

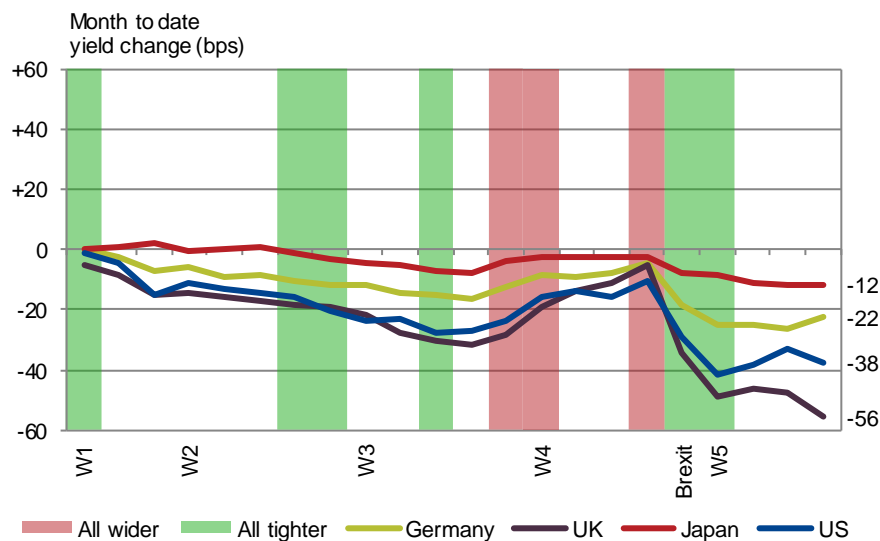
Global fixed income monthly focus – June 2016

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

Despite the Brexit earthquake and the consequent volatility in most asset classes, investment grade corporate bonds in both Europe and the US managed to post positive returns over June. The very disappointing US May employment report of +38K jobs added (later revised even lower to only +11K) and the phenomenal June report of +287K jobs, have only led to more confusion on the timing of the next Fed rate increase. In addition, the market continues to brace itself for the influx of economic data to properly gauge the initial financial impact of the vote on the UK economy.

- North American and European energy spreads tightened across every rating category in June, with CCC+ rated loans tightening the most. The average spread basis between North American and European loans reached -25bps the day of the Brexit vote announcement, almost completely retracing back to its tightest level of -29bps reported on April 20th
- June was always going to be dominated by Brexit and, in common with most markets, credit got it wrong. The [Markit iTraxx Europe](#) started the month at 72.5bps and by mid-month had widened to 88bps as opinion polls showed the “Out” camp with a slender lead
- The [Markit iBoxx \\$ Liquid Investment Grade Index](#) recovered after a flat May to return 2.25%, and has now returned over 7% year-to-date. Euro returns were less impressive, both over June and YTD. The [Markit iBoxx € Liquid Investment Grade Index](#) was up 0.99% over the month and by just over 4% YTD. Perhaps surprisingly, sterling bonds outperformed both US dollar and euro, with the [Markit iBoxx £ Liquid Investment Grade Index](#) returning 2.52% and 7.50% over the month and year respectively
- Brexit contagion spread rapidly through Europe, with the United Kingdom, Germany, France, and Italy all hitting new multiyear wide CDS spreads. **Figure 1** shows the gradual decline in benchmark 10yr government bond yields throughout the month of June and highlights the days where every benchmark bond’s yield widened or tightened in sync
- June was one of the most active months of municipal bond issuance since 2009, as \$45.2 billion of new supply was priced and easily absorbed by the market. The rally in rates drove municipal prices much higher in June, with only a subtle widening of spreads that coincided with the sharp rallies in treasuries
- US securitised products held up very well during the volatility driven by Brexit, while European sectors came under significant pressure and liquidity did suffer to varying degrees

Figure 1: Benchmark 10yr government bonds month to date change in yield during June



Source: Markit.

Leveraged loans

Energy spreads tighten across the credit curve

North American and European energy spreads tightened across every rating category in June, with CCC+ rated loans tightening the most (**Table 3**). Outside of energy, the belly (BB through B ratings) widened across every sector. However, the B- and CCC+ cohorts tightened modestly across every sector during the month.

The average spread basis between North American and European loans reached -25bps the day of the Brexit vote announcement, almost completely retracing back to its tightest level of -29bps reported on April 20th (**Figure 2**). We note that European loan spreads were briefly tighter than the North American equivalents from late-January to mid-February of this year, but that basis inverted once global credit spreads began to tighten after the announcement of the ECB's expanded bond purchase program in March.

Energy issues dominated North America's best performers

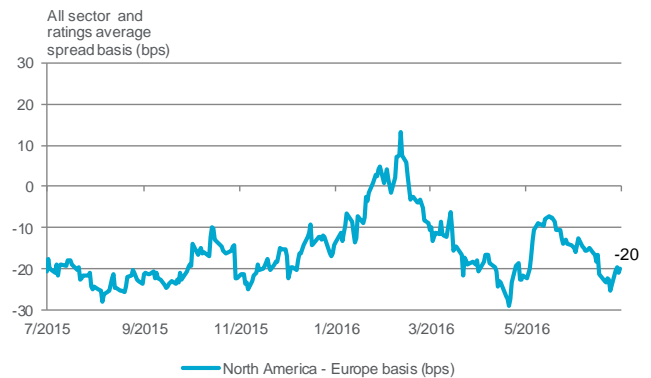
The positive impact of the rally in oil prices continues to be apparent in the loan market, as six out of the top 10 best performers in North America were from the energy sector. Energy issue Frac Tech International 4/14 Cov-Lite TL was the best performer globally, increasing 47.8% to end the month at a price of 38.93 after being as low as 10.20 on February 19th (**Table 1**). Par loan Hercules Offshore 7/15 Exit TL reached a new high price of 95.50 on June 24th after being as low as 54.33 in late-January.

The worst par loan performer in North America was auto parts company BBB Industries 10/14 Cov-Lite 2nd Lien TL, decreasing 5.0% to end the month at a new one-year low price of 88.33. J.G. Wentworth 2/13 TL was the worst performing distressed loan, declining 15.0% to end the month at a 34.00 price.

Fraikin acquisition drives loan price significantly higher

Former distressed truck fleet issue Fraikin 2/07 GBP Holdco TL was the best performing loan in Europe, increasing 32.6% during the month on the June 30th announcement that they will be acquired by Petit Forestier. Seven of the 10 worst performers in Europe hit new one year lows during the month, with Cortefiel 9/12 Extended PIK TLB1 and HC Starck 11/06 (USD) 2nd Lien TLA the two worst performers in the month, as both saw price declines of slightly more than 20% in June.

Figure 2: Average spread basis across all ratings between North American and European loans



Source: Markit

Table 1: June North American loans best and worst price performance¹
North America

LXID	Loan Name	Sector	Country	Liq score	6/30 price	% change	One year low	Date	One year high	Date	
Best Performers											
Par											
1	LX148811	Hercules Offshore 7/15 Exit TL	Energy	USA	5	95.25	+13.1%	54.33	1/22/16	95.50	6/24/16
2	LX136974	Chief Exploration 5/14 2nd Lien TL	Energy	USA	4	89.81	+11.6%	49.30	3/4/16	93.81	7/15/15
3	LX146537	Universal Services 7/15 2nd Lien Cov-Lite TL	Consumer Services	USA	4	95.67	+5.7%	90.17	5/16/16	99.25	8/24/15
4	LX136120	Fairmount Minerals 3/14 TLB1	Industrials	USA	5	86.33	+5.5%	62.00	2/24/16	98.78	7/16/15
5	LX132456	Fieldwood 9/13 TL	Energy	USA	1	85.92	+5.4%	55.83	2/11/16	95.09	7/3/15
Distressed											
1	LX136541	Frac Tech International 4/14 Cov-Lite TL	Energy	USA	2	38.93	+47.8%	10.20	2/19/16	80.00	7/3/15
2	LX138431	American Energy Marcellus 8/14 Cov-Lite TL	Energy	USA	2	51.50	+35.1%	15.30	3/3/16	76.94	7/7/15
3	LX136918	Hi-Crush 4/14 Cov-Lite TLB	Basic Materials	USA	3	80.00	+13.0%	60.33	3/14/16	96.69	7/7/15
4	LX136121	Fairmount Minerals 3/14 TLB2	Industrials	USA	2	80.92	+9.2%	43.13	2/29/16	94.50	7/1/15
5	LX144421	W&T Offshore 5/15 (Fixed 9%) Cov-Lite 2nd Lien TL	Energy	USA	5	58.67	+9.0%	52.00	4/26/16	84.00	12/16/15
Worst Performers											
Par											
1	LX141347	BBB Industries 10/14 Cov-Lite 2nd Lien TL	Consumer Goods	USA	5	88.33	-5.0%	88.33	6/30/16	97.00	7/7/15
2	LX133785	Del Monte Foods 2/14 Cov-Lite TL	Utilities	USA	3	93.00	-4.2%	93.00	6/30/16	97.88	10/26/15
3	LX136313	Aricent 4/14 TL	Technology	CYM	3	88.25	-3.8%	88.25	6/30/16	100.58	7/15/15
4	LX141385	Wheelaerator Technologies 10/14 TLC	Utilities	USA	3	95.17	-3.8%	88.88	1/6/16	100.34	8/3/15
5	LX144635	LightSquared 6/15 PIK Exit Cov-Lite TL	Technology	USA	3	88.75	-3.5%	87.00	3/1/16	92.56	5/10/16
Distressed											
1	LX128316	J.G. Wentworth 2/13 TL	Financials	USA	5	34.00	-15.0%	33.50	6/17/16	96.83	7/28/15
2	LX131401	Trident USA Health 7/13 TLB	Healthcare	USA	4	84.00	-12.0%	84.00	6/30/16	96.50	7/30/15
3	LX148810	LightSquared 12/15 2nd Lien TL	Technology	USA	4	61.88	-12.0%	61.75	6/29/16	73.83	2/10/16
4	LX130228	Quicksilver Resources 6/13 Cov-Lite 2nd Lien TL	Energy	USA	3	21.00	-10.6%	20.42	6/27/16	59.50	7/10/15
5	LX135757	Lands' End 3/14 Cov-Lite TLB	Consumer Services	USA	3	76.33	-9.1%	69.67	3/3/16	95.33	8/10/15

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: June European loans best and worst price performance¹

Europe

	LXID	Loan Name	Sector	Country	Liq score	6/30 price	% change	One year low	Date	One year high	Date
Best Performers											
Par											
1	LX064209	Fraikin 2/07 (GBP) Holdco TL	Consumer Services	FRA	5	85.17	+32.6%	51.50	1/25/16	85.17	6/30/16
2	LX135894	Yell 3/14 (USD) TLA2	Consumer Services	GBR	5	350.67	+21.1%	188.42	7/16/15	350.67	6/30/16
3	LX132405	Hilding Anders 9/13 (EUR) 2nd Lien Extended TL	Consumer Goods	SWE	4	88.20	+4.5%	83.63	3/1/16	93.00	11/19/15
4	LX131553	CBR 9/13 (Germany) Extended TLC2	Consumer Services	DEU	3	88.00	+2.6%	80.17	3/1/16	99.75	7/8/15
5	LX136884	Flint Group 5/14 (EUR) 2nd Lien TL	Basic Materials	DEU	5	95.31	+1.3%	92.17	3/30/16	99.88	8/11/15
Distressed											
1	LX068349	Ecobat 5/07 (EUR) PIK TL	Industrials	GBR	5	23.00	+17.6%	19.50	5/30/16	23.85	6/28/16
2	LX146780	AVR 7/15 Holdco PIK TL	Industrials	NLD	5	49.75	+7.4%	30.20	3/2/16	58.17	7/20/15
3	LX141502	Endeavour 10/14 TL	Energy	NLD	5	12.63	+6.3%	10.45	4/27/16	77.06	7/3/15
4	LX137173	KCA 5/14 TLB	Energy	GBR	1	76.88	+5.5%	51.50	3/4/16	85.88	7/3/15
5	LX139558	Endemol 8/14 (USD) Cov-Lite TL	Consumer Services	NLD	1	81.71	+1.7%	79.63	5/19/16	99.25	7/21/15
Worst Performers											
Par											
1	LX139578	Vivarte 10/14 Super Senior TL	Consumer Goods	FRA	3	89.75	-10.6%	89.75	6/30/16	107.46	10/27/15
2	LX134382	Burton's Biscuits 12/13 (GBP) TLB	Consumer Goods	GBR	3	87.88	-4.7%	81.08	1/12/16	93.50	3/31/16
3	LX152227	HC Starck 3/16 (USD) TLE	Basic Materials	DEU	2	87.50	-4.0%	87.50	6/30/16	92.67	4/15/16
4	LX129945	Oxea 7/13 (EUR) Cov-Lite TLB1	Basic Materials	LUX	3	95.25	-3.5%	94.92	6/27/16	98.98	5/24/16
5	LX142830	Paternoster 2/15 TLB	Industrials	DEU	2	95.90	-2.6%	95.00	2/26/16	99.79	7/1/15
Distressed											
1	LX126190	Cortefiel 9/12 Extended PIK TLB1	Consumer Services	ESP	1	58.17	-20.4%	58.17	6/30/16	85.00	12/8/15
2	LX062451	HC Starck 11/06 (USD) 2nd Lien TLA	Basic Materials	DEU	5	64.00	-20.3%	64.00	6/30/16	88.42	8/11/15
3	LX076054	Camaieu (7/07) Tranche 1 TLb	Consumer Services	FRA	2	78.38	-7.5%	78.38	6/30/16	86.42	10/29/15
4	LX141716	Autobar 10/14 Senior TL	Consumer Services	NLD	2	63.59	-7.4%	62.50	6/24/16	95.79	8/6/15
5	LX135384	Seadrill Partners 2/14 TL	Energy	GBR	1	44.40	-6.4%	34.88	12/14/15	78.00	7/17/15

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	-7	-4	+14	+11	+5	+13	-42	-57
	EU	-2	+2	+18	+16	+8	+17	-38	-53
	Change NA-EU	-4.4	-6.5	-4.0	-4.5	-3.0	-4.1	-4.0	-4.2
Consumer Goods	NA	+9	+11	+30	+27	+21	+28	-26	-41
	EU	+13	+18	+34	+32	+24	+33	-22	-37
	Current NA-EU	-4.9	-7.0	-4.5	-5.0	-3.5	-4.6	-4.5	-4.7
Consumer Services	NA	-2	+1	+19	+16	+10	+18	-37	-52
	EU	+3	+8	+24	+22	+14	+23	-32	-47
	Current NA-EU	-5.3	-7.4	-4.9	-5.4	-3.9	-5.0	-4.9	-5.1
Energy	NA	-45	-43	-24	-27	-33	-26	-80	-95
	EU	-39	-34	-18	-21	-28	-19	-74	-89
	Current NA-EU	-6.5	-8.6	-6.1	-6.6	-5.1	-6.2	-6.1	-6.3
Financials	NA	-7	-4	+15	+12	+6	+13	-42	-57
	EU	-1	+4	+20	+17	+10	+19	-36	-51
	Current NA-EU	-5.8	-7.9	-5.4	-5.9	-4.4	-5.5	-5.4	-5.6
Healthcare	NA	+4	+6	+25	+22	+16	+23	-31	-46
	EU	+9	+13	+30	+27	+20	+28	-27	-41
	Current NA-EU	-5.2	-7.3	-4.8	-5.3	-3.8	-4.9	-4.8	-5.0
Industrials	NA	-0	+2	+21	+18	+12	+20	-35	-50
	EU	+5	+10	+26	+23	+16	+24	-30	-45
	Current NA-EU	-5.0	-7.1	-4.7	-5.1	-3.6	-4.8	-4.7	-4.8
Technology	NA	-3	-0	+19	+16	+10	+17	-38	-52
	EU	+2	+7	+23	+20	+13	+21	-33	-48
	Current NA-EU	-4.5	-6.6	-4.1	-4.6	-3.1	-4.2	-4.1	-4.3
Telecommunication Services	NA	-2	+1	+20	+17	+11	+18	-37	-51
	EU	+5	+9	+26	+23	+16	+24	-31	-45
	Current NA-EU	-6.4	-8.5	-6.0	-6.5	-5.0	-6.1	-6.0	-6.2
Utilities	NA	-11	-8	+11	+8	+2	+9	-46	-60
	EU	-4	+0	+17	+14	+7	+15	-39	-54
	Current NA-EU	-6.4	-8.5	-6.0	-6.5	-5.0	-6.1	-6.0	-6.2

Source: Markit

Credit default swaps

Brexit drives CDS activity in June

June was always going to be dominated by Brexit and, in common with most markets, credit got it wrong. The [Markit iTraxx Europe](#) started the month at 72.5bps and by mid-month had widened to 88bps as opinion polls showed the “Out” camp with a slender lead. But on June 23, the day of the referendum, the index had recovered to 75bps amid firm expectations that the British public would vote to remain in the EU. As we now know, they voted to leave, resulting in a violent market reaction. **Figure 3** indicates that the global CDS credit curve steepened sharply during the month given the decrease in overall risk appetite.

Markit iTraxx Europe widens more than post-Lehman on Brexit vote results

The [Markit iTraxx Europe](#) ballooned wider to 95bps on the day following the referendum, a widening of 26% and a four standard deviation event. To put this in perspective, the move in the index after the Lehman failure was 22% (September 15, 2008) and 18% immediately prior to the first Greek bailout (May 7 2010). The Markit VolX Europe, which shows realised volatility in the iTraxx Europe, was indeed at its highest level since Greece was forced into the hands of the Troika.

The magnitude of the moves is striking when placed in a historical context. But the subsequent days following the seismic impact of the Brexit referendum result suggest that we are in slightly calmer waters. The Markit iTraxx Europe had recovered to 84bps by June month-end, just 7bps wider than where it started the year. As recently as February this year, the index was trading in excess of 125bps. Central banks stand ready to step in with unconventional monetary policies and the banking system is better capitalised compared to 2008-2010. But Europe’s banks still have considerable weaknesses and are the most likely catalyst for a risk reversal in coming months.

European credit underperforms US

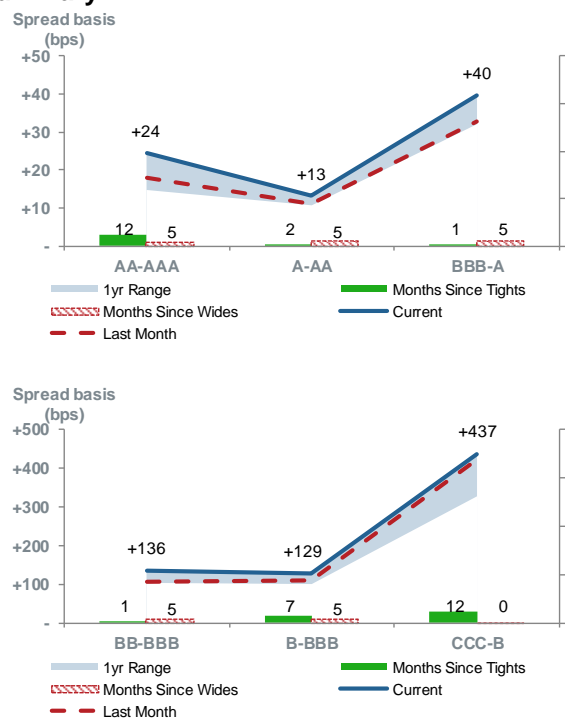
Unsurprisingly, European credit underperformed its North American counterpart during June. Even with the recovery in the month’s latter days, the Markit iTraxx Europe was 11.4bps wider. The [Markit CDX North American Investment Grade](#) index was just 1bp wider, though the Brexit vote did some have impact. The consensus seems to be that the uncertainty caused by Brexit will be localised and have little effect on economic performance outside of Europe. Nonetheless, international investors will be keeping a close eye on UK political developments.

Energy and basic materials sectors best performers

Among single names, energy and basic materials made the largest contribution to the best performing

credits (**Table 4** and **Table 5**). The price of Brent crude consolidated in the \$47-\$52 range after the rally in May, helping commodity exporters. The worst performers in North America were consumer names, while in EMEA it was no surprise to see UK financials suffer credit deterioration.

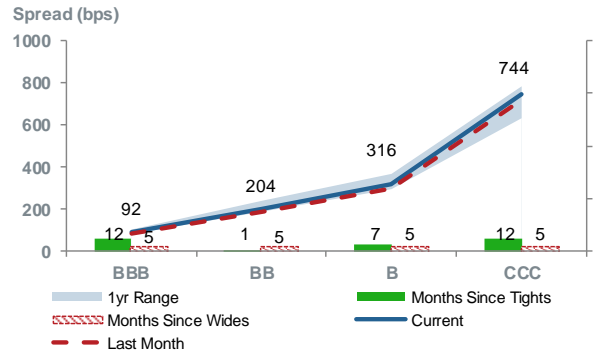
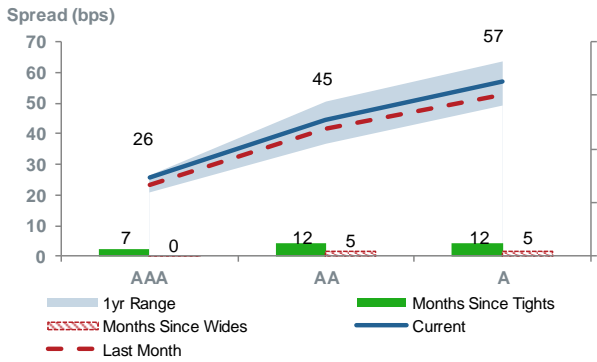
Figure 3: Global CDS sector ratings spread basis summary



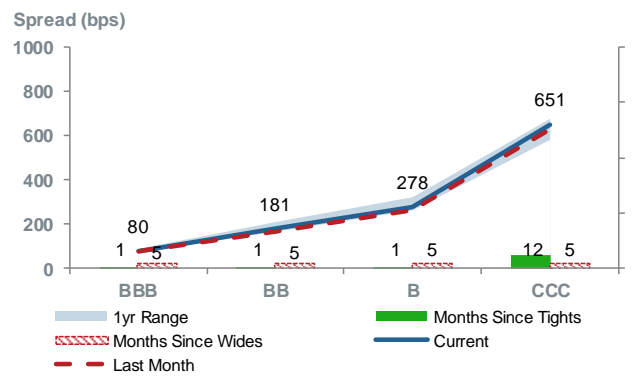
Source: Markit

Figure 4: June regional CDS sector spread summary

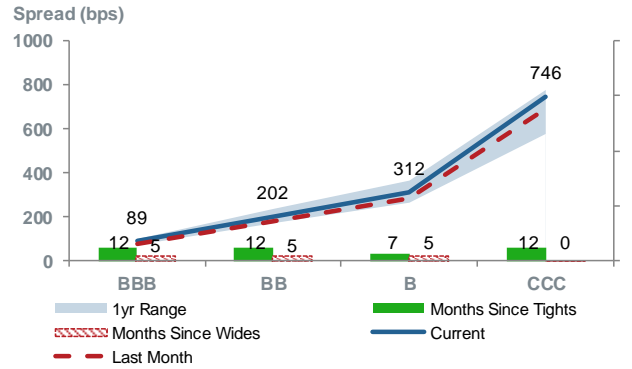
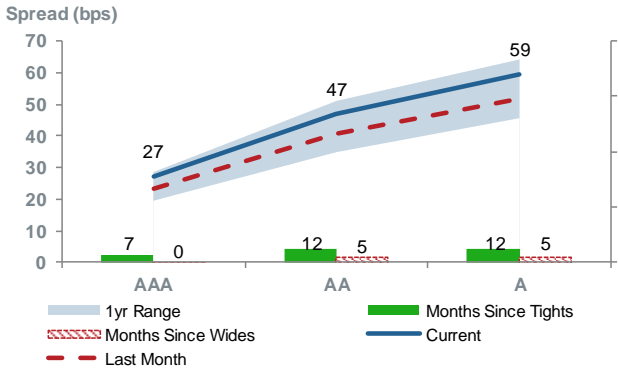
Global



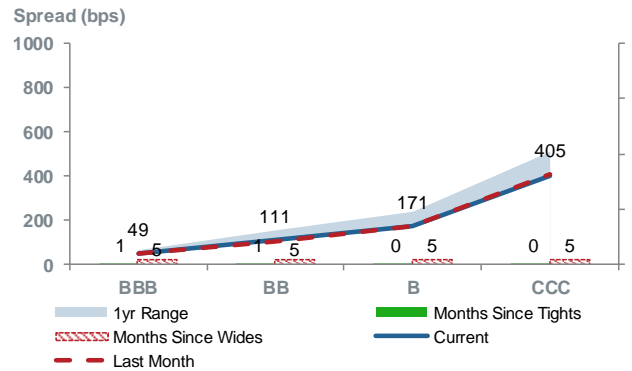
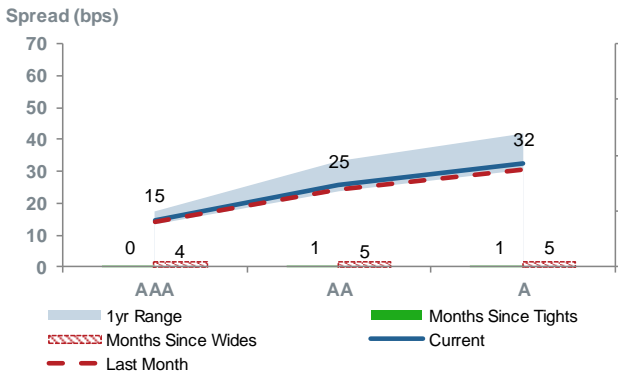
North America



Europe



Japan



Source: IHS Markit

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

Best performers

	Ticker	Company	Sector	Country	Liq score	6/30 spread	Change	% change	One year tight	Date	One year wide	Date
Americas												
1	PDV	Petroleos de Venezuela Sa	Energy	VEN	2	4993	-1685	-25.2%	4278	11/23/15	11163	2/11/16
2	DVN	Devon Engy Corp	Energy	USA	2	245	-81	-24.8%	91	7/1/15	773	2/19/16
3	NEM	Newmont Mng Corp	Basic Materials	USA	2	109	-32	-22.6%	103	5/3/16	286	11/27/15
4	WFT	Weatherford Itl Ltd	Energy	BMU	1	734	-206	-21.9%	292	7/1/15	1460	1/20/16
5	AA	Alcoa Inc.	Basic Materials	USA	2	272	-74	-21.4%	188	7/16/15	621	1/27/16
EMEA												
1	NSINO	Norske Skogindustrier ASA	Basic Materials	NOR	2	3435	-575	-14.3%	2525	7/15/15	5953	3/16/16
2	RWE	RWE AG	Utilities	DEU	1	115	-19	-13.9%	74	7/20/15	170	4/8/16
3	SUEDAG	Suedzucker	Consumer Goods	DEU	1	66	-10	-13.3%	65	6/23/16	142	8/24/15
4	TOTALN	Total SA	Energy	FRA	1	52	-5	-9.2%	47	7/17/15	134	2/11/16
5	AAUK	Anglo Amern plc	Basic Materials	GBR	1	512	-50	-8.9%	169	7/1/15	1387	1/14/16
APAC												
1	TOYOTA	Toyota Mtr Corp	Consumer Goods	JPN	2	25	-7	-22.8%	19	7/30/15	46	2/17/16
2	JFEHLD	JFE Hldgs Inc	Basic Materials	JPN	2	73	-18	-19.8%	58	7/1/15	171	2/15/16
3	RIOLN-Ltd	Rio Tinto Ltd	Basic Materials	AUS	2	157	-36	-18.8%	104	7/2/15	279	2/10/16
4	NSANY	Nissan Mtr Co Ltd	Consumer Goods	JPN	2	38	-9	-18.6%	27	7/3/15	78	2/12/16
5	KOBSTL	Kobe Stl Ltd	Basic Materials	JPN	2	111	-22	-16.3%	71	7/2/15	309	2/15/16

Source: IHS Markit

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

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

Worst performers

	Ticker	Company	Sector	Country	Liq score	6/30 spread	Change	% change	One year tight	Date	One year wide	Date
Americas												
1	PG	Procter & Gamble Co	Consumer Goods	USA	1	25	+7	+38.4%	15	1/28/16	29	10/27/15
2	COX-CommInc	Cox Comms Inc	Consumer Services	USA	2	85	+22	+35.7%	57	3/18/16	135	10/2/15
3	DUKECO	Duke Energy Carolinas LLC	Utilities	USA	1	17	+4	+31.3%	10	3/10/16	20	7/8/15
4	CI	Cigna Corp	Healthcare	USA	2	44	+9	+26.8%	29	2/3/16	44	6/27/16
5	MONDINT	Mondelez Intl Inc	Consumer Goods	USA	2	54	+11	+25.6%	35	12/10/15	54	6/30/16
EMEA												
1	AVLN	Aviva plc	Financials	GBR	2	105	+33	+46.3%	56	12/2/15	129	2/9/16
2	PIZZAFI	Pizzaexpress Fing 1 PLC	Consumer Services	GBR	2	702	+217	+44.8%	249	12/7/15	730	6/27/16
3	BACR-Bank	Barclays Bk plc	Financials	GBR	2	140	+39	+38.3%	55	10/23/15	157	6/27/16
4	LLOYDBA	Lloyds Bank PLC	Financials	GBR	2	119	+32	+37.5%	44	12/2/15	139	6/27/16
5	AXAF	AXA	Financials	FRA	1	75	+19	+34.8%	48	12/2/15	101	2/9/16
APAC												
1	SUMICH	Sumitomo Chem Co Ltd	Basic Materials	JPN	2	49	+2	+5.0%	41	7/21/15	76	2/15/16
2	TELECO	Telstra Corp Ltd	Telecommunications Services	AUS	2	67	+2.1	+3.3%	53	7/21/15	83	2/11/16
3	QANTAS	Qantas Awys Ltd	Industrials	AUS	2	213	+5	+2.2%	180	3/18/16	232	1/18/16
4	WESAU	Wesfarmers Ltd	Consumer Services	AUS	2	107	+1.8	+1.7%	70	7/1/15	124	2/11/16
5	NECORP	NEC Corp	Technology	JPN	2	60	+1	+1.2%	48	8/17/15	97	2/12/16

Source: IHS Markit

Global corporate bonds

Despite the Brexit earthquake and the consequent volatility in most asset classes, investment grade corporate bonds in both Europe and the US managed to post positive returns over June.

Investment grade bonds' performance strong across Europe and North America

The [Markit iBoxx \\$ Liquid Investment Grade Index](#) recovered after a flat May to return 2.25%, and has now returned over 7% year-to-date (**Table 6**). Euro returns were less impressive, both over June and YTD. The [Markit iBoxx € Liquid Investment Grade Index](#) was up 0.99% over the month and just over 4% YTD. Perhaps surprisingly, sterling bonds outperformed both US dollar and euro, with the [Markit iBoxx £ Liquid Investment Grade Index](#) returning 2.52% and 7.50% over the month and year, respectively.

Banks underperformed, but still ended the month with positive returns

More predictable was the underperformance of banks compared to the broader corporate universe. The [Markit iBoxx € Banks Index](#) returned just 0.2% in June and is now up 2.14% YTD on a total return basis. UK banks fared little better, with the [Markit iBoxx £ Banks Index](#) returning 0.58% over the month and 3.69% since the beginning of the year. Banks are the worst performing IG indices this year, with the exception of Insurance. Financials have borne the brunt of Brexit and ongoing concerns over asset quality – particularly in Italy – have weighed on the sector.

If it was a solid month for investment grade credit, the same couldn't be said for high yield. Liquid high yield indices in both euro and sterling posted negative returns, with the latter dropping 1.98%. The [Markit iBoxx USD Liquid High Yield Index](#) returned a positive 0.8%, though this compares unfavourably with the investment grade universe. US high yield is now outperforming its euro and sterling counterparts by some margin over the year – returning 8.25% compared to 3.28% and 1.72%, respectively.

Yields generally lower for most, but insurance sector

Investment grade yields fell across the board (with the notable exception of euro and sterling insurance) and corporate AA yields are now just 0.57%. The ECB is now buying corporate bonds as part of its asset purchase programme, and has accumulated €10.4bn as of June 15. This exogenous force is likely suppressing yields, particularly in non-bank investment grade issuers, where the programme is concentrated.

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

	Total Return						Yield						Duration		
	Month			YTD			Current			Month			\$	€	£
	\$	€	£	\$	€	£	\$	€	£	\$	€	£			
Corporates	+2.25%	+0.99%	+2.52%	+7.33%	+4.09%	+7.50%	3.49%	1.16%	3.23%	-0.29%	-0.16%	-0.28%	6.8	5.3	8.3
Corporates AAA	+2.49%	+2.26%	+7.20%	+7.92%	+6.55%	+16.95%	3.01%	0.76%	1.99%	-0.23%	-0.12%	-0.45%	9.7	8.7	15.2
Corporates AA	+2.04%	+1.27%	+3.52%	+6.17%	+4.51%	+9.30%	2.80%	0.57%	2.45%	-0.27%	-0.20%	-0.36%	6.4	5.6	9.0
Corporates A	+2.06%	+1.07%	+2.72%	+6.35%	+3.85%	+7.76%	3.13%	0.90%	3.10%	-0.28%	-0.16%	-0.28%	6.5	5.4	8.9
Corporates BBB	+2.49%	+0.83%	+2.01%	+8.71%	+4.18%	+6.69%	4.03%	1.59%	3.65%	-0.32%	-0.13%	-0.24%	7.1	5.1	7.5
Banks	+1.21%	+0.20%	+0.58%	+4.14%	+2.14%	+3.69%	3.21%	1.11%	3.46%	-0.19%	-0.01%	-0.06%	4.9	4.4	6.4
Basic Materials	+3.24%	+1.48%	+2.98%	+11.97%	+8.73%	+14.23%	4.15%	1.16%	3.74%	-0.37%	-0.26%	-0.36%	7.1	5.4	7.7
Consumer Goods	+2.15%	+1.60%	+2.02%	+7.30%	+5.06%	+6.51%	3.15%	0.96%	2.45%	-0.26%	-0.23%	-0.31%	6.5	5.8	5.7
Consumer Services	+2.94%	+1.24%	+3.67%	+9.61%	+5.18%	+10.13%	3.57%	1.07%	2.89%	-0.31%	-0.19%	-0.36%	8.6	5.9	9.8
Financials	+1.39%	+0.25%	+1.04%	+4.66%	+2.46%	+4.41%	3.27%	1.39%	3.57%	-0.21%	-0.01%	-0.12%	5.4	4.7	7.0
Health Care	+2.62%	+1.78%	+5.39%	+7.67%	+4.61%	+13.92%	3.24%	0.87%	2.79%	-0.29%	-0.27%	-0.41%	7.9	6.3	12.6
Industrials	+2.60%	+1.18%	+3.31%	+8.14%	+4.49%	+9.59%	3.23%	0.78%	2.79%	-0.29%	-0.17%	-0.35%	7.6	5.3	8.9
Insurance	+1.87%	-0.62%	-0.04%	+6.02%	+1.87%	+2.16%	3.81%	2.98%	4.79%	-0.20%	+0.07%	+0.04%	7.8	6.3	7.0
Non-Financials	+2.74%	+1.53%	+3.44%	+8.87%	+5.31%	+9.51%	3.58%	1.02%	3.08%	-0.32%	-0.24%	-0.35%	7.6	5.7	9.1
Oil & Gas	+3.73%	+1.77%	+2.36%	+10.78%	+6.56%	+5.71%	4.19%	1.30%	2.82%	-0.45%	-0.27%	-0.32%	7.3	5.8	6.6
Technology	+1.85%	+1.65%	N/A	+6.87%	+5.93%	N/A	3.22%	0.68%	N/A	-0.22%	-0.23%	N/A	7.1	6.9	N/A
Telecommunications	+2.41%	+1.52%	+3.39%	+9.56%	+5.32%	+10.58%	3.94%	1.15%	3.27%	-0.27%	-0.23%	-0.34%	8.4	6.0	9.2
Utilities	+2.82%	+1.60%	+3.79%	+9.40%	+4.77%	+9.49%	3.62%	1.08%	3.30%	-0.41%	-0.26%	-0.36%	8.7	5.4	9.8
High Yield Liquid High Yield	+0.80%	-0.34%	-1.98%	+8.25%	+3.28%	+1.72%	6.83%	4.42%	6.64%	-0.15%	-0.06%	+0.84%	4.1	3.6	3.7
Convertible CVBX	-1.26%	-2.98%	+1.29%	-3.08%	-5.07%	+2.76%	0.56%	8.11%	7.62%	+0.34%	+0.97%	-0.13%	5.2	4.0	5.6
Contingent Convertible	-0.74%	-2.98%	+1.29%	+0.20%	-5.07%	+2.76%	7.91%	8.11%	7.62%	+0.35%	+0.97%	-0.13%	4.4	4.0	5.6

Source: IHS Markit

Table 7: June global corporate bond best price performance

Best performers

Ticker	Issue	Sector	Country	CCY	Liq score	6/30 price	Change	% change	One year low	Date	One year high	Date	
Americas													
1	CNRI	Cliffs Natural Resources Inc. 5.9 3/2020	Basic Materials	CAN	USD	1	75.75	+37.00	+95.5%	7.78	2/9/16	76.46	6/23/16
2	KEG	Key Energy Services, Inc 6.75 3/2021	Energy	USA	USD	2	39.21	+15.71	+66.9%	9.73	2/12/16	59.00	7/1/15
3	VANGNAT	Vanguard Natural Resources, Llc 7.875 4/2020	Financials	USA	USD	1	32.00	+10.00	+45.5%	10.00	3/8/16	96.00	7/3/15
4	OFFSDRI	Offshore Drilling Holding S.A. 8.375 9/2020	Energy	MEX	USD	2	46.50	+12.50	+36.8%	29.00	5/19/16	89.25	7/7/15
5	RDEN	Elizabeth Arden, Inc. 7.375 3/2021	Consumer Goods	USA	USD	1	101.75	+26.75	+35.7%	55.14	3/9/16	102.12	6/20/16
EMEA													
1	ALGESCO	Algeco Scotsman Global Finance Plc 10.75 10/2019	Industrials	GBR	USD	1	48.25	+7.75	+19.1%	19.83	2/15/16	77.50	7/3/15
2	SANUK	Santander Uk Plc 6/2038	Financials	GBR	GBP	2	63.54	+7.54	+13.5%	54.93	1/4/16	66.12	6/17/16
3	CARDUNI	Cardiff University 3 12/2055	Consumer Services	GBR	GBP	2	116.97	+13.03	+12.5%	96.30	2/22/16	116.97	6/30/16
4	RTGRP-Fin	Network Rail Infrastructure Finance Plc 1.125 11/2047	Industrials	GBR	GBP	3	178.00	+19.35	+12.2%	152.56	11/10/15	178.00	6/30/16
5	WELLCO	The Wellcome Trust Limited 4 5/2059	Healthcare	GBR	GBP	2	154.69	+16.69	+12.1%	115.70	7/15/15	154.69	6/30/16
APAC													
1	YINGDGA	Yingde Gases Investment Limited 8.125 4/2018	Basic Materials	CHN	USD	2	86.00	+8.62	+11.1%	69.41	3/28/16	97.00	7/22/15
2	BHP-BilFinUSLtd	Bhp Billiton Finance (Usa) Limited 5 9/2043	Basic Materials	AUS	USD	1	115.86	+10.11	+9.6%	86.69	1/25/16	115.86	6/30/16
3	RTINTO	Rio Tinto Finance (Usa) Plc 4.125 8/2042	Basic Materials	AUS	USD	2	99.13	+7.91	+8.7%	76.05	1/22/16	99.13	6/30/16
4	STATEOI	State Oil Company Of Azerbaijan Republic 6.95 3/2030	Energy	AZE	USD	2	104.47	+7.65	+7.9%	78.50	2/3/16	106.50	7/13/15
5	NEXENE	Nexen Energy Ulc 7.5 7/2039	Energy	CHN	USD	2	141.16	+10.24	+7.8%	124.61	3/1/16	141.16	6/30/16

Source: IHS Markit

Table 8: June global corporate bond worst price performance

Worst performers

Ticker	Issue	Sector	Country	CCY	Liq score	6/30 price	Change	% change	One year low	Date	One year high	Date
Americas												
1 SAMRCO	Samarco Mineracao S.A. 5.375 9/2024	Basic Materials	BRA	USD	2	38.49	-11.51	-23.0%	31.00	1/4/16	95.75	7/3/15
2 AV	Avaya Inc. 10.5 3/2021	Technology	USA	USD	1	22.02	-6.26	-22.1%	20.06	4/29/16	84.50	7/16/15
3 SAMRCO	Samarco Mineracao S.A. 4.125 11/2022	Basic Materials	BRA	USD	1	38.75	-10.34	-21.1%	31.96	1/1/16	92.75	7/6/15
4 NINEWES	Nine West Holdings, Inc. 8.25 3/2019	Consumer Goods	USA	USD	2	16.25	-4.25	-20.7%	15.25	6/28/16	66.50	7/1/15
5 GRUPFAM	Grupo Famsa S.A.B. De C.V. 7.25 6/2020	Consumer Services	MEX	USD	2	72.75	-16.25	-18.3%	67.69	6/22/16	92.37	7/21/15
EMEA												
1 PLTMPL-IntFin	Portugal Telecom International Finance B.V. 5.242 11/2017	Telecommunications Services	PRT	EUR	1	14.55	-6.62	-31.3%	12.67	6/15/16	104.87	7/17/15
2 INTSAT-Lux	Intelsat (Luxembourg) S.A. 7.75 6/2021	Telecommunications Services	LUX	USD	1	23.84	-5.91	-19.9%	22.50	2/24/16	68.00	9/25/15
3 OHLSA	Obrascon Huarte Lain Sa 4.75 3/2022	Industrials	ESP	EUR	2	66.64	-11.56	-14.8%	61.12	2/12/16	92.75	10/8/15
4 SELEGRO	Selecta Group B.V. 6.5 6/2020	Consumer Services	CHE	EUR	2	80.98	-11.98	-12.9%	79.47	6/27/16	99.12	12/3/15
5 PAGEFIN	Pagesjaunes Finance & Co. S.C.A. 8.875 6/2018	Consumer Services	FRA	EUR	1	50.22	-7.14	-12.4%	48.89	6/29/16	95.50	7/22/15
APAC												
1 BALLINT	Ballarpur International Graphic Paper Holdings B.V. 9.75 12/2099	Basic Materials	IND	USD	1	65.52	-10.32	-13.6%	65.36	6/29/16	88.88	11/10/15
2 GLORPRO	Glorious Property Holdings Limited 13.25 3/2018	Financials	CHN	USD	1	73.93	-6.59	-8.2%	51.00	9/2/15	87.50	1/14/16
3 OTTAHOL	Ottawa Holdings Pte. Ltd. 5.875 5/2018	Financials	IDN	USD	1	68.43	-5.25	-7.1%	39.00	10/1/15	80.50	7/15/15
4 CHINSIN	China Singyes Solar Technologies Holdings Limited 7.875 11/2017	Energy	CHN	CNY	2	86.01	-5.99	-6.5%	82.50	5/24/16	96.78	11/26/15
5 WESTCHI	West China Cement Limited 6.5 9/2019	Industrials	CHN	USD	1	100.50	-4.38	-4.2%	96.50	8/24/15	106.00	12/9/15

Source: IHS Markit

Sovereigns

European members of G7 all hit new wides after Brexit vote

Brexit contagion spread rapidly through Europe, with the United Kingdom, Germany, France, and Italy all hitting new multiyear wide CDS spreads (**Table 9**). Of course, the impact on UK spreads was the most profound, with 5yr CDS spreads hitting a multiyear high of 50.6bps the day after the vote (**Figure 5**).

In fact, 5yr CDS spreads for every G7 country were wider on the month, with German and Canadian spreads widening the least at 3.5% and 3.6% on a spread percentage basis, respectively, on the month. In addition, German 10yr government bond yields ended the month in negative territory (-0.13%) for the first time in history.

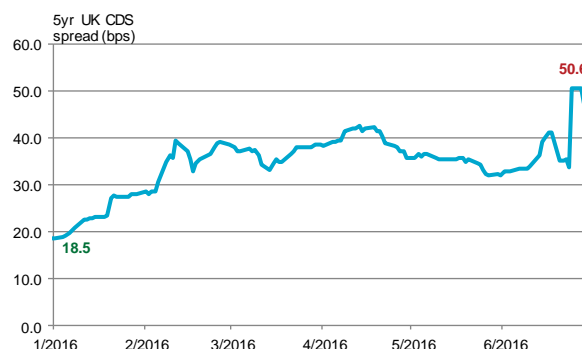
The best performing sovereign CDS list was dominated by emerging market countries and seven out of 10 were in Latin America (**Table 10**). Most of the countries on the list reached their tightest level of the past 12 months last July, with the exception of Russia, which ended the month at a new one year tightest level of 227bps on the back of stability in oil prices.

In the case of the worst CDS performers, UK CDS spreads performed worst globally at +12bps (or +36%) to end the month at 44bps, which is well below its previously mentioned widest spread the day of the Brexit announcement. We note that all of the European countries on the list reached new 12 month widest levels during the month. Japan reported the third widest movement at +7bps (or +21.3%) and was the only non-European country in that category.

UK inflation indexed bond the best performer globally

United Kingdom of Great Britain and Northern Ireland 0.125 11/2065 inflation indexed bond was the best performing bond globally, partially driven by the sharp decline in the British pound, increasing 27.9% to close at a price of 211.47. The French Republic 1.75 5/2066

Figure 5: 5yr UK CDS spreads hit a new peak on the day of Brexit vote results



Source: IHS Markit

was the second best performer in the region, increasing 19.6% to end the month at a 117.01 price.

The naira denominated Federal Republic of Nigeria 14.2 3/2024 and the euro denominated Hellenic Republic 3.0 2/2026 were the two worst performers globally, ending the month 6.8% and 6.5% lower in price. Among the worst performers, on the CLF denominated Republic of Chile 3.0 1/2044 (-4.1%) and USD denominated Republic of Mozambique 10.5 1/2023 (-5.6%) were the only bonds on the worst performers list to reach new one year lows in June.

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

			6/30 10yr bond yield	CDS change	6/30 CDS	% change	One year tight	Date	One year wide	Date
1	DBR	Germany	-0.13%	+0.7	19.6	+3.5%	12.6	12/24/15	24.9	6/27/16
2	CAN	Canada	1.06%	+0.9	26.4	+3.6%	21.0	7/21/15	26.9	3/16/16
3	FRTR	France	0.20%	+4.6	41.2	+12.6%	25.7	12/24/15	50.6	6/24/16
4	USGB	United States	1.49%	+2.8	21.8	+15.0%	14.3	9/18/15	24.5	5/23/16
5	ITALY	Italy	1.25%	+23.0	150.1	+18.1%	91.6	12/9/15	183.3	6/27/16
6	JAPAN	Japan	-0.25%	+7.2	40.8	+21.3%	33.3	5/30/16	56.1	2/12/16
7	UKIN	United Kingdom	0.87%	+11.5	43.6	+36.0%	15.2	9/30/15	50.6	6/24/16

Source: IHS Markit

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

			Liq Score	Change	6/30 spread	% change	One year tight	Date	One year wide	Date
Best Performers										
1	VENZ	Venezuela	1	-1146	4564	-20.1%	4025	12/9/15	10686	2/15/16
2	CHILE	Chile	1	-17	92	-15.6%	88	7/3/15	153	9/29/15
3	PERU	Peru	1	-22	137	-14.1%	133	7/14/15	230	2/11/16
4	BRAZIL	Brazil	1	-48	308	-13.5%	248	7/13/15	533	9/28/15
5	COLOM	Colombia	1	-29	201	-12.8%	165	7/2/15	325	2/11/16
6	SOAF	South Africa	1	-34	278	-11.0%	203	7/17/15	387	1/20/16
7	RUSSIA	Russia	1	-27	227	-10.7%	227	6/30/16	447	8/24/15
8	TURKEY	Turkey	1	-27	238	-10.3%	206	7/13/15	323	9/29/15
9	PANAMA	Panama	1	-16	156	-9.5%	132	7/14/15	225	2/11/16
10	MEX	Mexico	1	-15	156	-8.8%	124	7/13/15	231	2/11/16
Worst Performers										
1	UKIN	United Kingdom	2	+12	44	+36.0%	15	9/30/15	51	6/24/16
2	NETHRS	Netherlands	2	+6	31	+23.8%	16	12/3/15	35	6/28/16
3	JAPAN	Japan	1	+7	41	+21.3%	33	5/30/16	56	2/12/16
4	ITALY	Italy	1	+23	150	+18.1%	92	12/9/15	183	6/27/16
5	SWED	Sweden	2	+4	27	+17.1%	13	12/30/15	31	6/24/16
6	POLAND	Poland	2	+13	98	+15.1%	67	8/10/15	107	6/27/16
7	FINL	Finland	2	+4	29	+14.1%	15	12/2/15	30	6/24/16
8	HUNGAA	Hungary	2	+19	159	+13.4%	138	6/7/16	187	6/27/16
9	FRTR	France	2	+5	41	+12.6%	26	12/24/15	51	6/24/16
10	BELG	Belgium	2	+6	55	+12.6%	33	1/4/16	68	6/27/16

Source: IHS Markit

Table 11: June sovereign bond best price performance

Best performers

Ticker	Issue	CCY	Liq score	6/30 price	Change	% change	6/30 yield	One year low	Date	One year high	Date	
Americas												
1	VENZ	Bolivarian Republic Of Venezuela 9.25 5/2028	USD	2	43.38	+5.58	+14.8%	26.76%	29.42	2/15/16	47.75	6/29/16
2	BRAZIL	Federative Republic Of Brazil 5 1/2045	USD	2	89.28	+10.90	+13.9%	6.71%	64.68	12/21/15	89.28	6/30/16
3	COLOM	Republic Of Colombia 5.625 2/2044	USD	2	110.31	+11.36	+11.5%	5.70%	82.00	1/20/16	110.31	6/30/16
4	MEX	United Mexican States 5.75 10/2110	USD	2	110.32	+9.73	+9.7%	5.72%	90.03	1/20/16	110.32	6/30/16
5	PERU	Republic Of Peru 5.625 11/2050	USD	2	123.43	+9.67	+8.5%	4.80%	99.61	1/20/16	123.64	6/29/16
EMEA												
1	UKIN	United Kingdom of Great Britain and Northern Ireland 0.125 11/2065	GBP	3	211.47	+46.15	+27.9%		160.68	4/28/16	211.47	6/30/16
2	FRTR	French Republic 1.75 5/2066	EUR	1	117.01	+19.15	+19.6%	1.82%	91.36	4/27/16	117.01	6/30/16
3	BELG	Kingdom Of Belgium 2.15 6/2066	EUR	2	124.83	+19.63	+18.7%	1.99%	91.33	5/12/16	124.83	6/30/16
4	SWED	Kingdom Of Sweden 0.125 6/2032	SEK	4	114.50	+12.79	+12.6%		98.88	12/29/15	114.50	6/30/16
5	DBR	Federal Republic Of Germany 2.5 8/2046	EUR	1	160.95	+17.59	+12.3%	0.86%	119.28	7/2/15	160.95	6/30/16
APAC												
1	KAZAKS	Republic Of Kazakhstan 4.875 10/2044	USD	2	97.62	+8.56	+9.6%	5.65%	75.62	8/24/15	97.62	6/30/16
2	KOREA	Republic Of Korea 2 03/2046	KRW	2	110.40	+8.63	+8.5%	1.92%	100.90	4/19/16	110.40	6/30/16
3	JAPAN	Japan 1.4 03/2055	JPY	1	146.37	+9.16	+6.7%	0.37%	94.19	7/14/15	150.99	6/28/16
4	AUSTLA	Commonwealth Of Australia 3.25 06/2039	AUD	1	109.49	+6.19	+6.0%	3.05%	93.73	11/12/15	109.49	6/30/16
5	REPUOFAD	Republic Of Azerbaijan 4.75 03/2024	USD	1	101.50	+5.25	+5.5%	5.34%	86.25	1/21/16	101.88	7/3/15

Source: IHS Markit

Table 12: June sovereign bond worst price performance

Worst performers

Ticker	Issue	CCY	Liq score	6/30 price	Change	% change	6/30 yield	One year low	Date	One year high	Date
Americas											
1 CHILE	Republic of Chile 3 1/2044	CLF	3	121.31	-5.19	-4.1%		121.31	6/30/16	127.82	5/2/16
2 BRAZIL	Federative Republic of Brazil 10 1/2018	BRL	3	965.49	-37.41	-3.7%		900.74	9/25/15	1015.95	6/27/16
3 URUGAY	Oriental Republic of Uruguay 4 7/2030	USD	5	84.95	-2.84	-3.2%		73.77	9/29/15	90.46	7/15/15
4 ECUA	Republic of Ecuador 7.95 6/2024	USD	2	87.22	-1.60	-1.8%	10.00%	62.42	1/18/16	89.14	6/8/16
5 BLZE	Belize 5 2/2038	USD	2	56.37	-.58	-1.0%	12.19%	46.50	4/7/16	75.00	7/27/15
EMEA											
1 NGERIA	Federal Republic of Nigeria 14.2 3/2024	NGN	2	98.52	-7.16	-6.8%	13.01%	88.40	9/9/15	121.46	11/26/15
2 GREECE	Hellenic Republic 3 2/2026	EUR	1	70.75	-4.91	-6.5%	7.19%	32.93	7/8/15	76.42	5/25/16
3 REPUOFAF	Republic of Mozambique 10.5 1/2023	USD	2	71.02	-4.23	-5.6%	16.77%	68.70	6/27/16	89.79	4/12/16
4 LEBAN	Lebanese Republic 6.6 11/2026	USD	2	96.65	-2.66	-2.7%	6.69%	96.00	1/21/16	103.25	8/18/15
5 ITALY	Republic of Italy 8.5 12/2023	EUR	4	152.21	-3.32	-2.1%	0.89%	148.21	7/6/15	157.12	12/2/15
APAC											
1 PHILIP	Republic of The Philippines 6.125 10/2037	PHP	5	136.21	-5.24	-3.7%	3.39%	105.23	1/19/16	145.19	4/20/16
2 INDON	Republic of Indonesia 4.45 2/2018	IDR	4	92.10	-3.19	-3.3%	7.44%	89.38	9/30/15	95.95	5/12/16
3 CHINA	People'S Republic of China 4.24 11/2064	CNY	5	112.67	-3.56	-3.1%	3.54%	99.44	7/13/15	120.07	3/29/16
4 THAI	Kingdom of Thailand 4 6/2066	THB	4	121.66	-3.40	-2.7%	3.02%	111.39	3/2/16	125.62	4/6/16
5 NZ	New Zealand 2 9/2025	NZD	3	103.90	-2.50	-2.4%		100.40	1/4/16	107.04	6/29/16

Source: IHS Markit

Municipal bonds

June was one of the most active months of municipal bond issuance since 2009, as \$45.2 billion of new supply was priced and easily absorbed by the market (**Figure 6**). General obligation bond issuance increased almost 60%, versus the prior month at \$21.5 billion in total issuance, bringing the entire sector's YTD issuance to \$214.5 billion, or a meagre \$500 million lower than the same period last year.

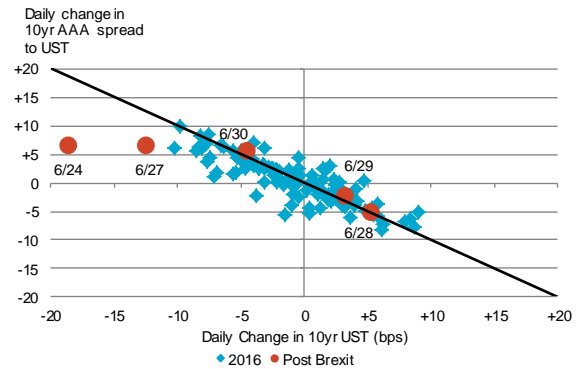
Municipal bonds have solid performance despite surge in issuance and Brexit

The rally in rates drove municipal prices much higher in June, with only a subtle widening of spreads that coincided with sharp rallies in treasuries. For instance, on June 24th, 10yr US treasuries yields closed almost 19bps tighter on extreme market uncertainty driven by the Brexit vote results, while the AAA municipal bonds widened less than 7bps on the day (**Figure 7**).

Some of the potential drivers of the stellar performance in municipal bonds during the crisis include:

- Yields are still much higher than similarly rated foreign bonds
- Historically low default rates and low correlation to global markets
- Very strong and consistent mutual fund inflows during most of 2016
- Increased foreign demand for higher rated GO and revenue bonds given the limited supply of higher yielding taxable paper
- Overall scepticism on the likelihood of a Fed rate increase given US economic data and instability of global markets

Figure 7: Daily 10-year AAA municipal bond yield changes versus change in 10-year treasury rates



Source: IHS Markit

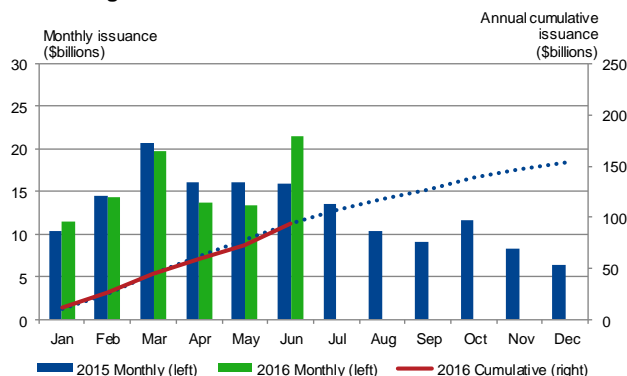
PROMESA passes in the Senate and is signed into law

On June 29th, the Puerto Rico Oversight, Management and Economic Stability Act, or PROMESA was passed by the Senate and signed into law by President Obama. The bill enables Puerto Rico to restructure its debt similar to a state and was passed in the Senate with bipartisan support of 68-to-30 votes. The bill includes the creation of a seven person oversight board to manage the territory's finances and negotiations with creditors, as well as an exemption from federal minimum wage laws for certain workers.

The passage of the bill did little to prevent the island's default on their \$2 billion in payments due on July 1st. This non-payment was particularly concerning given that it was a default on general obligation bonds that were guaranteed by the commonwealth's constitution to be paid before all other government expenses, even before government emergency service employee salaries.

Figure 6: Municipal bond issuance

General obligation



Source: SIFMA

Revenue

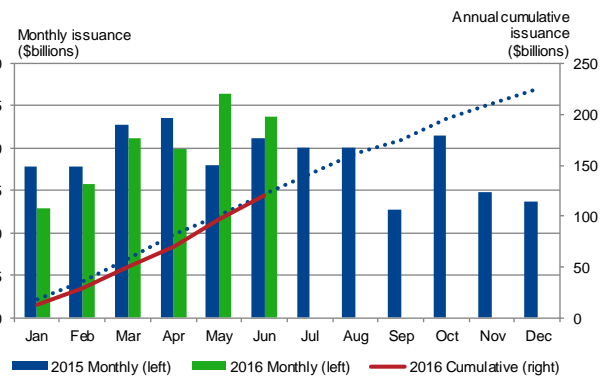


Table 13: June municipal revenue bond best price performance**Best performers**

	Issuer	Issue	Liq score	6/30 price	Change	% change	One year low	Date	One year high	Date
1	Puerto Rico Sales Tax Fing Corp Sales Tax Rev	Sales Tax Revenue - Senior 2011-C 5 08/2046	1	69.63	+9.63	+16.1%	54.00	12/22/15	69.63	6/30/16
2	Puerto Rico Pub Bldgs Auth Rev Gtd	Government Facilities Revenue - 2004-I 5 07/2036	1	58.66	+7.18	+13.9%	51.48	5/31/16	58.66	6/30/16
3	Puerto Rico Elec Pwr Auth Pwr Rev	Power Revenue - 2012-A 5 07/2042	1	65.55	+6.57	+11.1%	51.00	7/22/15	67.50	9/3/15
4	Puerto Rico Sales Tax Fing Corp Sales Tax Rev	Sales Tax Revenue - 2007-B 6.35 08/2057	1	69.25	+6.75	+10.8%	53.79	1/21/16	69.50	6/29/16
5	Lower Ala Gas Dist Gas Proj Rev	Gas Project Revenue - 2016-A 5 09/2046	2	138.02	+8.84	+6.8%	115.58	3/2/16	138.77	6/27/16
6	New York St Dorm Auth Revs Non St Supported Debt	Columbia University Revenue - 2016 A-2 5 10/2046	2	153.69	+8.41	+5.8%	141.38	4/26/16	154.28	6/27/16
7	Long Beach Calif Bd Fin Auth Nat Gas Pur Rev	Natural Gas Purpose Revenue - 2007-A 5.5 11/2037	2	137.67	+5.96	+4.5%	115.52	7/14/15	138.25	6/27/16
8	East Bay Calif Mun Util Dist Wtr Sys Rev	Water System Revenue Refunding - 2014-B 5 06/2029	2	137.65	+5.48	+4.1%	121.65	7/1/15	137.95	6/27/16
9	Public Auth For Colo Energy Nat Gas Pur Rev	Natural Gas Purchase Revenue - 2008 6.5 11/2038	2	148.55	+5.87	+4.1%	128.96	7/1/15	149.19	6/27/16
10	M-S-R Energy Auth Calif Gas Rev	Gas Revenue - 2009-B 6.125 11/2029	2	134.66	+3.86	+2.9%	121.34	7/20/15	135.10	6/27/16

Source: IHS Markit

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

	Issuer	Issue	Liq score	6/30 price	Change	% change	One year low	Date	One year high	Date
1	New Jersey St Transn Tr Fd Auth	Transportation Program - 2015-Aa 5 06/2025	2	115.97	-2.31	-2.0%	106.99	11/19/15	120.17	6/16/16
2	Hamilton Cnty Ohio Health Care Facs Rev	Healthcare Facilities Revenue - The Christ Hospital Project 2012 5 06/2042	2	113.50	-1.40	-1.2%	105.59	7/1/15	116.30	6/16/16
3	Sales Tax Asset Receivable Corp N Y	Sales Tax Asset Revenue - Fiscal 2015-A 5 10/2017	2	104.92	-1.27	-1.2%	104.89	6/23/16	109.54	7/7/15
4	New Jersey St Edl Facs Auth Rev	Revenue Refunding - 2008-E 5 07/2023	2	107.53	-1.28	-1.2%	107.46	6/23/16	110.43	1/8/16
5	North Tex Twy Auth Rev	First Tier Current Interest - 2008 K-2 6 01/2038	2	111.93	-1.33	-1.2%	111.74	5/17/16	114.29	10/2/15
6	Minnesota St Gen Fd Rev	State General Fund Appropriation - 2014-A 5 06/2020	2	115.45	-1.24	-1.1%	114.68	7/1/15	116.86	6/13/16
7	Tarrant Cnty Tex Cultural Ed Facs Fin Corp Hosp Rev	Hospital Revenue - Scott & White Healthcare Project 2010 5 08/2033	2	115.41	-1.22	-1.0%	109.93	11/12/15	117.31	5/3/16
8	Ohio St Higher Edl Fac Commn Rev	Hospital Revenue - University Hospitals Health System Inc 2007-A 5.25 01/2046	2	101.87	-1.05	-1.0%	101.42	9/29/15	104.34	10/2/15
9	Metropolitan Transn Auth N Y Rev	Transportation Revenue Refunding - 2012-F 5 11/2030	2	120.95	-1.20	-1.0%	113.15	7/1/15	123.55	6/16/16
10	New York St Dorm Auth St Pers Income Tax Rev	State Personal Income Tax Revenue (General Purpose) - 2012-B 5 03/2022	2	121.26	-1.20	-1.0%	117.43	11/13/15	123.44	6/16/16

Source: IHS Markit

Securitised products

US securitised products held up very well during the volatility driven by Brexit, while European sectors came under significant pressure and liquidity did suffer to varying degrees. For instance, [iBoxx Europe ABS](#) declined 1.61% on a total return basis during the month. Agency MBS appeared to be one of the best performers on the month, but the gains were mainly driven by the unprecedented rally in US government bonds, with the sector ending the month relatively flat on an hedged basis.

CLO spreads were softer in June, with European issues lagging the broader sector. AAA 1.0 US CLOs ended the month only 1bp wider at L+149bps, while AAA 1.0 EUR CLOs closed 12bps wider at L+124bps. 1.0 US BBB CLOs were the best performer in the sector, tightening 8bps on the month (**Figure 8**). On the negative side, US 2.0 BBBs CLOs spreads widened the most at 18bps to end the month at L+573bps.

The CMBS spreads remained resilient despite the month's risk off environment, with AAA +3bps, AAs +6bps, and As 7bps wider on the month (**Figure 9**). BBB and BBB- tranches both tightened 2bps, which is the second consecutive month of tightening for that cohort.

Loan balance pay-ups approach new record levels

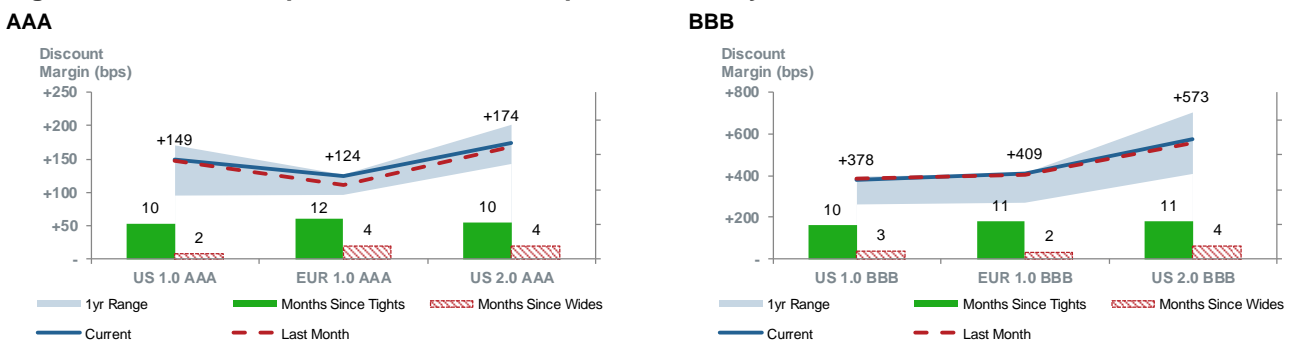
Loan balance stories approached new highs last reached during the Fed's Taper Tantrum in mid-2013 (**Table 15**). Fannie Mae and Freddie Mac pay-ups outperformed Ginnie Mae, with MLB pools performing best among all the loan balance categories. In particular, 3.5% and 4.0% MLB pools increased 14 and 16 ticks, respectively, on the month. The recent sharp rally in pay-ups is being met with some caution, as pay-ups fell sharply shortly after peaking during the Taper Tantrum.

Jumbo non-agency remained strong

Non-agency MBS spreads were relatively stable during the month, with prime jumbo paper outperforming the broader sector as it rallied in lock step with Agency MBS. Subprime continues to lag the sector, as the combination of low bond coupons and the slow prepayments (driven by the very low average loan size and high LTV) have made the sector less desirable than prime and Alt-A.

On June 18th, New York passed legislation that requires certain mortgage servicers to maintain vacant and abandoned properties until they are sold. The law also includes mandatory monthly property inspections of the vacant property by the servicer. The benefits to the community are clear, but the new law sent negative waves through the non-agency and whole loan sectors, as it will most likely increase loss severities significantly, as well as increase the amount of capital spend a servicer will need to comply with the regulation.

Figure 8: US and European CLO AAA/BBB spread summary



Source: IHS Markit

Table 15: June 2016 agency specified pools pay-ups in ticks (1/32 points)

FNM/FHL 30Y Specified Pools Pay-ups					
Coupon	3	3.5	4	4.5	5
LLB (85K)	0-24	1-23	2-12	2-18	3-01
MLB (110K)	0-23	1-18	2-08	2-10	2-20
HLB (150K)	0-16	1-06	1-20	1-21	1-09
New Prod	0-00	0-03	0-07	0-18	0-18
Low FICO	0-08	0-11	0-16	0-12	0-24
Investor	0-09	0-07	0-08	0-14	0-21
MHA <90	0-02	0-07	0-07	0-11	0-18
MHA <95	0-16	0-06	0-13	0-19	0-22
MHA <100	0-11	0-14	0-16	0-21	0-22
MHA <105	0-16	0-17	0-14	0-29	1-01
<125 LTV	0-03	1-01	0-31	1-27	2-02
125+ LTV	0-26	0-23	1-19	2-00	2-09

Source: IHS Markit

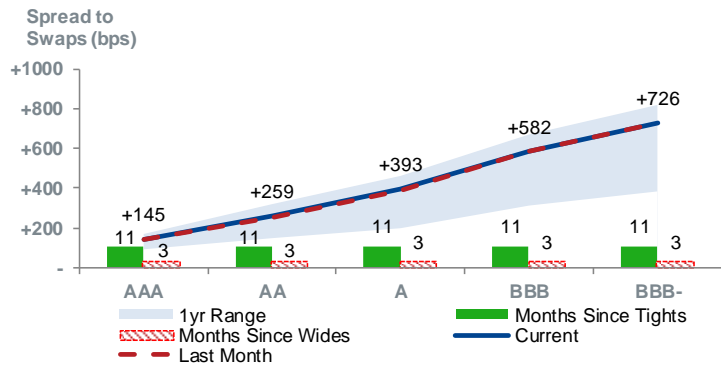
MoM Change				
3	3.5	4	4.5	5
+0-08	+0-16	+0-10	+0-07	+0-02
+0-08	+0-14	+0-16	+0-05	-0-01
+0-07	+0-12	+0-10	+0-06	+0-03
0-00	-0-03	-0-01	0-00	0-00
+0-05	+0-02	+0-03	0-00	-0-05
0-00	-0-01	-0-01	+0-01	+0-04
-0-03	+0-01	-0-01	-0-04	-0-03
+0-02	-0-02	+0-02	+0-01	-0-02
+0-03	+0-04	+0-01	-0-04	+0-02
-0-04	+0-01	-0-07	+0-01	+0-09
-0-01	+0-14	0-00	+0-07	0-00
0-00	+0-09	+0-15	+0-02	0-00

GNMA 30Y Specified Pools Pay-ups					
Coupon	3	3.5	4	4.5	5
LLB ₁ (85K)	0-16	1-05	2-27	2-08	1-31
LLB ₂ (110K)	0-11	0-23	2-15	2-17	3-08
MLB (125K)	0-02	0-17	1-22	2-11	1-09
HLB ₁ (150K)	0-06	0-15	1-28	2-08	2-14
HLB ₂ (175K)	0-06	0-11	0-12	1-04	0-18
New Prod	0-08	0-05	0-12	0-28	0-15
PR Geo	0-09	0-31	2-13	3-06	1-06

Source: IHS Markit

MoM Change				
3	3.5	4	4.5	5
+0-01	+0-03	0-00	0-00	0-00
+0-03	+0-13	+0-01	-0-03	0-00
+0-05	+0-07	+0-01	-0-12	+0-01
+0-06	+0-16	0-00	-0-01	+0-01
+0-04	-0-04	-0-01	-0-05	+0-08
-0-03	+0-01	+0-02	-0-02	0-00
0-00	+0-14	0-00	0-00	+0-23

Figure 9: CMBS credit curve spread to swaps



Source: Trepp

Table 16: 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	+33	-12	+25	7/21/15	+58	3/11/16
4-5yr AAA US Swaps	+42	-7	+39	7/13/15	+71	4/18/16
US Credit Card - Floating-Rate						
2-3yr AAA US LIBOR DM	+30	-8	+25	7/16/15	+40	3/16/16
4-5yr AAA US LIBOR DM	+66	-17	+40	7/20/15	+96	5/16/16
US Prime Auto - Fixed-Rate						
0-2yr AAA EDSF	+25	-16	+22	7/7/15	+45	3/29/16
2+yr AAA US Swaps	+32	-22	+29	7/7/15	+60	3/29/16
European Prime Auto Loan - Floating-Rate						
AAA EUR LIBOR DM	+43	-1	+27	9/10/15	+54	2/5/16
US Subprime Auto - Fixed-Rate						
1-2-yr AAA EDSF	+62	-18	+45	7/21/15	+84	5/12/16
2+yr AAA US Swaps	+75	-10	+57	7/21/15	+97	11/5/15
US Equipment - Fixed-Rate						
2+yr AAA US Swaps	+62	-13	+45	8/18/15	+85	6/14/16
European Equipment - Floating-Rate						
A EUR LIBOR DM	+115	+1	+110	6/9/16	+174	9/7/15
US FFELP Student Loans - Floating-Rate						
2-4yr AAA 3mo US LIBOR DM	+126	-3	+50	7/6/15	+151	3/25/16
10+yr AAA 3mo US LIBOR DM	+177	-2	+103	7/20/15	+191	3/21/16

Source: IHS Markit

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