.02%	+2.76%	1.75%	8.27%	7.62%	+1.75%	+1.60%	-0.13%	6.3	4.2	5.6
Contingent Convertible	-4.55%	-5.54%	+1.29%	-6.40%	-8.02%	+2.76%	8.80%	8.27%	7.62%	+1.23%	+1.60%	-0.13%	4.6	4.2	5.6

Source: Markit

Table 7: February global corporate bond best price performance

Best performers

	Ticker	Issue	Sector	Country	CCY	Liq score	2/29 price	Change	% change	One year low	Date	One year high	Date
Americas													
1	AKS-Corp	Ak Steel Corporation 7.625 5/2020	Basic Materials	USA	USD	1	60.50	+23.75	+64.6%	28.82	12/8/15	90.50	3/3/15
2	PDV	Petroleos De Venezuela, S.A. 5.125 10/2016	Energy	VEN	USD	1	73.55	+18.57	+33.8%	53.91	1/27/16	78.94	11/9/15
3	X	United States Steel Corporation 7.375 4/2020	Basic Materials	USA	USD	1	63.00	+15.25	+31.9%	44.55	1/20/16	107.37	5/15/15
4	VOLCCOM	Volcan Compania Minera S.A.A. 5.375 2/2022	Basic Materials	PER	USD	1	67.83	+15.57	+29.8%	51.41	1/28/16	99.25	5/26/15
5	ATOC	Atwood Oceanics, Inc. 6.5 2/2020	Energy	USA	USD	1	44.75	+9.25	+26.1%	31.50	1/20/16	99.00	5/6/15
EMEA													
1	AACAP	Anglo American Capital Plc 4.125 9/2022	Basic Materials	GBR	USD	2	77.75	+19.75	+34.1%	55.00	2/3/16	101.38	4/24/15
2	KNLDC	Kinross Gold Corporation 5.95 3/2024	Basic Materials	MRT	USD	2	80.00	+19.82	+32.9%	59.88	1/21/16	99.34	3/5/15
3	FIRQU	First Quantum Minerals Ltd. 7.25 10/2019	Basic Materials	ZMB	USD	1	54.86	+8.86	+19.3%	41.00	1/20/16	101.00	5/25/15
4	GOFIEL	Gold Fields Orogen Holding (Bvi) Limited 4.875 10/2020	Basic Materials	ZAF	USD	2	88.00	+13.00	+17.3%	73.00	1/21/16	91.50	7/6/15
5	CANWHA-Fin	Canary Wharf Finance Plc 6.455 10/2033	Financials	GBR	GBP	3	153.62	+22.62	+17.3%	124.85	5/7/15	153.62	2/29/16
APAC													
1	FMG06	Fmg Resources (August 2006) Pty Ltd 6.875 4/2022	Basic Materials	AUS	USD	1	70.00	+14.19	+25.4%	50.24	1/19/16	84.25	3/3/15
2	SWIBHOL	Swiber Holdings Ltd 7.125 4/2017	Energy	SGP	SGD	2	60.00	+7.50	+14.3%	50.00	1/21/16	85.90	3/19/15
3	BHP-BilFinUSLtd	Bhp Billiton Finance (Usa) Limited 4.125 2/2042	Basic Materials	AUS	USD	1	88.10	+10.37	+13.3%	76.41	1/21/16	103.17	3/11/15
4	ANTOOIL	Anton Oilfield Services Group 7.5 11/2018	Energy	CHN	USD	1	30.12	+3.37	+12.6%	26.50	1/21/16	75.00	6/26/15
5	HONGGRO	Honghua Group Limited 7.45 9/2019	Energy	CHN	USD	1	38.50	+3.50	+10.0%	34.00	2/12/16	68.25	5/19/15

Source: Markit

Table 8: February global corporate bond worst price performance

Worst performers

Ticker	Issue	Sector	Country	CCY	Liq score	2/29 price	Change	% change	One year low	Date	One year high	Date
Americas												
1 LINN	Linn Energy, Llc 12 12/2020	Energy	USA	USD	1	10.00	-26.02	-72.2%	6.10	2/10/16	64.75	12/7/15
2 EGYXXI-EGCI	Energy Xxi Gulf Coast, Inc. 11 3/2020	Energy	USA	USD	1	11.00	-14.12	-56.2%	10.00	2/24/16	99.00	3/9/15
3 WNT	W&T Offshore, Inc. 8.5 6/2019	Energy	USA	USD	1	12.00	-14.50	-54.7%	12.00	2/29/16	77.62	5/6/15
4 BPETRO	Berry Petroleum Company 6.375 9/2022	Energy	USA	USD	1	10.00	-10.00	-50.0%	4.69	2/11/16	86.75	5/11/15
5 OISA	Oi S.A. 5.75 2/2022	Telecom Services	BRA	USD	1	22.30	-22.22	-49.9%	22.30	2/29/16	90.50	6/4/15
EMEA												
1 PLTMPL-IntFin	Portugal Telecom International Finance B.V. 4.375 3/2017	Telecom Services	PRT	EUR	1	28.21	-41.87	-59.7%	28.21	2/29/16	104.08	6/12/15
2 INTSAT-Lux	Intelsat (Luxembourg) S.A. 7.75 6/2021	Telecom Services	LUX	USD	1	30.50	-12.16	-28.5%	22.50	2/24/16	94.00	4/7/15
3 FRIGFIN	Frigoglass Finance B.V. 8.25 5/2018	Industrials	GRC	EUR	2	67.31	-26.40	-28.2%	67.31	2/29/16	101.75	5/26/15
4 CONSMIN	Consolidated Minerals Limited 8 5/2020	Basic Materials	JEY	USD	2	33.96	-12.32	-26.6%	33.75	2/24/16	80.50	6/11/15
5 UKRLPLC	Ukrlandfarming Plc 10.875 3/2018	Consumer Goods	UKR	USD	2	32.00	-10.50	-24.7%	30.00	2/17/16	52.50	11/30/15
APAC												
1 ROLTAME	Roita Americas Llc 8.875 7/2019	Technology	IND	USD	1	32.88	-10.95	-25.0%	25.13	2/19/16	99.12	4/15/15
2 MTRCOR	Mtr Corporation (C.I) Limited 3.25 1/2043	Industrials	HKG	HKD	5	84.80	-14.65	-14.7%	84.51	2/26/16	106.98	12/3/15
3 YINGDGA	Yingde Gases Investment Limited 7.25 2/2020	Basic Materials	CHN	USD	2	63.28	-6.22	-9.0%	63.28	2/29/16	93.50	6/24/15
4 TDBM	Trade And Development Bank Of Mongolia Llc 9.375 5/2020	Financials	MNG	USD	2	77.75	-7.25	-8.5%	74.92	2/24/16	107.25	6/5/15
5 MIEHOL	Mie Holdings Corporation 7.5 4/2019	Energy	CHN	USD	2	29.36	-2.64	-8.3%	29.00	1/26/16	80.00	6/2/15

Source: Markit

Sovereigns

Among developed nation government bonds, [Markit iBoxx € Germany](#) was the best performing government bond index, returning 1.6% in February. Despite the renewed appetite for risky assets during the latter half of the month, safe haven government bond yields have continued to slide, with 10-yr German bunds 24bps tighter. Recent central bank rhetoric has swung towards decreasing rates further, spurred by the Bank of Japan's introduction of negative interest rates and the ECB's decision to lower rates further into negative territory and ramp up and expand the scope of its bond purchasing program in March. [Markit iBoxx \\$ Treasuries](#) and [Markit iBoxx £ Gilts](#) returned 0.9% and 1.5%, respectively, while riskier European periphery government bond returns [Markit iBoxx € Spain](#) and [Markit iBoxx € Italy](#) lagged but ended the month slightly in positive return territory.

Long maturity European government bonds were among the best performers during the month (**Table 11**), with Republic of Austria's 1/2062 gaining 6.3% in price, while Kingdom of the Netherlands' 1/2047 saw a 6% price increase over the month. On the contrary, Hellenic Republic's 2/2025 saw a -5.4% price change to end the month at a price of 61.25 (**Table 12**).

Despite lower bond yields, Germany's 5-yr CDS spread widened 10bps over the month (**Table 9**), owing to the heightened volatility in the region. In fact, European countries across the board saw credit spreads widen, with Portugal seeing an 80bps widening to 299bps (**Table 10**).

Table 9: February G7 industrialised countries ranked by percent change in CDS spreads

			2/29 10yr bond yield	CDS change	2/29 CDS	% change	One year tight	Date	One year wide	Date
1	USGB	United States	1.72%	+0.2	19.8	+1.2%	14.3	9/18/15	22.4	11/3/15
2	CAN	Canada	1.19%	+0.5	26.5	+1.9%	18.7	3/11/15	26.5	2/15/16
3	JAPAN	Japan	-0.08%	+1.7	50.5	+3.5%	34.0	8/18/15	56.1	2/12/16
4	ITALY	Italy	1.41%	+26.7	142.4	+23.1%	91.6	12/9/15	156.8	2/11/16
5	FRTR	France	0.47%	+10.0	37.1	+36.9%	25.7	12/24/15	41.8	2/11/16
6	UKIN	United Kingdom	1.34%	+10.7	38.6	+38.3%	15.2	9/30/15	39.5	2/11/16
7	DBR	Germany	0.11%	+10.1	23.9	+73.6%	12.6	12/24/15	24.0	2/25/16

Source: Markit

Table 10: February liquid sovereign 5yr CDS best and worst spread performance²

			Liq Score	Change	2/29 spread	% change	One year tight	Date	One year wide	Date
Best Performers										
1	VENZ	Venezuela	1	-2305	6197	-27.1%	3395	5/8/15	10686	2/15/16
2	CHILE	Chile	1	-16	118	-12.1%	78	6/18/15	153	9/29/15
3	PERU	Peru	1	-15	193	-7.3%	109	3/2/15	230	2/11/16
4	VIETNM	Vietnam	2	-12	267	-4.3%	181	3/2/15	301	9/30/15
5	KAZAKS	Kazakhstan	2	-12	298	-4.0%	213	5/18/15	336	1/20/16
6	BRAZIL	Brazil	1	-17	445	-3.7%	219	5/21/15	533	9/28/15
7	RUSSIA	Russia	1	-9	316	-2.8%	250	11/19/15	501	3/17/15
8	PANAMA	Panama	1	-5	194	-2.4%	116	3/2/15	225	2/11/16
9	COLOM	Colombia	1	-5	274	-1.8%	132	3/2/15	325	2/11/16
10	MALAYS	Malaysia	1	-1	178	-0.7%	110	5/26/15	238	9/29/15
Worst Performers										
1	DBR	Germany	1	+10	24	+73.6%	13	12/24/15	24	2/25/16
2	IRELND	Ireland	2	+26	70	+59.8%	38	12/16/15	71	2/25/16
3	UKIN	United Kingdom	1	+11	39	+38.3%	15	9/30/15	39	2/11/16
4	FRTR	France	1	+10	37	+36.9%	26	12/24/15	42	2/11/16
5	PORTUG	Portugal	2	+80	299	+36.8%	119	3/11/15	355	2/12/16
6	FINL	Finland	2	+6	26	+31.3%	15	12/2/15	27	2/25/16
7	BELG	Belgium	1	+11	48	+30.5%	33	1/4/16	49	2/25/16
8	AUST	Austria	2	+7	33	+29.3%	23	12/10/15	33	2/29/16
9	NORWAY	Norway	2	+5	23	+27.6%	14	9/18/15	23	2/25/16
10	ITALY	Italy	1	+27	142	+23.1%	92	12/9/15	157	2/11/16

Source: Markit

Table 11: February sovereign bond best price performance

Best performers

Ticker	Issue	CCY	Liq score	2/29 price	Change	% change	2/29 yield	One year low	Date	One year high	Date	
Americas												
1	VENZ	Bolivarian Republic Of Venezuela 12.75 8/2022	USD	1	43.02	+4.94	+13.0%	41.50%	33.12	2/15/16	57.75	5/8/15
2	ELSALV	Republic Of El Salvador 7.625 2/2041	USD	2	83.23	+5.49	+7.1%	10.08%	74.50	2/10/16	106.75	4/16/15
3	PANAMA	Republic Of Panama 4.3 4/2053	USD	2	90.92	+4.87	+5.7%	4.78%	82.50	9/29/15	98.00	4/7/15
4	PERU	Republic Of Peru 6.55 3/2037	USD	2	119.25	+6.25	+5.5%	4.53%	112.75	1/20/16	135.25	4/7/15
5	URUGAY	Oriental Republic Of Uruguay 4.125 11/2045	USD	2	81.15	+3.71	+4.8%	5.15%	74.91	1/18/16	94.50	4/6/15
EMEA												
1	QATAR	State Of Qatar 5.75 1/2042	USD	2	123.49	+9.99	+8.8%	4.83%	110.50	1/20/16	129.25	4/21/15
2	AUST	Republic Of Austria 3.8 1/2062	EUR	2	183.59	+10.87	+6.3%	1.57%	151.15	7/2/15	218.32	4/20/15
3	NETHRS	Kingdom Of The Netherlands 2.75 1/2047	EUR	1	147.63	+8.31	+6.0%	1.22%	121.09	7/2/15	163.37	4/20/15
4	DBR	Federal Republic Of Germany 2.5 8/2046	EUR	1	145.15	+8.09	+5.9%	1.07%	118.35	6/10/15	159.35	4/20/15
5	GREP	Gabonese Republic 6.375 12/2024	USD	2	80.54	+4.29	+5.6%	7.50%	68.75	1/20/16	101.75	5/11/15
APAC												
1	CHINA	People'S Republic Of China 3.89 11/2065	CNY	4	105.06	+10.10	+10.6%	4.13%	94.92	1/15/16	106.59	1/20/16
2	JAPAN	Japan 1.4 3/2055	JPY	1	112.04	+9.54	+9.3%	1.32%	92.25	6/8/15	112.64	2/25/16
3	IGB	Republic Of India 7.72 10/2055	INR	3	99.68	+6.08	+6.5%	8.27%	92.80	2/3/16	99.68	2/29/16
4	THAI	Kingdom Of Thailand 4.675 6/2044	THB	3	130.07	+7.32	+6.0%	3.42%	113.57	6/12/15	130.07	2/29/16
5	KOREA	Republic Of Korea 2.75 12/2044	KRW	2	119.49	+6.25	+5.5%	2.13%	96.80	5/7/15	119.49	2/29/16

Source: Markit

Table 12: February sovereign bond worst price performance

Worst performers

Ticker	Issue	CCY	Liq score	2/29 price	Change	% change	2/29 yield	One year low	Date	One year high	Date	
Americas												
1	BLZE	Belize 5 2/2038	USD	3	49.08	-15.50	-24.0%	10.68%	48.50	2/23/16	76.00	6/24/15
2	BRAZIL	Federative Republic Of Brazil 10.25 1/2028	USD	2	80.75	-8.40	-9.4%	11.98%	75.00	9/25/15	111.80	4/30/15
3	MEX	United Mexican States 4 3/2115	EUR	2	80.32	-2.61	-3.1%	4.83%	79.99	2/12/16	104.38	4/14/15
4	PERU	Republic Of Peru 6 2/2029	PEN	5	85.49	-2.47	-2.8%	7.46%	85.40	9/9/15	99.99	4/6/15
5	COLOM	Republic Of Colombia 3 3/2033	COP	4	80.04	-1.87	-2.3%	-	79.30	2/11/16	88.51	6/19/15
EMEA												
1	GREECE	Hellenic Republic 3 2/2025	EUR	1	61.25	-3.53	-5.4%	9.48%	33.63	7/8/15	77.89	11/19/15
2	ISRAEL	State Of Israel 5.5 2/2017	ILS	4	105.43	-5.40	-4.9%	-4.14%	105.38	2/23/16	110.92	2/22/16
3	MINOF	Ministry Of Finance Of Ukraine 7.75 9/2019	USD	1	90.97	-3.78	-4.0%	9.51%	87.50	2/9/16	98.00	11/19/15
4	SOAF	Republic Of South Africa 9 1/2040	ZAR	3	89.84	-2.78	-3.0%	9.80%	79.70	12/11/15	102.05	10/15/15
5	RPGANA	Republic Of Ghana 10.75 10/2030	USD	2	91.67	-2.83	-3.0%	10.47%	86.96	2/11/16	108.40	11/4/15
APAC												
1	MONGAA	Mongolia 5.125 12/2022	USD	2	68.93	-5.32	-7.2%	10.49%	68.15	2/24/16	93.50	5/22/15
2	SRILAN	Democratic Socialist Republic Of Sri Lanka 5.35 3/2026	LKR	5	65.28	-4.57	-6.5%	10.21%	65.28	2/29/16	74.80	6/18/15
3	PHILIP	Republic Of The Philippines 8.125 12/2035	PHP	3	132.39	-5.82	-4.2%	5.05%	129.25	3/27/15	151.71	4/10/15
4	BHREIN	Kingdom Of Bahrain 7 1/2026	USD	1	97.05	-2.83	-2.8%	7.02%	95.39	2/23/16	101.12	1/1/16
5	IGB	Republic Of India 8.2 2/2024	INR	5	100.09	-2.61	-2.5%	7.74%	99.66	2/26/16	103.82	10/6/15

Source: Markit

Municipal bonds

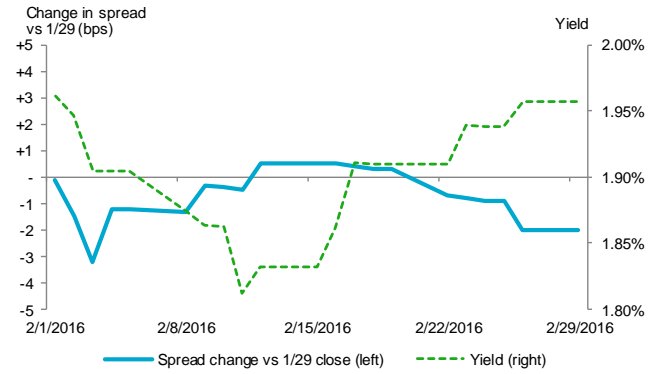
Municipal bonds had a relatively strong month in February, with benchmark 10-year general obligation bonds from California concluding the month 2bps tighter (**Figure 5**). Equally as important is the stability in spreads for higher quality issues during the unusually volatile month. One driver of spread stability is the supply picture so far, with YTD general obligation bond issuance only slightly higher than last year at \$26 billion versus \$25 billion during the same period (**Figure 4**). Revenue bond issuance is almost 20% lower this year at \$30 billion versus almost \$36 billion during the first two months of 2015.

One of the positive outcomes on the legislative side was the House of Representatives passing their version of a proposal that changes the High Quality Liquid Assets (HQLA) rule to allow certain municipal bonds to be treated as Level 2A assets, which would increase banks' incentive to purchase the bonds. The bill now goes to the Senate where it could potentially be revised before they vote on it.

Oil contagion spills into several Texas municipal bonds

On March 4th, Moody's placed 11 Texas local government ratings (\$477 million debt outstanding) under review for downgrade. According to Moody's press release, "Local governments with significant tax base exposure to the oil and gas industry face ratings pressure with oil prices falling to multi-year lows." The review includes issues from the City of Midland, City of Odessa, and Pecos County, as well as seven hospital districts and one school district. One key aspect of the review will be their assessment of the issuer's reliance on property and sales tax revenues, which could be particularly sensitive to the rapid change in the oil and gas industries. The number of similar reviews for other municipalities with higher exposure to the oil and gas industries could potentially grow if oil price continue to stay range bound near the current historical low levels.

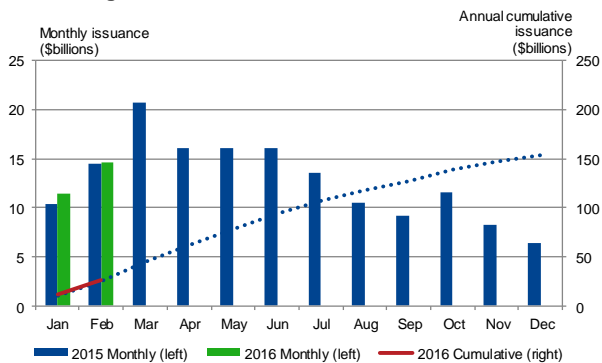
Figure 5: Month over month change in 10-year California general obligation bond spreads to AAA Markit curve and daily yield



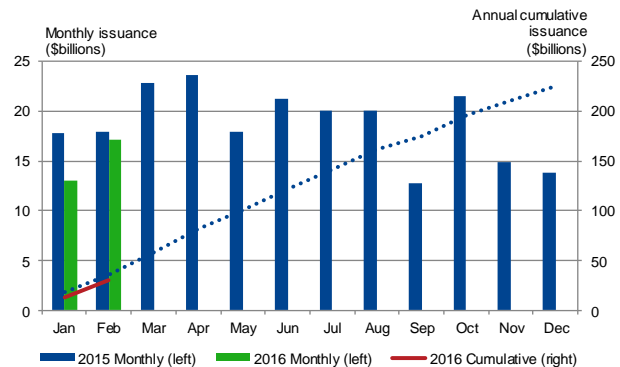
Source: Markit

Figure 4: Municipal bond issuance

General obligation



Revenue



Source: SIFMA

Table 13: February municipal revenue bond best price performance

Best performers

	Issuer	Issue	Liq score	2/29 price	Change	% change	One year low	Date	One year high	Date
1	Puerto Rico Elec Pwr Auth Pwr Rev	Power Revenue - 2012-A 5 7/2042	3	64.30	+3.98	+6.6%	50.00	6/30/15	67.50	9/3/15
2	Puerto Rico Sales Tax Fing Corp Sales Tax Rev	Sales Tax Revenue - Senior 2011-C 5.25 8/2040	2	62.51	+2.51	+4.2%	55.89	1/5/16	75.08	3/13/15
3	Manhattan Beach Calif Impt Bd Act 1915	Limited Obligation Improvement - 2004 5.35 9/2024	5	101.90	+1.59	+1.6%	100.22	7/31/15	102.18	2/2/16
4	Fort Pierce Fla Utils Auth Rev	Fort Pierce Utilities Authority, Utilities Revenue, - Series 200 5 10/2027	4	101.96	+1.41	+1.4%	100.23	8/26/15	102.10	9/29/15
5	Bernalillo Cnty N Mex Gross Rcpts Tax Rev	Gross Receipts Tax Refunding Revenue - 2005 5.25 10/2026	3	130.78	+1.73	+1.3%	120.00	6/10/15	132.98	2/15/16
6	St Louis Mo Arpt Rev	Airport Revenue Ref - Lambert-St. Louis International Airport 20 5.5 7/2028	3	128.85	+1.66	+1.3%	114.40	6/26/15	128.86	2/26/16
7	California Edl Facs Auth Rev	Revenue - University Of Redlands 2005-A 5 10/2035	3	101.73	+1.25	+1.2%	100.17	8/26/15	101.95	9/29/15
8	Hempstead Town N Y Loc Dev Corp Rev	Revenue Refunding - Adelphi University Project 2014 5 10/2028	4	120.50	+1.42	+1.2%	111.89	11/12/15	121.62	2/11/16
9	Bay Area Toll Auth Calif Toll Brdg Rev	San Francisco Bay Area Subordinate Toll Bridge Revenue - 2014 S- 5 10/2054	1	114.13	+1.28	+1.1%	106.16	7/13/15	115.82	1/20/16
10	Louisiana Pub Facs Auth Rev	Revenue - Tulane University Of Louisiana Project 2013-B 5 10/2037	1	112.96	+1.18	+1.1%	107.05	6/10/15	114.12	2/11/16

Source: Markit

Table 14: February municipal revenue bond worst price performance**Worst performers**

	Issuer	Issue	Liq score	2/29 price	Change	% change	One year low	Date	One year high	Date
1	Louisiana St Gas & Fuels Tax Rev	Refunding Gas And Fuels Tax Revenue - 2013-A 5 5/2041	5	116.62	-2.36	-2.0%	109.23	6/10/15	120.98	2/11/16
2	Indiana St Fin Auth Environmental Rev	Environmental Impro - United States Steel Corporation Project 20 5.75 8/2042	3	56.00	-1.00	-1.8%	53.00	2/19/16	104.12	3/2/15
3	District Columbia Wtr & Swr Auth Pub Util Rev	Public Utility Subordinate Lien Revenue - 2015-B 5.25 10/2040	3	119.91	-2.04	-1.7%	114.88	11/12/15	121.94	1/29/16
4	University Calif Revs	Limited Project Revenue - 2015-I 5 5/2029	2	122.75	-2.08	-1.7%	115.60	6/3/15	125.29	2/3/16
5	University Mass Bldg Auth Rev	Refunding Revenue - Senior 2015-2 5 11/2033	5	119.82	-1.99	-1.6%	115.44	6/10/15	122.81	2/11/16
6	North Dakota Pub Fin Auth	Capital Financing Program - 2015-B 5 6/2031	4	116.99	-1.93	-1.6%	111.27	6/10/15	119.85	2/11/16
7	Arizona Brd Regents Ariz St Univ Sys Rev	System Revenue - 2015-D 5 7/2041	3	116.29	-1.90	-1.6%	114.43	12/4/15	118.69	2/9/16
8	Massachusetts Bay Transn Auth Mass Sales Tax Rev	Senior Sales Tax - 2015-A 5 7/2040	3	116.96	-1.88	-1.6%	113.86	10/12/15	119.00	2/3/16
9	University Houston Tex Univ Revs	Consolidation Revenue Refunding - 2014 5 2/2025	3	124.25	-1.86	-1.5%	116.30	5/25/15	126.61	2/9/16
10	Los Angeles Calif Dept Arpts Arpt Rev	Los Angeles International Airport Senior Revenue - 2015-A 5 5/2025	2	123.32	-1.78	-1.4%	117.70	6/3/15	126.44	2/11/16

Source: Markit

Securitised products

Securitized products continued to come under pressure alongside the broader credit markets, with down in credit paper coming under the most pressure. CMBS reported some of the worst spread performance across the entire credit curve, with all rating categories widening sharply and hitting new one year wides again in February (**Figure 7**). Single A rated CMBS widened 132bps to swaps +458bps, making it the worst performer in that sector during the month.

Several global consumer ABS spread categories hit new one year wides in February (**Table 17**). AAA European AAA floating-rate credit card paper widened a significant 18bps to EUR LIBOR +60bps, which is particularly concerning given that it was at its tightest level of EUR LIBOR +32bps at the beginning of 2016. The wider yields across the consumer ABS space has increased demand for benchmark names over off-the-run assets and issuers, as the extra spread for less liquid names is overshadowed by the historically higher spreads for the more established programs.

Agency MBS pay-ups were mixed

Specified pool pay-ups were mixed in February and increased the most across the 3.0% coupon stories (**Table 15**). High Loan Balance (HLB) 5.0% coupon pools were the worst performer on the month, declining 21 ticks versus the prior month. On the CMO side, sequential spreads were 5-15bps wider across maturities, while PACs were 5-10bps tighter on the month (**Table 16**).

CLO spreads continue to widen to new one year highs

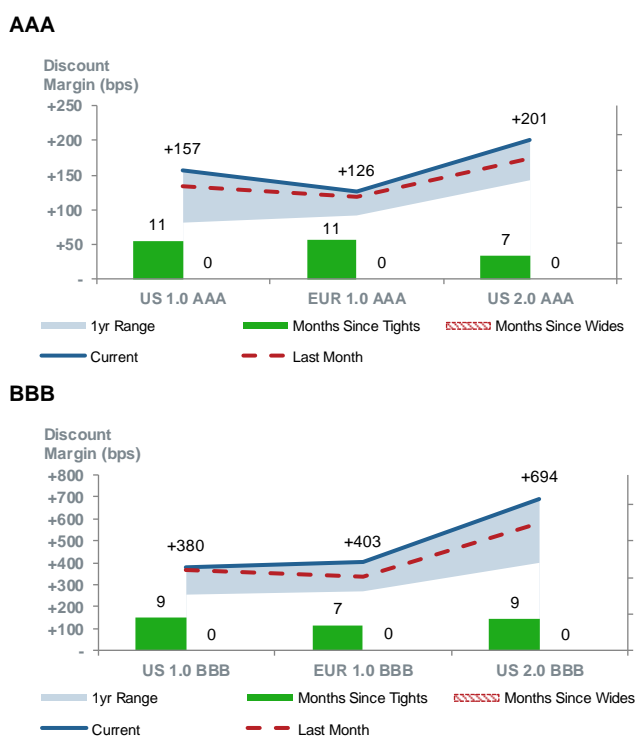
CLO spreads continued to come under pressure in February (**Figure 6**), with all rating categories reaching the widest levels in over a year. US 1.0 AAAs ended February at a new one year widest level of L+157bps. EUR 1.0 was the best performer on the month, only widening 7bps to a new one year wide of L+126bps. We note that US 2.0 BBB paper was the worst performer in February, as it widened over 100bps to L+694bps. The anticipation of increases in high yield corporate bond supply this year, due to ratings downgrades of investment grade bonds, could put additional pressure on mezzanine CLO pressure throughout this year.

Non-agency spreads continue to widen

Non-agency spreads continued to widen further in February in the wake of weaker technicals driven by overall risk aversion, as fundamentals still appear relatively stable. Jumbo 2.0 paper continues to be the most liquid product (albeit issuance has been light recently), as legacy RMBS interest continues to wane. Loss severities on New York properties remain elevated, as the dragged out foreclosure process in the overwhelmed courts is causing an uptick in losses for deals with a higher concentration in that state.

On a very positive note, NY Fed data indicates a large increase in non-agency dealer holdings during the week of February 17th. Inventories increased \$2.3 billion to \$13.6 billion that week, which is the largest single weekly increase in over a year. The inventory levels as of March 2nd are only slightly lower at \$13.4 billion.

Figure 6: US and European CLO AAA/BBB spread summary



Source: Markit

Table 15: Fannie Mae / Freddie Mac 30yr specified pools pay-ups in ticks (1/32 points)

Coupon	February 2016						Change vs prior month					
	3	3.5	4	4.5	5	5.5	3	3.5	4	4.5	5	5.5
LLB (85K)	0-15	0-29	1-18	2-05	2-26	2-22	-0-01	+0-05	+0-08	+0-01	-0-02	+0-13
MLB (110K)	0-12	0-23	1-12	1-31	1-27	2-17	-0-01	+0-07	+0-10	+0-05	-0-10	+0-13
HLB (150K)	0-08	0-17	0-30	1-13	1-01	0-30	-0-01	+0-05	+0-08	+0-03	-0-21	+0-02
New Prod	0-01	0-03	0-07	0-10	0-18	0-00	-0-02	-0-01	+0-02	0-00	0-00	0-00
Low FICO	0-05	0-04	0-06	0-15	0-17	0-26	-0-01	-0-01	-0-01	-0-01	+0-02	-0-18
Investor	0-08	0-03	0-07	0-09	0-15	1-10	+0-05	-0-02	0-00	-0-03	-0-02	-0-06
MHA <90	0-02	0-03	0-08	0-12	0-21	2-03	-0-02	-0-03	+0-01	+0-01	+0-01	-0-06
MHA <95	0-15	0-05	0-12	0-13	0-21	0-19	-0-01	-0-02	+0-04	-0-07	-0-08	-0-03
MHA <100	0-10	0-03	0-10	0-21	0-23	0-25	-0-01	0-00	+0-01	-0-01	-0-02	-0-13
MHA <105	0-16	0-06	0-11	0-14	0-27	2-05	-0-01	+0-01	-0-02	-0-01	+0-01	0-00
<125 LTV	0-03	0-09	0-27	1-17	2-10	2-02	+0-01	+0-03	-0-03	+0-01	0-00	-0-04
125+ LTV	0-29	0-09	0-24	2-01	2-09	3-07	-0-02	+0-01	+0-06	-0-03	0-00	0-00

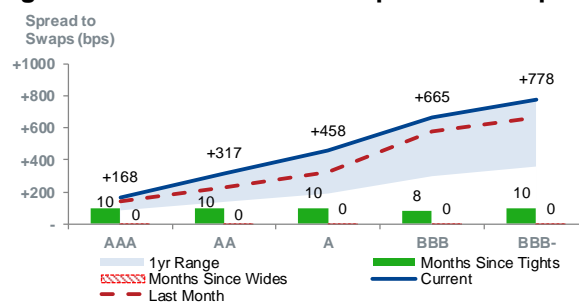
Source: Markit

Table 16: Fannie Mae / Freddie Mac 2015 production agency CMO spreads - 30yr WAM 4.0% coupon

	Spread to Treasuries (bps)	Month-over-month change (bps)
Sequential		
2-yr	+65	+5
5-yr	+75	+10
10-yr	+105	+15
PAC		
2-yr	+70	-10
5-yr	+55	-10
10-yr	+105	-5

Source: Markit

Figure 7: CMBS credit curve spread to swaps



Source: Trepp

Table 17: Global consumer ABS spread summary

	Current (bps)	MoM change (bps)	1yr tight	Date	1yr wide	Date
US Credit Cards - Fixed-Rate						
2-3yr AAA US Swaps	+50	+4	+24	5/8/15	+50	2/16/16
4-5yr AAA US Swaps	+60	+3	+35	4/1/15	+70	10/14/15
US Credit Card - Floating-Rate						
2-3yr AAA US LIBOR DM	+40	-	+25	5/13/15	+40	2/16/16
4-5yr AAA US LIBOR DM	+70	+9	+38	5/8/15	+70	2/29/16
European Credit Card - Floating-Rate						
AAA EUR LIBOR DM	+60	+18	+32	1/6/16	+60	2/1/16
US Prime Auto - Fixed-Rate						
0-2yr AAA EDSF	+42	+5	+19	5/13/15	+42	2/29/16
2+yr AAA US Swaps	+56	+9	+25	4/7/15	+56	2/29/16
European Prime Auto Loan - Floating-Rate						
AAA EUR LIBOR DM	+53	+1	+26	3/4/15	+54	2/5/16
US Subprime Auto - Fixed-Rate						
1-2-yr AAA EDSF	+80	+1	+45	7/21/15	+81	2/2/16
2+yr AAA US Swaps	+93	+1	+48	6/15/15	+97	11/5/15
US Equipment - Fixed-Rate						
2+yr AAA US Swaps	+63	-	+43	6/17/15	+65	12/21/15
European Equipment - Floating-Rate						
A EUR LIBOR DM	+160	+13	+115	6/10/15	+182	6/30/15
US FFELP Student Loans - Floating-Rate						
2-4yr AAA 3mo US LIBOR DM	+104	-2	+41	4/2/15	+106	1/27/16
10+yr AAA 3mo US LIBOR DM	+165	-	+93	5/11/15	+165	1/22/16

Source: Markit

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