

## Global fixed income focus – January 2016

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

The sharp drop in China's stock markets at the start of 2016 triggered the largest January decline in global equity markets in history. The weakness in equities drove a flight to quality which spread to the bond market, as investors shunned corporate bonds and other riskier assets in favour of safer government and sovereign debt from developed nations.

- The leveraged loan market started the year in positive territory, unlike high yield bonds, but eventually sold off alongside other risk assets mid-month in the wake of global heightened volatility. The [Markit iBoxx USD Leveraged Loans Index \(MiLLi\)](#) total return declined 0.8% in January, after having dropped 1.0% the previous month.
- The fixed income market volatility carried over to CDS, as spreads hit new yearly wides across every rating category globally. Sector curve data indicates that the global CDS curve is at one of its steepest points over the past year, with AA-AAA basis a substantial 23bps.
- The high yield (HY) bond market was impacted by another fresh downturn in commodity prices and further bouts of risk aversion. The [Markit iBoxx \\$ Liquid High Yield Index](#) has a higher commodity exposure compared with other credit indices, which continues to drive the slide that began last fall, returning a negative 1.2% on the month.
- January's flight to quality sentiment and expectations of rates rising at a slower pace than originally anticipated was apparent in US treasury performance. The [Markit iBoxx \\$ Treasuries Index](#) returned +2.2% in January, which was largely driven by longer maturity US treasuries and the flattening of the yield curve despite a US interest rate hike last December.
- ETF flow data indicates that municipal bond ETFs continue to report steady inflows, with the pessimistic headlines out of Puerto Rico last June driving the only negative flows over the past year.
- January was a challenging month across the broader securitised products market, with few bonds managing to tighten over the course of the month. CLOs and CMBS saw the most price pressure, with below investment grade and equity tranches widening significantly versus similar credits in other sectors.

## Leveraged loans

The leveraged loan market started the year in positive territory, unlike high yield bonds, but eventually sold off alongside other risk assets mid-month in the wake of global heightened volatility. The [Markit iBoxx USD Leveraged Loans Index \(MiLLi\)](#) total returns declined 0.8% in January, after having dropped 1.0% the previous month. Leveraged loans did still perform better than US high yield bonds, largely due to their lower commodity related credits exposure.

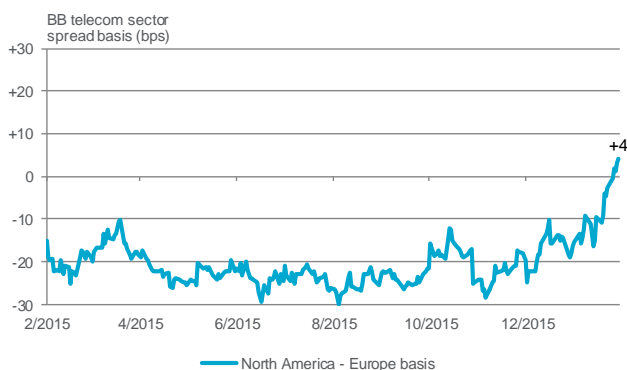
Loan spreads were generally wider across the board (**Table 3**), but it was the lowest rated CCC+ cohort that widened the most. CCC+ spreads widened between 284-340bps on the month. North American spreads were markedly wider on the whole compared to European counterparts, but the BB+ rating did provide both regions with markedly tighter spreads over the month.

### Some North American and European sector spreads now moving in opposite directions

For the first time since last spring, we are seeing some bifurcation in spread direction based on region for certain sectors and rating cohorts, with BBB, BB, BB-, and B- European spreads for certain sectors tighter on the month, while North American spreads for the same sectors and ratings widened. In Europe, energy BB+ (-31bps) and telecom services BB+ (-27bps) were the two best performing sector/rating cohorts on a spread basis. Energy BB+ (-13bps) and B- (-14bps) were the best performers in North America. Utilities, a defensive sector, were the only sector not to tighten across any region/rating cohort, showcasing the extent to which market fears spread.

The basis between North American and European BB telecom sector curves had been between -10bps and -30bps for most of last year (**Figure 1**), but has sharply widened to 4bps in January. The basis began widening from its one year low of -30bps on August 5th, as both regions spreads began to widen later that same month.

**Figure 1: BB telecom services North America to Europe leveraged loan sector spread basis**

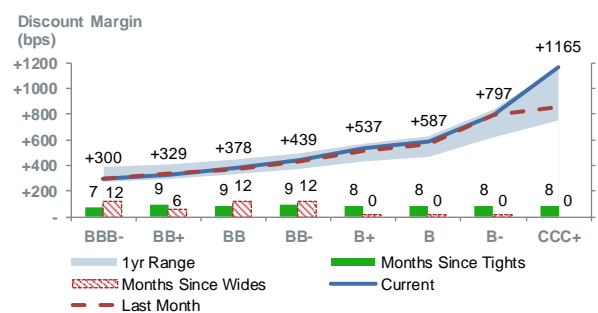


Source: Markit

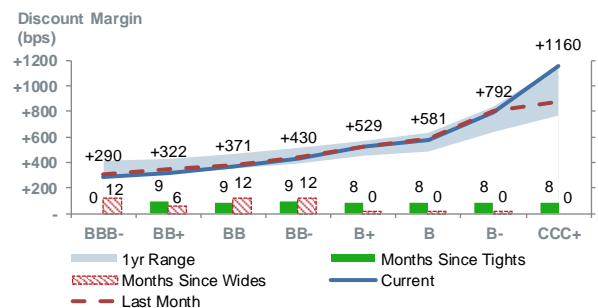
### Energy sector still worst performer globally

The energy sector was the worst distressed loan sector in North America (**Table 1**), with Templar Energy 9/14 Cov-Lite 2nd Lien TL and Southcross Energy 7/14 TL were two of the worst performers, declining over 40% in price. Liquidity scores also remain relatively weak in these distressed names. The best performer in the region was the industrial company Ameriforge's 1/13 TL, which increased 25.3% in price in January.

**Figure 2: Leveraged loan energy sector spreads North America**



### Europe



Source: Markit

In Europe, the best performing leveraged loans came from a variety of sectors but the stand out was in consumer goods (**Table 2**). The best performing leveraged loan in the region was industrial company PHS 10/14 (GBP) Holdco PIK TL which hit a new one year high of 90.83 after gaining +6.9% during the month. Building material and plumbing supplier Frans Bonhomme 1/14 TLB was one of the best par loan performers at +2.0% on the month. Distressed loans Vivarte 10/14 Reinstated TL (ORA/Pref + Equity Stapled) TL and Jack Wolfskin (2nd Lien 8/11) Hybrid TL ended the month +4.2% and +2.1%, respectively. The worst performers were predominately from the energy sector, with Endeavour 10/14 TL and Petroleum Geo-Services 3/14 Cov-Lite TLB declining 27.5% and 19.7%, respectively.

Table 1: January North American loans best and worst price performance<sup>1</sup>

## North America

LXID	Loan Name	Sector	Country	Liq score	1/29 price	% change	One year low	Date	One year high	Date	
<b>Best Performers</b>											
<b>Par</b>											
1	LX137065	Ortho-Clinical 6/14 Cov-Lite TL	Healthcare	USA	1	87.65	+3.9%	84.38	1/4/16	99.83	7/21/15
2	LX126185	David's Bridal 10/12 Cov-Lite TLB	Consumer Services	USA	1	85.14	+3.5%	80.70	12/14/15	97.06	4/3/15
3	LX141836	TransFirst 11/14 Cov-Lite 2nd Lien TL	Industrials	USA	2	100.17	+2.6%	97.38	1/14/16	100.83	5/8/15
4	LX138000	Fitness International 6/14 TLB	Consumer Services	USA	4	94.25	+2.5%	92.00	1/1/16	98.13	5/26/15
5	LX131562	Toys 'R' Us 8/13 Cov-Lite Propco TL	Consumer Services	USA	4	89.33	+2.3%	86.60	1/5/16	96.50	2/2/15
<b>Distressed</b>											
1	LX127581	Ameriforge 1/13 TL	Industrials	USA	3	39.25	+25.3%	27.33	12/2/15	87.13	5/1/15
2	LX141526	Toys 'R' Us 10/14 Cov-Lite TLB4	Consumer Services	USA	1	76.97	+7.4%	70.96	12/14/15	95.15	6/23/15
3	LX132457	Fieldwood 9/13 2nd Lien TL	Energy	USA	2	16.08	+7.2%	12.70	12/18/15	82.81	5/18/15
4	LX137951	Healogics 7/14 Cov-Lite TL	Healthcare	USA	5	83.67	+6.9%	77.33	12/14/15	100.71	5/15/15
5	LX130228	Quicksilver Resources 6/13 Cov-Lite 2nd Lien TL	Energy	USA	4	24.80	+6.3%	21.40	1/25/16	67.40	5/18/15
<b>Worst Performers</b>											
<b>Par</b>											
1	LX132841	Mitchell International 10/13 Cov-Lite TL	Technology	USA	3	88.17	-6.6%	87.80	1/22/16	100.50	4/13/15
2	LX133934	Camp Systems 12/13 Cov-Lite 2nd Lien TL	Industrials	USA	4	92.13	-4.9%	92.13	1/29/16	100.00	8/6/15
3	LX128904	Rock Ohio Caesars 6/13 Funded TLB	Consumer Services	USA	2	88.63	-4.5%	87.67	1/26/16	98.92	5/14/15
4	LX135673	Bauer Performance 4/14 TLB	Consumer Goods	CAN	4	92.50	-4.4%	92.50	1/29/16	99.71	9/15/15
5	LX130226	MacDermid 6/13 (USD) Cov-Lite TLB	Basic Materials	USA	4	92.55	-4.3%	91.85	1/21/16	101.08	4/15/15
<b>Distressed</b>											
1	LX140820	Templar Energy 9/14 Cov-Lite 2nd Lien TL	Energy	USA	4	5.80	-44.8%	10.13	12/30/15	78.85	5/15/15
2	LX135814	Nine West 4/14 Cov-Lite Unsecured Guaranteed TL	Consumer Goods	USA	4	28.75	-41.2%	28.33	1/28/16	90.42	5/11/15
3	LX139218	Southcross Energy 7/14 TL	Energy	USA	4	45.33	-40.0%	41.25	1/27/16	93.00	9/16/15
4	LX139654	Regent Energy 8/14 (USD) Cov-Lite TL	Energy	CAN	5	24.88	-33.4%	24.88	1/29/16	75.33	3/13/15
5	LX124057	Arch Coal (5/12) TLb	Energy	USA	1	29.47	-33.1%	29.47	1/29/16	80.17	3/4/15

Source: Markit

<sup>1</sup> 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: January European loans best and worst price performance<sup>1</sup>

## Europe

	LXID	Loan Name	Sector	Country	Liq score	1/29 price	% change	One year low	Date	One year high	Date
<b>Best Performers</b>											
<b>Par</b>											
1	LX141768	PHS 10/14 (GBP) Holdco PIK TL	Industrials	GBR	2	90.83	+6.9%	73.67	3/11/15	90.83	1/29/16
2	LX135240	Frans Bonhomme 1/14 TLB	Consumer Goods	FRA	5	91.67	+2.0%	87.00	2/13/15	93.78	4/1/15
3	LX134782	HC Starck 12/13 (EUR) 1 TLE	Basic Materials	DEU	3	93.08	+1.5%	88.81	11/6/15	99.89	5/29/15
4	LX123520	Viridian 3/12 PIK (GBP) TL	Utilities	GBR	2	97.81	+1.1%	96.50	1/14/16	100.75	4/8/15
5	LX144513	Eircom 5/15 TLB3	Telecom Services	LUX	1	98.66	+0.9%	97.58	7/9/15	99.83	5/26/15
<b>Distressed</b>											
1	LX141989	Vivarte 10/14 Reinstated TL (ORA/Pref + Equity Stapled) TL	Consumer Goods	FRA	2	67.20	+4.2%	24.85	2/2/15	75.05	11/11/15
2	LX121460	Jack Wolfskin (2nd Lien 8/11) Hybrid TL	Consumer Goods	DEU	4	69.83	+2.1%	67.38	1/8/16	85.75	3/12/15
3	LX147398	Acteon 8/15 (GBP) TLC1	Energy	GBR	5	84.63	+1.2%	82.50	11/19/15	85.00	12/11/15
4	LX138629	FCC 6/14 (EUR) PIK TLB	Industrials	ESP	5	84.13	+1.0%	83.00	11/9/15	91.67	7/20/15
5	LX134585	Prisa 12/13 Performing Debt TL2	Consumer Services	ESP	3	82.60	+0.7%	81.33	1/21/16	92.44	4/17/15
<b>Worst Performers</b>											
<b>Par</b>											
1	LX146779	AVR 7/15 Opco PIK TL	Industrials	NLD	3	88.92	-5.4%	88.42	1/27/16	97.08	8/21/15
2	LX138207	Serbia Broadband (Telemach) 6/14 PIK TL	Consumer Services	NLD	2	98.21	-4.1%	97.88	1/26/16	104.38	6/5/15
3	LX142050	Aenova 9/14 DRAG TL	Healthcare	DEU	2	89.65	-3.9%	89.65	1/29/16	100.58	6/12/15
4	LX139557	Endemol 8/14 (EUR) Cov-Lite TL	Consumer Services	NLD	4	94.50	-3.5%	94.13	1/28/16	100.03	8/6/15
5	LX139582	Formula One 8/14 (USD) Extended Cov-Lite TLB3	Consumer Services	LUX	2	93.97	-2.6%	93.97	1/29/16	100.30	4/13/15
<b>Distressed</b>											
1	LX141717	Autobar 10/14 Holdco PIK (w/ Equity) TL	Consumer Services	NLD	4	35.00	-30.6%	35.00	1/29/16	106.40	9/11/15
2	LX141502	Endeavour 10/14 TL	Energy	NLD	5	16.67	-27.5%	16.67	1/29/16	83.83	2/27/15
3	LX135963	Petroleum Geo-Services 3/14 Cov-Lite TLB	Energy	NOR	3	55.67	-19.7%	54.90	1/21/16	93.50	5/15/15
4	LX139588	Expro Holdings 8/14 Cov-Lite TL	Energy	LUX	3	58.64	-11.7%	58.04	1/27/16	89.88	4/16/15
5	LX146780	AVR 7/15 Holdco PIK TL	Industrials	NLD	5	34.67	-10.5%	34.67	1/29/16	58.17	7/20/15

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	-3	+17	+16	+34	+29	+14	+313
	EU	-8	-23	-4	-4	+14	+8	-6	+293
	Change NA-EU	+20.9	+19.4	+21.1	+20.5	+19.9	+21.1	+20.2	+20.0
Consumer Goods	NA	+11	-5	+15	+15	+32	+27	+13	+311
	EU	-9	-24	-5	-5	+13	+7	-7	+292
	Current NA-EU	+20.2	+18.7	+20.4	+19.8	+19.2	+20.4	+19.5	+19.3
Consumer Services	NA	+18	+2	+22	+21	+39	+34	+20	+318
	EU	-2	-17	+2	+2	+20	+14	+0	+299
	Current NA-EU	+20.2	+18.7	+20.4	+19.8	+19.2	+20.4	+19.5	+19.3
Energy	NA	+3	-13	+7	+6	+24	+19	+4	+303
	EU	-17	-31	-13	-13	+5	-1	-14	+284
	Current NA-EU	+19.6	+18.0	+19.7	+19.1	+18.6	+19.8	+18.8	+18.6
Financials	NA	+27	+11	+31	+30	+48	+43	+29	+327
	EU	+8	-7	+12	+12	+30	+24	+10	+309
	Current NA-EU	+19.2	+17.6	+19.3	+18.7	+18.1	+19.3	+18.4	+18.2
Healthcare	NA	+8	-8	+12	+12	+29	+24	+10	+308
	EU	-12	-26	-8	-8	+10	+4	-9	+289
	Current NA-EU	+19.9	+18.4	+20.1	+19.5	+18.9	+20.1	+19.2	+19.0
Industrials	NA	+20	+4	+24	+24	+41	+36	+22	+320
	EU	+1	-14	+5	+5	+23	+17	+3	+302
	Current NA-EU	+19.5	+18.0	+19.7	+19.1	+18.5	+19.7	+18.8	+18.6
Technology	NA	+13	-3	+17	+17	+34	+29	+15	+313
	EU	-7	-21	-3	-3	+15	+9	-4	+294
	Current NA-EU	+19.8	+18.2	+19.9	+19.3	+18.8	+20.0	+19.0	+18.8
Telecom Services	NA	+8	-9	+12	+11	+29	+23	+9	+308
	EU	-13	-27	-9	-9	+9	+3	-10	+288
	Current NA-EU	+20.2	+18.7	+20.4	+19.8	+19.2	+20.4	+19.5	+19.3
Utilities	NA	+40	+24	+45	+44	+61	+56	+42	+340
	EU	+21	+7	+25	+25	+43	+37	+23	+322
	Current NA-EU	+19.3	+17.7	+19.4	+18.8	+18.2	+19.4	+18.5	+18.3

Source: Markit

## Credit default swaps

The fixed income market volatility carried over to CDS, as spreads hit new yearly wides across every rating category globally (**Figure 3**). Sector curve data indicates that the global CDS curve is at one of its steepest points over the past year, with AA-AAA basis a substantial 23bps.

No one region provided any shelter, as every rating category in both the investment grade and high yield across the three main regions, North America, Europe and Japan reported a widening in spreads over the month (**Figure 4**). The highest rated AAA bucket had proved relatively immune to the widening trend, as it reached its tightest levels two months ago, was the last to relent, as its spread has since widened to a new yearly high of 24bps.

### Toys R Us CDS the best performer globally

While the general trend was one of overall widening, there were some firms managed to counter the trend and see their CDS spreads tighten over the month.

US toy retailer Toys R Us CDS spreads tightened a significant 1,226bps over the month, retracing from the widest levels of the past year that were reported at the start of the month (**Table 4**). This tightening coincided with news that the firm had hired bankers in order to refinance its debt after its earnings rebounded following a 2% jump in same store sales.

Corporate actions drove the second largest spread tightening in North America last month, as the market continued to warm up to the proposed Starwood-Marriott merger. Starwood, which stands to be acquired in the deal, has seen its spread tighten by an additional 9bps and its spread now stands at 14bps, which is more than 85% lower than the highs seen before the deal came to light in November.

In Europe, media and telecom firms led the tightening with four firms at the top of the five largest credit improvement stories. Virgin Media led the way as its spreads fell by 13% to 227bps as it announced a reorganisation under its new owner Liberty Global. The other three best performing credits were PostNL, Sunrise Communication, and UPC Holdings, which all saw their spread tighten by more than 8%.

### Worst performers globally were largely construction and energy companies

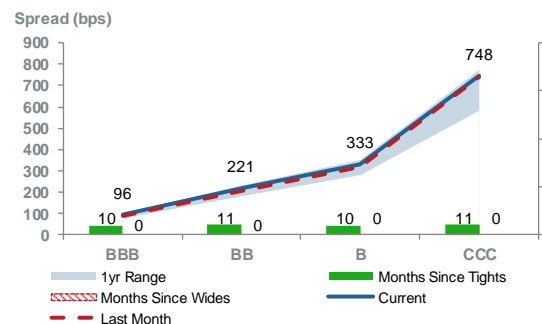
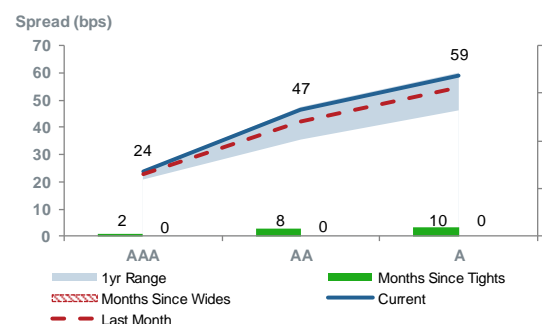
US packaging firm Westrock's CDS spread double to a new yearly wide of 36bps (**Table 5**), making it the worst performer globally on a spread percentage basis.

In Europe, expectations of slower growth drove cement maker LafargeHolcim's CDS spread to a new one year widest level of 254bps during the month. Even Norway, once held as a safe haven from the global volatility, has not been immune to the global fall in oil prices as

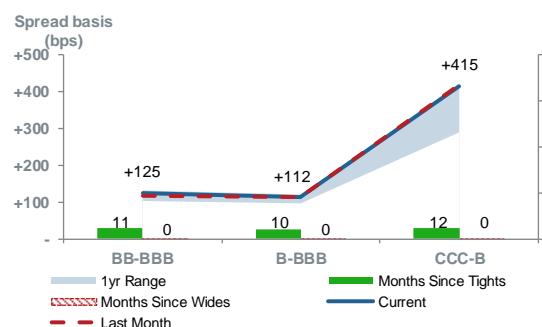
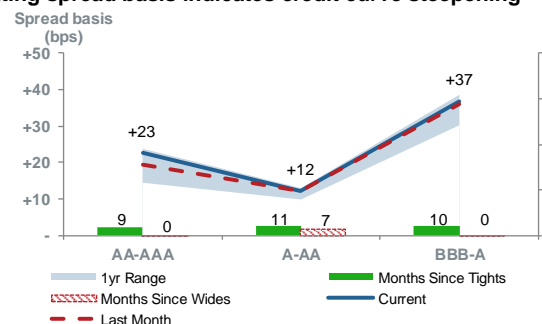
its national energy company Statoil saw its CDS spread breach the 100bps mark for the first time since 2011.

In APAC, the negative sentiment in Japan focused around Mitsubishi Heavy Industries which has seen its spread widen by 45% to end at the highest level since 2012.

**Figure 3: Global CDS sector summary**  
Global spreads by rating



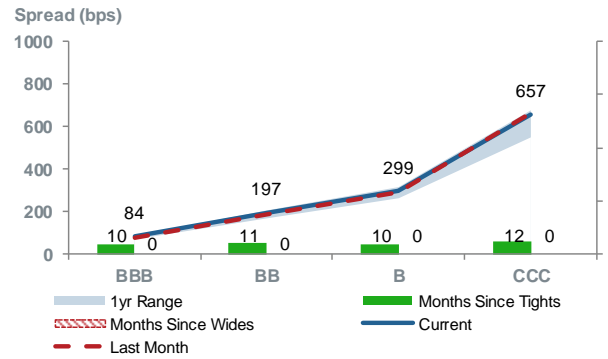
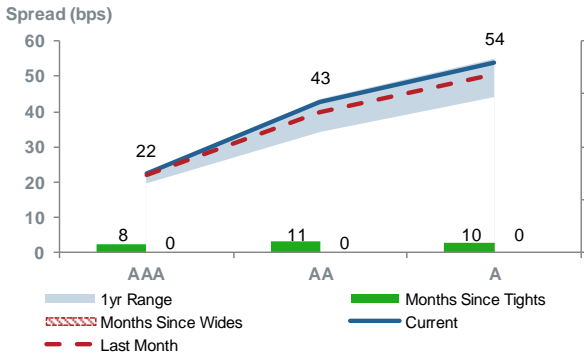
**Rating spread basis indicates credit curve steepening**



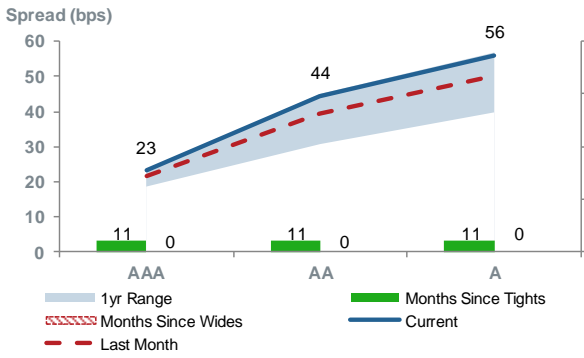
Source: Markit

Figure 4: January regional CDS sector spread summary

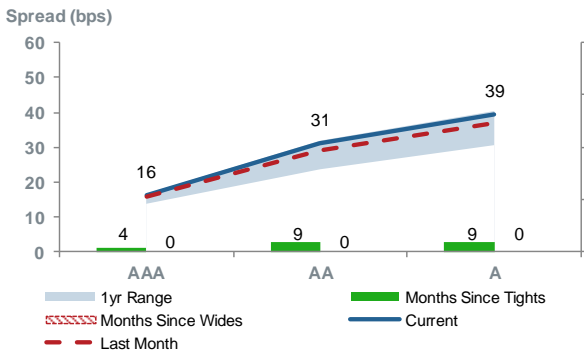
North America



Europe



Japan



Source: Markit

Table 4: January liquid 5yr corporate CDS best spread performance<sup>2</sup>

## Best performers

	Ticker	Company	Sector	Country	Liq score	1/29 spread	Change	% change	One year tight	Date	One year wide	Date
<b>Americas</b>												
1	TOY	Toys R Us Inc	Consumer Services	USA	2	1540	-1226	-44.3%	1371	5/8/15	2773	1/4/16
2	HOT	Starwood Hotels & Resorts Wwide Inc	Consumer Services	USA	2	14	-9	-38.8%	14	1/29/16	97	10/2/15
3	PG	Procter & Gamble Co	Consumer Goods	USA	1	16	-6	-28.4%	15	1/28/16	29	10/27/15
4	PFE	Pfizer Inc	Healthcare	USA	1	14	-4	-23.4%	14	3/19/15	38	10/30/15
5	BAX	Baxter Intl Inc	Healthcare	USA	1	30	-9	-22.6%	19	2/6/15	56	10/26/15
<b>EMEA</b>												
1	VIRFIN	Virgin Media Fin PLC	Telecom Services	GBR	2	227	-34	-13.1%	159	2/27/15	339	9/29/15
2	PNL	PostNL NV	Industrials	NLD	2	60	-6	-8.7%	56	5/5/15	94	2/2/15
3	SUNRICO	Sunrise Comms Hldgs SA	Telecom Services	LUX	2	185	-17	-8.6%	92	4/10/15	284	10/14/15
4	LBTG-UPC	UPC Hldg BV	Consumer Services	NLD	2	254	-24	-8.5%	195	2/27/15	364	9/29/15
5	BOPAFIN	Boparan Fin PLC	Financials	GBR	2	512	-39	-7.1%	421	8/11/15	675	2/2/15
<b>APAC</b>												
1	TOSH	TOSHIBA Corp	Industrials	JPN	2	341	-42	-11.1%	44	4/29/15	396	1/4/16
2	NPG-NPI	Nippon Paper Inds CoLtd	Basic Materials	JPN	2	120	-8	-6.4%	74	4/27/15	146	1/21/16
3	MITTOA	Mitsui Chems Inc	Basic Materials	JPN	2	91	-2	-2.6%	66	4/30/15	117	10/1/15
4	JFEHLD	JFE Hldgs Inc	Basic Materials	JPN	2	121	-3	-2.3%	44	4/17/15	155	1/21/16
5	MARUB	Marubeni Corp	Energy	JPN	2	135	+1	+1.0%	61	6/11/15	196	1/21/16

Source: Markit

<sup>2</sup> 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: January liquid 5yr corporate CDS worst spread performance<sup>2</sup>

## Worst performers

	Ticker	Company	Sector	Country	Liq score	1/29 spread	Change	% change	One year tight	Date	One year wide	Date
<b>Americas</b>												
1	WESTMWV	Westrock Mww Llc	Industrials	USA	2	36	+18	+98.8%	18	12/17/15	37	1/28/16
2	NSC	Norfolk Sthn Corp	Industrials	USA	1	46	+23	+95.9%	14	2/5/15	49	1/27/16
3	AXL-Inc	Amern Axle & Mfg Inc	Consumer Goods	USA	2	435	+184	+72.9%	187	3/3/15	483	1/20/16
4	COP	ConocoPhillips	Energy	USA	2	307	+124	+67.5%	44	4/13/15	379	1/20/16
5	AIG-IntLeaseFin	Intl Lease Fin Corp	Industrials	USA	1	339	+137	+67.5%	148	6/8/15	339	1/29/16
<b>EMEA</b>												
1	LAFALTD	LafargeHolcim Ltd	Industrials	CHE	2	221	+93	+72.9%	64	7/24/15	254	1/20/16
2	STORA	Stora Enso CORP	Basic Materials	FIN	2	225	+88	+63.9%	108	3/12/15	236	1/20/16
3	LNx	Lanxess	Basic Materials	DEU	2	112	+40	+55.8%	65	3/6/15	134	1/20/16
4	STOL	Statoil ASA	Energy	NOR	2	101	+36	+55.0%	43	5/19/15	132	1/15/16
5	FIATCHR	Fiat Chrysler Automobiles NV	Consumer Goods	NLD	1	424	+147	+53.3%	141	3/6/15	447	1/20/16
<b>APAC</b>												
1	MITHI	Mitsubishi Heavy Inds Ltd	Industrials	JPN	2	61	+19	+45.4%	24	5/1/15	63	1/28/16
2	SUMICH	Sumitomo Chem Co Ltd	Basic Materials	JPN	2	73	+19	+36.3%	39	4/29/15	75	1/22/16
3	RIOLN-Ltd	Rio Tinto Ltd	Basic Materials	AUS	2	252	+56	+28.7%	88	3/5/15	270	1/21/16
4	NIPYU	Nippon Yusen Kabushiki Kaisha	Industrials	JPN	2	109	+24	+28.0%	45	4/30/15	125	1/22/16
5	BHP	BHP Billiton Ltd	Basic Materials	AUS	2	231	+49	+27.2%	66	3/3/15	252	1/21/16

Source: Markit

## Global corporate bonds

The sharp drop in China’s stock markets at the start of 2016 triggered the largest January decline in global equity markets in history. The weakness in equities induced a flight to quality that spread to the bond market, as investors shunned corporate bonds and other riskier asset in favour of safer government and sovereign debt from developed nations.

### High yield continues to underperform

The high yield (HY) bond market was impacted by another fresh downturn in commodity prices and further bouts of risk aversion. The [Markit iBoxx \\$ Liquid High Yield Index](#) has a higher commodity exposure compared to other credit indices, which continues to drive the slide that began last fall, returning a negative 1.2% on the month. Both £ and € HY bond markets also saw returns in January firmly in the red; -0.4% and -1.03%, respectively (**Table 6**).

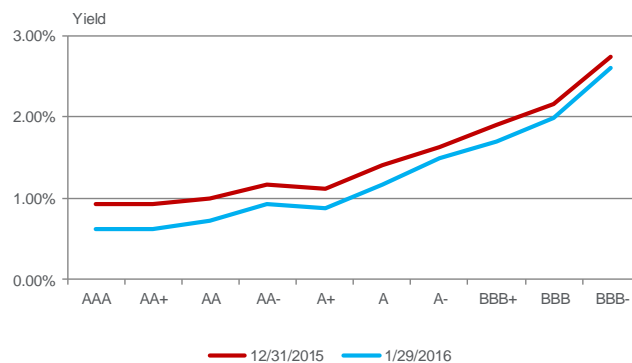
Investment grade (IG) bond returns fared better last month, with the higher rated end of the spectrum outperforming. £ AAA IG corporates returned 3.87% last month, the best currency/rating cohort in January. Corporate bond sector curve data (**Figure 5**) further illustrates such a bifurcation, as yields on investment grade bonds from the German euro denominated industrial sector declined, while increasing for high yield in January. Looking at sectors broadly, only three of the IG corporate bond markets saw negative returns in January; basic materials, oil & gas, and insurance. \$ IG Oil & Gas and £ IG Basic Materials were the two worst performing currency/sector cohorts, returning -2.55% and -2.44% respectively.

The worst performing individual bonds in January were dominated by these sectors (**Table 8**); Epl Oil & Gas Inc’s 8.25% 2/2018 shed 72.5% of its price value, while in Europe, New World Resource’s 8.00% 4/2020 price tumbled over 96% in January.

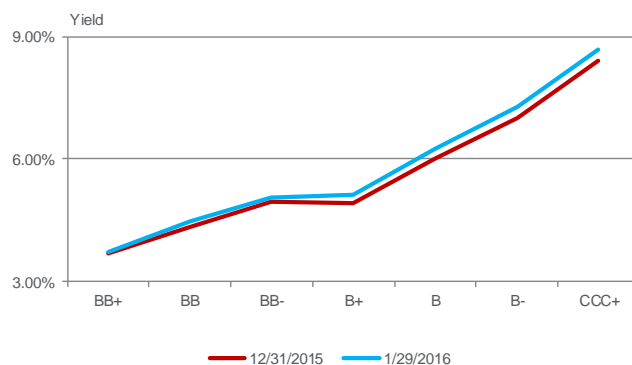
### Healthcare sector strong across all three currencies

All other sectors benefitted from the risk off sentiment in the market. In € HY, technology outperformed other euro denominated sectors, returning 1.79% last month. In £ HY, the defensive healthcare sector saw its bonds return 2.42% in January. It was a similar story in \$ IG, with healthcare the best performing sector index, returning 1.22% on a total return basis last month.

**Figure 5: EUR denominated German corporate bond industrials sector credit curve yields**  
Investment grade



### High yield



Source: Markit

**Table 6: January corporate bond US and European iBoxx indices performance**

Index	Total Return						Yield						Duration		
	Month			YTD			Current			Month			\$	€	£
	\$	€	£	\$	€	£	\$	€	£	\$	€	£			
Corporates	+0.19%	+0.52%	+0.65%	+0.19%	+0.52%	+0.65%	4.33%	1.70%	3.88%	-0.02%	-0.08%	-0.06%	6.4	5.0	7.9
Corporates AAA	+1.10%	+1.82%	+3.87%	+1.10%	+1.82%	+3.87%	3.53%	1.13%	2.73%	-0.10%	-0.25%	-0.25%	8.6	6.8	14.4
Corporates AA	+0.85%	+1.24%	+1.55%	+0.85%	+1.24%	+1.55%	3.46%	1.07%	3.18%	-0.11%	-0.22%	-0.17%	6.0	5.4	8.8
Corporates A	+0.60%	+0.79%	+0.75%	+0.60%	+0.79%	+0.75%	3.77%	1.34%	3.75%	-0.06%	-0.14%	-0.07%	6.1	5.0	8.5
Corporates BBB	-0.44%	+0.04%	+0.30%	-0.44%	+0.04%	+0.30%	5.12%	2.28%	4.27%	+0.06%	+0.02%	-0.00%	6.8	4.8	7.1
Banks	+0.42%	+0.61%	+0.39%	+0.42%	+0.61%	+0.39%	3.66%	1.25%	3.73%	-0.06%	-0.13%	-0.03%	4.7	4.1	6.3
Basic Materials	-1.90%	-0.21%	-2.44%	-1.90%	-0.21%	-2.44%	6.29%	3.14%	5.82%	+0.23%	-0.03%	+0.45%	6.4	5.0	6.6
Consumer Goods	+0.88%	+0.83%	+1.11%	+0.88%	+0.83%	+1.11%	3.78%	1.52%	3.16%	-0.10%	-0.14%	-0.19%	5.8	5.3	5.7
Consumer Services	+0.50%	+0.21%	+1.43%	+0.50%	+0.21%	+1.43%	4.44%	1.94%	3.67%	-0.03%	-0.03%	-0.14%	8.1	5.8	8.9
Financials	+0.52%	+0.44%	+0.35%	+0.52%	+0.44%	+0.35%	3.77%	1.63%	3.93%	-0.07%	-0.08%	-0.03%	5.2	4.5	6.8
Health Care	+1.22%	+1.15%	+2.42%	+1.22%	+1.15%	+2.42%	3.84%	1.36%	3.55%	-0.12%	-0.18%	-0.18%	7.5	5.8	12.3
Industrials	+1.12%	+0.86%	+1.35%	+1.12%	+0.86%	+1.35%	3.96%	1.33%	3.54%	-0.14%	-0.15%	-0.12%	7.2	4.9	8.5
Insurance	+0.43%	-0.86%	-0.95%	+0.43%	-0.86%	-0.95%	4.42%	3.40%	4.99%	-0.03%	+0.16%	+0.15%	7.5	6.0	7.0
Non-Financials	+0.00%	+0.58%	+0.85%	+0.00%	+0.58%	+0.85%	4.57%	1.75%	3.86%	+0.01%	-0.08%	-0.08%	7.2	5.4	8.6
Oil & Gas	-2.55%	+0.24%	-0.47%	-2.55%	+0.24%	-0.47%	5.92%	2.23%	3.55%	+0.38%	+0.07%	+0.11%	6.6	5.7	6.7
Technology	+0.46%	+1.79%	N/A	+0.46%	+1.79%	N/A	3.86%	1.19%	N/A	-0.04%	-0.23%	N/A	6.7	7.2	N/A
Telecommunications	-0.06%	+0.90%	+0.61%	-0.06%	+0.90%	+0.61%	4.83%	1.76%	4.17%	+0.04%	-0.14%	-0.03%	8.3	5.5	8.5
Utilities	+0.96%	+0.18%	+0.75%	+0.96%	+0.18%	+0.75%	4.49%	1.77%	4.02%	-0.09%	-0.02%	-0.06%	8.3	5.3	9.5
High Yield Liquid High Yield	-1.24%	-1.03%	-0.40%	-1.24%	-1.03%	-0.40%	8.36%	5.61%	6.44%	+0.25%	+0.31%	+0.33%	4.2	3.7	3.8
Convertible CVBX	-6.75%	-2.66%	+1.29%	-6.74%	-2.62%	+2.76%	1.99%	6.67%	7.62%	+1.08%	+0.88%	-0.13%	6.4	4.3	5.6
Contingent Convertible	-1.85%	-2.66%	+1.29%	-1.94%	-2.62%	+2.76%	7.58%	6.67%	7.62%	+0.45%	+0.88%	-0.13%	4.7	4.3	5.6

Source: Markit

Table 7: January global corporate bond best price performance

## Best performers

Ticker	Issue	Sector	Country	CCY	Liq score	1/29 price	Change	% change	One year low	Date	One year high	Date	
<b>Americas</b>													
1	CFGL-INC	Cfg Investment S.A.C. 9.75 7/2019	Consumer Goods	PER	USD	2	68.00	+19.00	+38.8%	32.00	11/27/15	98.25	8/11/15
2	SAMRCO	Samarco Mineracao S.A. 4.125 11/2022	Basic Materials	BRA	USD	2	42.62	+10.66	+33.3%	31.96	1/1/16	94.25	5/27/15
3	COMMCHO	Community Choice Financial Inc. 10.75 5/2019	Financials	USA	USD	4	32.00	+6.25	+24.3%	15.15	11/23/15	67.50	3/23/15
4	AVIAHOL	Avianca Holdings S.A. 8.375 5/2020	Industrials	COL	USD	3	79.50	+14.89	+23.0%	63.63	12/15/15	102.75	3/9/15
5	TOY	Toys "R" Us, Inc. 10.375 8/2017	Consumer Services	USA	USD	2	85.00	+15.19	+21.8%	67.95	12/15/15	88.50	5/14/15
<b>EMEA</b>													
1	GRUPOIS	Grupo Isolux Corsan Finance B.V. 6.625 4/2021	Industrials	ESP	EUR	4	29.50	+6.25	+26.9%	22.63	12/11/15	92.50	3/5/15
2	PLTMPL-IntFin	Portugal Telecom International Finance B.V. 4.375 3/2017	Telecom Services	PRT	EUR	2	70.08	+8.35	+13.5%	54.00	12/11/15	104.08	6/12/15
3	BATSLN-BATIntF	B.A.T. International Finance P.L.C. 2 3/2045	Consumer Goods	GBR	EUR	2	86.67	+6.54	+8.2%	77.06	7/2/15	103.82	4/16/15
4	SCHMBIC	Schmolz + Bickenbach Luxembourg S.A. 9.875 5/2019	Basic Materials	CHE	EUR	4	91.59	+6.59	+7.8%	83.50	1/4/16	108.25	3/13/15
5	CFF-ComFinFon	Compagnie De Financement Foncier 3.875 4/2055	Financials	FRA	EUR	3	154.66	+11.08	+7.7%	139.17	7/2/15	187.91	4/20/15
<b>APAC</b>													
1	RANTABA	Rantau Abang Capital Berhad 5/2031	Financials	MYS	MYR	4	100.94	+57.74	+133.7%	42.59	1/5/16	103.99	1/28/16
2	TANJBIN	Tanjung Bin Energy Issuer Berhad 6.2 3/2032	Utilities	MYS	MYR	4	107.31	+13.29	+14.1%	93.06	12/25/15	107.31	1/29/16
3	NEWCFIN	Newcrest Finance Pty Limited 5.75 11/2041	Basic Materials	AUS	USD	2	74.62	+6.43	+9.4%	68.18	1/1/16	91.89	4/3/15
4	VDR	Vedanta Resources Plc 6.75 6/2016	Basic Materials	IND	USD	1	97.12	+6.62	+7.3%	87.58	1/11/16	102.98	6/18/15
5	TRONFIN	Tronox Finance Llc 6.375 8/2020	Basic Materials	AUS	USD	2	61.75	+3.25	+5.6%	56.00	1/20/16	99.62	2/27/15

Source: Markit

Table 8: January global corporate bond worst price performance

## Worst performers

Ticker	Issue	Sector	Country	CCY	Liq score	1/29 price	Change	% change	One year low	Date	One year high	Date
<b>Americas</b>												
1 EPLOIL	Epl Oil & Gas, Inc. 8.25 2/2018	Industrials	USA	USD	2	7.00	-18.50	-72.5%	7.00	1/29/16	80.94	4/20/15
2 EGYXXI-EGCI	Energy Xxi Gulf Coast, Inc. 9.25 12/2017	Energy	USA	USD	2	8.17	-20.17	-71.2%	8.17	1/29/16	75.00	5/5/15
3 NUVEREN	Nuverra Environmental Solutions, Inc. 9.875 4/2018	Energy	USA	USD	3	17.25	-17.19	-49.9%	17.25	1/29/16	82.27	5/14/15
4 CALIRES	California Resources Corporation 5 1/2020	Energy	USA	USD	2	20.25	-15.25	-43.0%	20.25	1/29/16	96.75	5/14/15
5 SEVENTS	Seventy Seven Energy Inc. 6.625 11/2019	Energy	USA	USD	2	20.75	-14.25	-40.7%	20.47	1/28/16	87.30	5/6/15
<b>EMEA</b>												
1 NWRNV	New World Resources N.V. 8 4/2020	Energy	CZE	EUR	3	1.00	-29.00	-96.7%	1.00	1/29/16	70.00	2/20/15
2 PACIDRI	Pacific Drilling S.A 5.375 6/2020	Energy	LUX	USD	2	24.00	-17.00	-41.5%	24.00	1/29/16	87.04	4/20/15
3 PACIFDR	Pacific Drilling V Limited 7.25 12/2017	Energy	LUX	USD	1	35.00	-19.50	-35.8%	34.00	1/28/16	94.00	4/24/15
4 NSINO	Norske Skogindustrier Asa 7 6/2017	Basic Materials	NOR	EUR	2	26.19	-14.31	-35.3%	24.63	1/28/16	77.00	7/15/15
5 FIRQU	First Quantum Minerals Ltd. 7.25 10/2019	Basic Materials	ZMB	USD	3	46.00	-18.40	-28.6%	41.00	1/20/16	101.00	5/25/15
<b>APAC</b>												
1 MONGMIN	Mongolian Mining Corporation 8.875 3/2017	Energy	MNG	USD	1	18.00	-13.00	-41.9%	15.00	1/26/16	79.00	4/21/15
2 MIEHOL	Mie Holdings Corporation 6.875 2/2018	Energy	CHN	USD	2	33.00	-15.25	-31.6%	32.00	1/26/16	86.00	6/4/15
3 INDOE	Indo Energy Finance li B.V. 6.375 1/2023	Energy	IDN	USD	1	33.00	-9.00	-21.4%	32.50	1/25/16	73.00	5/20/15
4 ANTOOIL	Anton Oilfield Services Group 7.5 11/2018	Energy	CHN	USD	1	26.75	-7.25	-21.3%	26.50	1/21/16	75.00	6/26/15
5 ORIGENE	Origin Energy Finance Limited 4 9/2074	Utilities	AUS	EUR	2	66.74	-16.26	-19.6%	59.74	1/20/16	98.68	3/5/15

Source: Markit

## Sovereigns

January's flight to quality sentiment and expectations of rates rising at a slower pace than originally anticipated was apparent in US treasury performance. The [Markit iBoxx \\$ Treasuries](#) returned +2.2% in January, which was largely driven by longer maturity US treasuries and the flattening of the yield curve despite a US interest rate hike last December. In fact, the US Treasury 2.5% 2/2045 was the best performing sovereign bond in January (**Table 11**), gaining 5.6% in price. European sovereign bonds outperformed among major bond classes, with the [Markit iBoxx £ Gilts](#) returning 3.8% and [Markit iBoxx € Germany](#) index returning a steady 2.5%. Peripheral European sovereign indices performed marginally worse, with [Markit iBoxx € Spain](#) returning 1.6%, and its riskier counterpart [Markit iBoxx € Portugal](#) returning -0.85%.

Inflation-linked bonds performed positively on the whole last month, with the [Markit iBoxx UK Gilt Inflation-Linked Index](#) returning 5.4% as investors adjusted future inflation expectations amid an unexpected rise in December's official figures. The gathering threat of "Brexit" also weighed in on any potential currency swings which could generate inflation.

In credit markets, The UK saw its 5-yr CDS spread widen 51% in January to 28bps (**Table 9**), spurred by the impending threat of an EU exit. Elsewhere, Italy saw its 5-yr CDS spread widen 19% to 115.7bps, as its banking sector became embroiled in a bad loans inquiry. Portugal's credit spread widened 50bps to 219bps.

### Emerging market credit continues to come under pressure

Emerging and developing markets continued to stall coming into 2016, impacted by falling currencies and the prospect of lower future economic growth. Russian government bonds returned over 30% last year but a fresh plunge in oil prices over the course of January accelerated another selloff (**Table 12**). Venezuela's

7.0% 12/2018 bond shed 19% in value amid the tumbling price of oil and was the worst performing bond in the Americas. Government bond returns in India and Turkey underperformed their developed nation rivals, while an end of month bounce in commodity prices boded well for Brazilian bonds, as exemplified by Brazil's 7.125% 1/2037, which saw a 5.2% gain on a price basis. Brazil's 5-yr CDS spread tightened 27bps to 462bps in the month and was the best performing global liquid sovereign on a spread percentage basis.

In Asia, the month's best performers were the long bonds across the ASEAN region, as investors' targeted yield and safety. The best performing sovereign bond in the region was the PHP denominated Republic of the Philippines' 8.0% 9/2035 bond at +5.8%.

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

			1/29 10yr bond yield	CDS change	1/29 CDS	% change	One year tight	Date	One year wide	Date
1	USGB	United States	1.91%	-1.0	19.5	-4.9%	14.3	9/18/15	22.4	11/3/15
2	JAPAN	Japan	0.20%	-0.9	48.8	-1.8%	34.0	8/18/15	53.2	1/21/16
3	CAN	Canada	1.22%	+0.0	26.0	+0.1%	18.2	2/9/15	26.5	12/16/15
4	DBR	Germany	0.33%	+0.3	13.8	+2.2%	12.6	12/24/15	17.7	2/11/15
5	FRTR	France	0.65%	+1.3	27.1	+5.0%	25.7	12/24/15	46.9	2/9/15
6	ITALY	Italy	1.42%	+18.2	115.7	+18.7%	91.6	12/9/15	155.6	7/7/15
7	UKIN	United Kingdom	1.56%	+9.4	27.9	+51.0%	15.2	9/30/15	28.1	1/28/16

Source: Markit

Table 10: January liquid sovereign 5yr CDS best and worst spread performance<sup>2</sup>

			Liq Score	Change	1/29 spread	% change	One year tight	Date	One year wide	Date
<b>Best Performers</b>										
1	BRAZIL	Brazil	1	-27	462	-5.5%	219	5/21/15	533	9/28/15
2	HUNGAA	Hungary	2	-3	159	-1.9%	118	3/5/15	172	9/29/15
3	MALAYS	Malaysia	1	-3	179	-1.8%	110	5/26/15	238	9/29/15
4	JAPAN	Japan	2	-1	49	-1.8%	34	8/18/15	53	1/21/16
5	INDON	Indonesia	1	+1	229	+0.6%	131	3/2/15	274	9/29/15
6	VIETNM	Vietnam	2	+5	279	+1.7%	181	3/2/15	301	9/30/15
7	DBR	Germany	1	+0	14	+2.2%	13	12/24/15	18	2/11/15
8	SOAF	South Africa	1	+11	342	+3.3%	187	2/26/15	387	1/20/16
9	SPAIN	Spain	1	+3	92	+3.5%	79	5/21/15	129	7/7/15
10	TURKEY	Turkey	1	+9	276	+3.5%	182	2/3/15	323	9/29/15
<b>Worst Performers</b>										
1	UKIN	United Kingdom	1	+9	28	+51.0%	15	9/30/15	28	1/28/16
2	VENZ	Venezuela	1	+2565	8502	+43.2%	3395	5/8/15	9147	1/25/16
3	PORTUG	Portugal	2	+50	219	+30.0%	119	3/11/15	234	7/7/15
4	NORWAY	Norway	2	+4	18	+28.4%	14	9/18/15	20	1/20/16
5	ITALY	Italy	1	+18	116	+18.7%	92	12/9/15	156	7/7/15
6	COLOM	Colombia	1	+41	279	+17.1%	132	3/2/15	303	1/20/16
7	AUSTLA	Australia	1	+6	46	+16.2%	30	3/6/15	56	9/29/15
8	FINL	Finland	2	+3	20	+15.8%	15	12/2/15	25	7/6/15
9	MEX	Mexico	1	+24	194	+14.2%	101	2/27/15	211	1/20/16
10	THAI	Thailand	2	+19	155	+13.9%	98	7/17/15	172	9/29/15

Source: Markit

Table 11: January sovereign bond best price performance

## Best performers

Ticker	Issue	CCY	Liq score	1/29 price	Change	% change	1/29 yield	One year low	Date	One year high	Date	
<b>Americas</b>												
1	USGB	United States of America 2.5 2/2045	USD	1	94.76	+5.05	+5.6%	3.04%	85.64	6/26/15	100.82	3/24/15
2	BRAZIL	Federative Republic of Brazil 7.125 1/2037	USD	3	90.98	+4.53	+5.2%	8.52%	83.97	12/21/15	125.70	2/4/15
3	URUGAY	Oriental Republic of Uruguay 4 7/2030	USD	4	82.96	+2.96	+3.7%	-	73.77	9/29/15	97.86	2/25/15
4	CAN	Canada 2.75 12/2064	CAD	1	123.07	+3.88	+3.3%	2.12%	108.36	6/10/15	130.10	2/2/15
5	COSTAR	Republic of Costa Rica 7 4/2044	USD	4	85.75	+2.48	+3.0%	8.58%	82.38	1/20/16	106.00	4/17/15
<b>EMEA</b>												
1	SPAIN	Kingdom of Spain 4 10/2064	EUR	3	133.22	+13.25	+11.0%	3.19%	105.21	6/15/15	156.55	3/16/15
2	UKIN	United Kingdom of Great Britain and Northern Ireland 2.5 7/2065	GBP	3	108.51	+10.11	+10.3%	2.56%	96.73	11/9/15	108.51	1/29/16
3	DBR	Federal Republic of Germany 2.5 8/2046	EUR	1	137.35	+12.50	+10.0%	1.48%	118.35	6/10/15	159.35	4/20/15
4	AUST	Republic of Austria 3.8 1/2062	EUR	3	172.72	+14.78	+9.4%	1.90%	151.15	7/2/15	218.32	4/20/15
5	FRTR	French Republic 4 4/2055	EUR	1	162.26	+13.55	+9.1%	2.15%	140.22	7/2/15	195.56	4/20/15
<b>APAC</b>												
1	PHILIP	Republic of the Philippines 8 9/2035	PHP	4	137.11	+7.55	+5.8%	5.52%	128.44	1/21/16	160.26	2/6/15
2	NZ	New Zealand 3.5 4/2033	NZD	2	99.06	+4.93	+5.2%	3.97%	93.44	12/16/15	99.06	1/29/16
3	MALAYS	Malaysia 4.943 12/2028	MYR	3	108.31	+5.19	+5.0%	4.62%	101.29	1/7/16	110.01	5/22/15
4	INDON	Republic of Indonesia 5.95 1/2046	USD	2	103.50	+4.62	+4.7%	6.03%	95.50	12/15/15	103.50	1/29/16
5	KOREA	Republic of Korea 4.125 6/2044	USD	1	118.06	+5.05	+4.5%	3.41%	107.53	6/26/15	126.67	2/2/15

Source: Markit



Table 12: January sovereign bond worst price performance

## Worst performers

Ticker	Issue	CCY	Liq score	1/29 price	Change	% change	1/29 yield	One year low	Date	One year high	Date	
<b>Americas</b>												
1	VENZ	Bolivarian Republic of Venezuela 7 12/2018	USD	3	36.65	-8.61	-19.0%	40.82%	34.05	8/24/15	52.20	5/8/15
2	ELSALV	Republic of El Salvador 7.625 2/2041	USD	3	77.74	-6.92	-8.2%	9.20%	77.48	1/26/16	108.00	2/4/15
3	ECUA	Republic of Ecuador 10.5 3/2020	USD	3	74.71	-5.74	-7.1%	17.18%	68.44	1/20/16	109.50	5/14/15
4	BLZE	Belize 5 2/2038	USD	4	64.58	-4.79	-6.9%	9.92%	64.58	1/29/16	76.00	6/24/15
5	DOMREP	Dominican Republic 6.85 1/2045	USD	3	90.30	-4.30	-4.5%	7.30%	89.13	1/20/16	108.00	3/2/15
<b>EMEA</b>												
1	GREECE	Hellenic Republic 4.75 4/2019	EUR	2	82.54	-9.67	-10.5%	7.50%	41.04	7/8/15	95.12	11/17/15
2	ZAMBIA	Republic of Zambia 8.97 7/2027	USD	2	70.75	-7.87	-10.0%	10.88%	64.00	1/20/16	97.25	7/31/15
3	ANGOLA	Republic of Angola 9.5 11/2025	USD	1	83.50	-8.87	-9.6%	10.77%	78.75	1/20/16	100.25	11/24/15
4	RPGANA	Republic of Ghana 7.875 8/2023	USD	2	72.50	-6.50	-8.2%	12.19%	64.50	1/20/16	98.75	2/26/15
5	CMRN	Republic of Cameroon 9.5 11/2025	USD	2	85.75	-7.25	-7.8%	8.18%	81.00	1/18/16	98.12	11/30/15
<b>APAC</b>												
1	CHINA	People's Republic of China 3.89 11/2065	CNY	4	94.96	-8.25	-8.0%	3.75%	94.92	1/15/16	106.59	1/20/16
2	MONGAA	Mongolia 5.125 12/2022	USD	2	74.25	-5.75	-7.2%	9.08%	73.50	1/21/16	93.50	5/22/15
3	REPUOFAD	Republic of Azerbaijan 4.75 3/2024	USD	3	89.25	-4.25	-4.5%	5.76%	86.25	1/21/16	104.62	4/30/15
4	MONGAA	Mongolia 7.5 6/2018	CNY	3	87.05	-3.41	-3.8%	12.06%	87.05	1/29/16	99.00	7/17/15
5	JAPAN	Japan 0.1 3/2025	JPY	3	102.93	-2.82	-2.7%	-	102.93	1/29/16	107.15	7/8/15

Source: Markit

## Municipal bonds

ETF flow data indicates that municipal bond ETF continue to report steady inflows, with the negative headlines out of Puerto Rico last June driving the only negative flows over the past year (**Figure 6**). This strong performance is somewhat deceiving however, as the credit risk perception of municipal bonds as tracked by CDS spreads widened to new recent highs over the month. The [Markit MCDX](#) index, which tracks CDS spreads across municipal bonds, widened 5bps to 103bps. The widening indicates that the index is within 3bps off its yearly highs, which highlights that the asset class has not necessarily been immune to the recent risk off environment.

### Puerto Rico once again in the spotlight

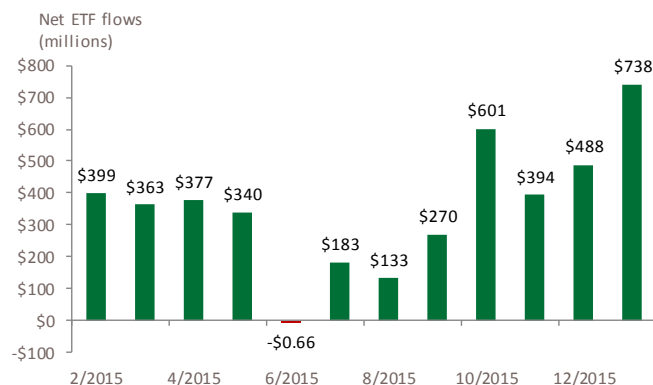
Lawmakers in Puerto Rico are discussing alternate financing options for Puerto Rico Aqueduct and Sewer Authority (PRASA) after the entity failed to sell municipal bonds last year. The structure of the debt could potentially be similar to a securitisation, which could potentially provide additional protections for investors.

The commonwealth’s bonds dominated the most volatile bonds list on both ends of the scale as the territory has been making an effort to restructure its debt. The commonwealth continued to make payments in January on its general obligation bonds while defaulting on debts issued by its Infrastructure Financing Authority.

General obligation bonds rallied after each timely bond holder payment, with the 6.05% 8/2038 sales tax revenue general obligation bond price increasing 7.8% on the month to a 59.00 price.

Infrastructure Financing Authority bonds fell heavily on the missed payment and the 5.5% 7/2028 price fell to new lows. The bond ended January at a 35.00 price (**Table 14**).

**Figure 6: Municipal bond ETF flows**



Source: Markit

Table 13: January municipal revenue bond best price performance

## Best performers

	Issuer	Issue	Liq score	1/29 price	Change	% change	One year low	Date	One year high	Date
1	Puerto Rico Sales Tax Fing Corp Sales Tax Rev	Sales Tax Revenue - 2007-B 6.05 08/2038	2	59.00	+4.25	+7.8%	52.25	12/28/15	72.20	2/2/15
2	Puerto Rico Comwlth Aqueduct & Swr Auth Rev	Revenue (Senior Lien) - 2008-A 6 07/2038	1	69.50	+2.00	+3.0%	64.68	7/3/15	76.50	2/10/15
3	Port Portland Ore Arpt Rev	Portland International Airport Revenue - 2014-22 5 07/2044	4	112.36	+1.74	+1.6%	107.84	6/3/15	114.43	2/2/15
4	New Jersey Economic Dev Auth Nat Gas Facs Rev	Natural Gas Facilities Rev - New Jersey Natural Gas Company 2005 4.9 10/2040	4	100.43	+1.55	+1.6%	95.23	6/11/15	108.42	2/2/15
5	Hillsborough Cnty Fla Aviation Auth Rev	Tampa International Airport Subordinated Revenue - 2015-B 5 10/2044	3	114.17	+1.75	+1.6%	107.94	7/29/15	114.17	1/29/16
6	Tallahassee Fla Health Facs Rev	Health Facili - Tallahassee Memorial Healthcare Inc Project 2015 5 12/2044	4	110.99	+1.56	+1.4%	103.05	7/1/15	111.04	1/20/16
7	Northern Ariz Univ Revs	University - Speed-Stimulus Plan Econ Educational Development 20 5 08/2043	4	112.69	+1.50	+1.4%	107.20	5/25/15	113.51	2/2/15
8	Benton Ark Sales & Use Tax	Sales And Use Tax - 2014 4.375 06/2044	4	111.82	+1.45	+1.3%	103.07	6/3/15	111.82	1/29/16
9	Pasco Cnty Fla Wtr & Swr Rev	Water And Sewer Improvement Revenue - 2014-B 5 10/2044	4	115.40	+1.49	+1.3%	109.16	7/1/15	118.78	2/2/15
10	Philadelphia Pa Wtr & Wastewtr Rev	Water And Wastewater Revenue - 2014-A 5 07/2043	5	113.17	+1.43	+1.3%	107.45	6/10/15	114.98	2/2/15

Source: Markit

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

	Issuer	Issue	Liq score	1/29 price	Change	% change	One year low	Date	One year high	Date
1	Puerto Rico Comwth Infrastructure Fing Auth Spl	Special Tax Revenue - 2005-A 5.5 07/2028	3	35.04	-19.20	-35.4%	32.96	1/7/16	70.88	3/19/15
2	Puerto Rico Elec Pwr Auth Pwr Rev	Power Revenue - 2012-A 5.05 07/2042	2	60.31	-3.19	-5.0%	50.00	6/30/15	68.50	9/2/15
3	Mason Ohio Ctfs Partn	Certificates Of Part - City Of Mason Community Center Project 20 5 12/2034	5	109.22	-1.81	-1.6%	104.79	3/17/15	113.04	1/5/16
4	Irvine Ranch Calif Wtr Dist Ctfs Partn	Refunding Certificates Of Participation - 2010 5 03/2031	4	114.04	-1.58	-1.4%	112.09	5/6/15	117.22	2/2/15
5	Pennsylvania Economic Dev Fing Auth Wtr Fac Rev	Water Facilities Revenue - Aqua Pennsylvania Inc Project 2009-B 4.75 11/2040	3	107.77	-1.24	-1.1%	104.85	6/10/15	110.36	2/2/15
6	Southern Calif Pub Pwr Auth Pwr Proj Rev	Canyon Power Project Revenue - 2010-A 5.25 07/2027	4	114.40	-1.23	-1.1%	112.18	5/25/15	117.37	2/2/15
7	North Tex Twy Auth Rev	System First Tier Revenue Refunding - 2010 6 01/2038	3	116.97	-1.24	-1.0%	114.66	6/3/15	120.58	2/2/15
8	Central Tex Regl Mobility Auth Rev	Senior Lien Revenue And Refunding Put - 2015-B 5 01/2045	4	113.54	-.90	-0.8%	113.53	1/28/16	115.30	1/20/16
9	Seattle Wash Solid Waste Rev	Solid Waste Revenue - 2011 5 08/2025	5	117.85	-.76	-0.6%	114.28	5/25/15	119.79	2/2/15
10	Chicago Ill Wtr Rev	Second Lien Water Revenue - 2014 5 11/2029	3	110.32	-.69	-0.6%	104.29	10/7/15	120.07	2/2/15

Source: Markit

## Securitised products

January was a challenging month across the broader securitised products market, with few bonds managing to tighten over the course of the month. CLOs and CMBS saw the most price pressure, with below investment grade and equity tranches widening significantly versus similar credits in other sectors. The sharp decline in US treasury rates kept agency MBS yields too low to spark bank demand. However, mortgage rate declines lagged treasuries more than usual (potentially due to TRID implementation), so the lower rates had a tempered impact on pay-ups despite the potential for increased prepayment risk.

Most global consumer ABS spreads (Table 17) managed to stay below one year wides in January, with the exception of FFELP student loan paper, which came under pressure due to concerns of extensions of the underlying loans. 2-4yr AAA-rated student loans traded at new one year wides of L+106 in late-January.

### Agency MBS pay-ups increased, despite the sharp decline in rates

MBS pools generally underperformed the treasury rally by a small margin. The rally in 10-year US treasuries did not appear to spread broad fears of a refinance wave, as specified pool pay-ups increased in January (Table 15) across all cohorts, with the exception of some higher coupon HARP pools that remained unchanged on the month. Sequential and PAC CMO spreads (Table 16) were generally 5-10bps wider, with the exception of two-year sequentials, which tightened 5bps on the month.

### BoNY Mellon seeks court guidance on how to pay out the Countrywide settlement

The Countrywide settlement was scheduled to be made to the deal's trustee BoNY Mellon in early February and most investors were expecting payments by April. However, similar to the ResCap settlement, the trustee has sought court guidance on how to make the payments to each trust in a way that achieves the goal of benefiting only the senior bond holders. There is the potential that some subordinate bonds may inadvertently benefit from the settlement for a portion of the 530 Countrywide trusts that were allocated a payment have a mechanism to write up subordinate bonds if the payment is distributed as a subsequent recovery. The request for court guidance delayed the ResCap payments for three months and could create a similar delay in this case.

### Most CLO and CMBS spreads are at the widest levels in over a year

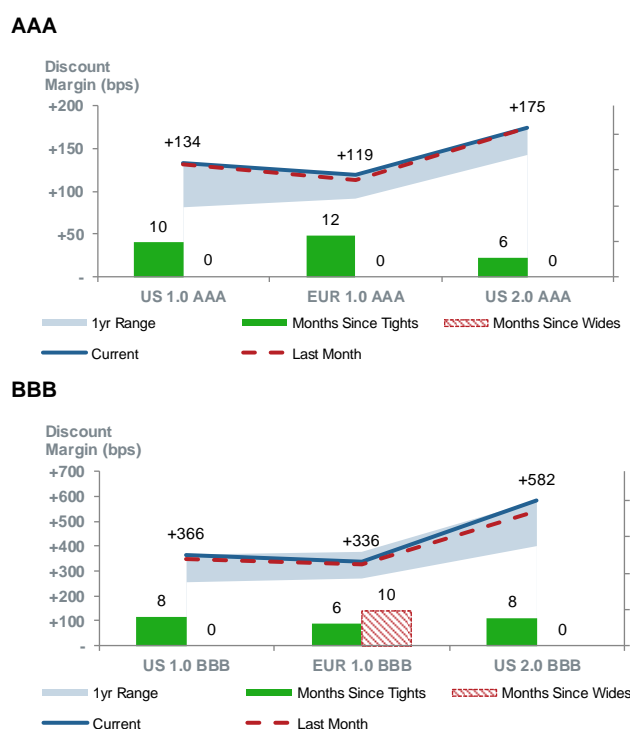
CLO spreads continued to come under pressure in January (Figure 7), with all but EUR 1.0 BBBs reaching the widest levels in over a year. US 1.0 AAAs ended January at L+134bps after reaching new wides of L+135 earlier in the month, while EUR 1.0 and US 2.0 AAAs ended the month L+119bps and L+175bps, which were the widest levels in 12 months. We note that CLO mezzanine paper was particularly weak in January, as it widened over 300bps.

CMBS spreads (Figure 8) all reached new one year wides in January. The single-A to BBB- credit curve basis steepened considerably during the month, widening from 247bps in December to 335bps.

### Non-agency jumbo 2.0 bonds rallied alongside agency TBAs

The vast majority of the non-agency spreads continued to widen in January in the wake of relatively light trading and BWIC volumes, albeit at a slower pace than other credit sectors. However, jumbo 2.0 prices increased in line with TBAs given their similarities to agency pools and the trading convention being pegged to a comparable coupon TBA, which have rallied in almost lockstep with treasuries.

Figure 7: 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	January 2015						Change vs prior month					
	3	3.5	4	4.5	5	5.5	3	3.5	4	4.5	5	5.5
LLB (85K)	0-16	0-24	1-10	2-05	2-28	2-10	+0-12	+0-14	+0-31	+1-13	+2-05	+2-01
MLB (110K)	0-13	0-16	1-02	1-27	2-05	2-04	+0-12	+0-10	+0-23	+2-01	+2-22	+3-31
HLB (150K)	0-09	0-12	0-22	1-11	1-22	0-29	+0-10	+0-07	+0-17	+1-26	+2-25	+2-25
New Prod	0-02	0-04	0-06	0-10	0-18	0-00	+0-02	+0-04	+0-11	+0-09	0-00	0-00
Low FICO	0-06	0-04	0-07	0-16	0-15	1-12	+0-09	+0-01	+0-08	+1-16	+0-29	+0-26
Investor	0-03	0-05	0-07	0-12	0-17	1-16	+0-01	+0-08	+0-07	+0-07	+0-08	+0-11
MHA <90	0-04	0-06	0-07	0-11	0-20	2-08	+0-20	+0-04	+0-06	+0-05	+0-05	+0-05
MHA <95	0-15	0-07	0-08	0-20	0-28	0-21	+0-18	+0-05	+0-09	+0-08	+0-08	+0-08
MHA <100	0-11	0-03	0-09	0-22	0-24	1-06	+0-19	+0-02	+0-16	+0-13	+0-13	0-00
MHA <105	0-17	0-06	0-13	0-15	0-26	2-05	+0-19	+0-05	+0-15	+0-07	+0-08	0-00
<125 LTV	0-02	0-06	0-30	1-16	2-10	2-05	0-00	+0-03	+0-12	+0-23	-0-01	-0-01
125+ LTV	0-31	0-08	0-18	2-04	2-09	3-07	+0-01	+0-08	+0-13	-0-01	-0-01	0-00

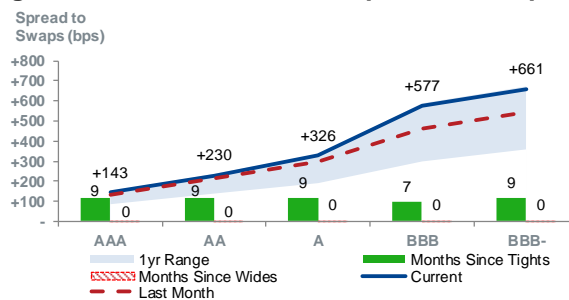
Source: Markit

**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)
<b>Sequential</b>		
2-yr	+60	-5
5-yr	+65	--
10-yr	+90	+10
<b>PAC</b>		
2-yr	+80	+5
5-yr	+85	+10
10-yr	+110	+10

Source: Markit

**Figure 8: 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
<b>US Credit Cards - Fixed-Rate</b>						
2-3yr AAA US Swaps	+46	-1	+24	5/8/15	+47	11/16/15
4-5yr AAA US Swaps	+57	-1	+35	4/1/15	+70	10/14/15
<b>US Credit Card - Floating-Rate</b>						
2-3yr AAA US LIBOR DM	+40	-	+25	5/13/15	+40	11/16/15
4-5yr AAA US LIBOR DM	+61	-	+36	2/9/15	+62	11/5/15
<b>European Credit Card - Floating-Rate</b>						
AAA EUR LIBOR DM	+43	+8	+18	1/5/16	+55	11/19/15
<b>US Prime Auto - Fixed-Rate</b>						
0-2yr AAA EDSF	+38	-	+19	5/13/15	+38	12/15/15
2+yr AAA US Swaps	+48	-	+25	4/7/15	+51	11/2/15
<b>European Prime Auto Loan - Floating-Rate</b>						
AAA EUR LIBOR DM	+51	+1	+26	3/4/15	+53	12/30/15
<b>US Subprime Auto - Fixed-Rate</b>						
1-2-yr AAA EDSF	+79	-1	+45	7/21/15	+80	12/28/15
2+yr AAA US Swaps	+92	-1	+48	6/15/15	+97	11/5/15
<b>US Equipment - Fixed-Rate</b>						
2+yr AAA US Swaps	+64	-1	+43	6/17/15	+65	12/21/15
<b>European Equipment - Floating-Rate</b>						
A EUR LIBOR DM	+147	+22	+115	6/10/15	+182	6/30/15
<b>US FFELP Student Loans - Floating-Rate</b>						
2-4yr AAA 3mo US LIBOR DM	+105	-	+41	2/27/15	+106	1/27/16
10+yr AAA 3mo US LIBOR DM	+165	+6	+93	5/11/15	+165	1/22/16

Source: Markit

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