

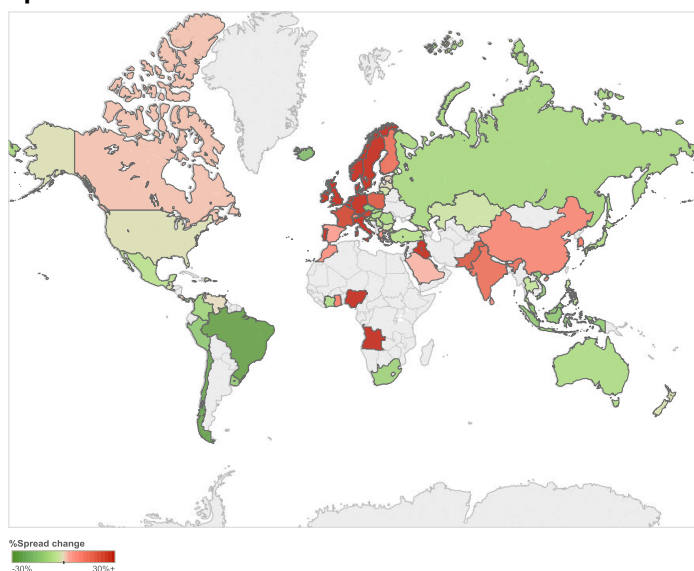
Global fixed income focus – March 2016

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

The European Central Bank's (ECB) decision to cut interest rates and increase the size of its QE programme set the tone for market sentiment in March, in what was the best month for fixed income assets since last October. The positive sentiment was amplified by dovish comments from US Federal Reserve Chair Janet Yellen, who cited caution going forward. Markets were a lot calmer, with little negative news coming from China. A pickup in crude oil and commodity prices also boded well for risky assets.

- March saw the [Markit iBoxx USD Leveraged Loans Index \(MiLLi\)](#) snap a four month losing streak (November through February). At one point in February, leveraged loans were down nearly 2% YTD on a total return basis.
- The rally in the CDS market may not have been as dramatic as leveraged loans, but it was impressive nonetheless. The Markit iTraxx Europe tightened by 26bps to close the month at 73bps, some 4bps tighter than where it started the year. It was a similar story in European high yield, where the Markit iTraxx Crossover rallied by 104bps to close at 304bps, 11bps tighter than the 2015 year-end level.
- According to [Markit iBoxx Corporate Bond Indices](#), liquid high yield bonds denominated in USD, GBP, and EUR all returned over 3%, reversing the losses accumulated during the first two months of the year. [Markit iBoxx £ Liquid Investment Grade Index](#) returned 3.1% in March, and [Markit iBoxx \\$ Liquid Investment Grade Index](#) has now returned 3.7% so far this year, the best performing asset class among developed nation corporate bonds.
- Among developed nation government bonds, the commodities rally in March was reflected in the sovereign world as many countries dependent on assets such as oil saw their credit risk fall over the month. The largest tightening in percentage terms was seen in Australian CDS spreads which fell by over a quarter to 36bps. This takes the country's five year spread to within five basis points of its one year lows reported in June of last year.
- On April 1st, the US Federal Reserve released their version of a proposal that changes the High Quality Liquid Assets (HQLA) rule to allow certain municipal bonds to be treated as Level 2B assets. March's revenue bond issuance of \$21.9 billion indicated a continued decline in issuance, with YTD issuance for the sector 27% lower (\$50.7 billion YTD) than the same time period last year.
- Several securitised products sectors rallied with the broader credit markets in March. CMBS and CLOs tightened the most, albeit the improvements in most cases are only a retracement to the historically wide levels reported this January.

Figure 1: Q1 2016 percent change in sovereign CDS spreads¹



Source: Markit

¹ Countries represented in grey have very limited or no CDS data.

Leveraged loans

Loans rallied sharply in March

Leveraged loans witnessed a rather dramatic turnaround across the first quarter. The asset class saw returns tumble during the second half of 2015 in a trend which continued into the New Year. Factors that contributed to the negative sentiment included falling commodity prices, tighter monetary conditions in the US, idiosyncratic risk and heightened global asset volatility.

March saw the [Markit iBoxx USD Leveraged Loans Index \(MiLLi\)](#) snap a four month losing streak (November through February). At one point in February, leveraged loans were down nearly 2% YTD on a total return basis. Similarly, US high yield (HY) bonds, as represented by the [Markit iBoxx USD Liquid High Yield Index](#), were down nearly 5%.

However, a change in sentiment saw the [Markit iBoxx USD Liquid Leveraged Loans Index](#) rally in spectacular fashion. It returned 2.19% in March, the best month since October 2011. It also meant that the quarter ended up 2.35%, which is the best quarterly performance in three years. The broader [Markit iBoxx USD Leveraged Loan Index](#) ended the quarter up 1.52%, having been down nearly 2% YTD in mid-February.

Energy and healthcare sectors best performers

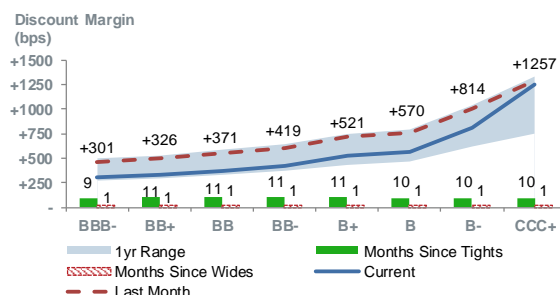
According to Markit’s leverage loan analysts, the rally was broad based among rating and maturity cohorts, with the longest tenor (7yr) registering the biggest percentage tightening in average loan spread during the quarter. 7-yr BB rated loans saw a 12.72% improvement, with average spreads now at Libor +390bps. CCC rated cohort saw a 11.82% improvement at the 7-yr tenor, although spreads still remain above Libor +1000bps.

North American sectors broadly outperformed their European counterparts across most sector and ratings (**Table 3**). The bounce in crude oil prices boded very well for the Energy sector, with BB- down to B- leveraged loans in North America tightening over 190 bps during the month. The next best performing sector during the month was Healthcare, which saw its BB+ rated North American leveraged loans tighten 42bps. The riskiest loans (CCC+) continued to struggle however, with every sector except healthcare seeing significant spread widening across the quarter.

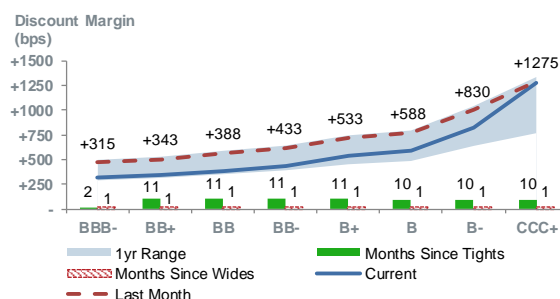
ETF data indicates investor sentiment turns positive

The newfound risk on sentiment in March enticed investors to add to their risk exposure through leveraged loans and US HY bond exchange traded funds (ETFs). \$444 million of new money flowed into ETFs tracking US leveraged loans, a 7.88% increase

Figure 2: Leveraged loan energy sector spreads North America



Europe



Source: Markit

in assets under management. However, March’s positive flows were not enough to cancel out the outflows seen in January and February, as the first quarter of 2016.

Table 1: March North American loans best and worst price performance²

North America

LXID	Loan Name	Sector	Country	Liq score	3/31 price	% change	One year low	Date	One year high	Date	
Best Performers											
Par											
1	LX135662	Asurion 3/14 Cov-Lite 2nd Lien TL	Financials	USA	1	93.42	+15.6%	80.25	2/25/16	102.50	5/11/15
2	LX120520	Autoparts Holdings 7/11 TLB	Consumer Goods	USA	2	91.33	+13.9%	72.33	12/14/15	99.69	4/7/15
3	LX136189	Federal Mogul 4/14 TLC	Consumer Goods	USA	1	90.29	+13.6%	73.17	2/16/16	100.05	4/10/15
4	LX137320	Harrah's 6/14 B7 Non RSA TLB	Consumer Services	USA	1	91.75	+12.1%	80.17	2/25/16	93.50	8/28/15
5	LX147256	Freeport McMoRan 2/15 Extended TLA	Basic Materials	USA	5	88.17	+12.1%	57.17	1/26/16	88.17	3/31/16
Distressed											
1	LX148807	EXCO Resources 10/15 (Fixed 12.50%) 2nd Lien Exchanged TL	Energy	USA	2	46.69	+36.9%	32.67	2/16/16	72.81	11/17/15
2	LX139218	Southcross Energy 7/14 Cov-Lite TL	Energy	USA	2	70.00	+36.6%	41.25	1/27/16	93.00	9/16/15
3	LX129276	Securus Technologies 4/13 2nd Lien Cov-Lite TL	Telecommunications Services	USA	2	82.25	+29.0%	52.50	1/26/16	98.43	4/13/15
4	LX132457	Fieldwood 9/13 2nd Lien TL	Energy	USA	2	17.38	+28.4%	12.42	2/11/16	82.81	5/18/15
5	LX133062	American Energy Utica 9/13 Cov-Lite TL	Energy	USA	5	72.00	+28.2%	55.88	1/22/16	97.42	7/7/15
Worst Performers											
Par											
1	LX120572	California Pizza 7/11 TL	Consumer Services	USA	5	85.17	-7.1%	85.17	3/31/16	98.88	5/15/15
2	LX128280	Unifrax 1/13 (EUR) Cov-Lite TL	Industrials	USA	4	89.96	-6.5%	89.25	3/22/16	100.81	5/6/15
3	LX139054	Emerald Performance Materials 7/14 Cov-Lite 2nd Lien TL	Basic Materials	USA	4	91.00	-2.9%	90.33	3/17/16	99.79	5/7/15
4	LX143618	Valeant 3/15 Delayed Draw TLA	Healthcare	USA	4	92.17	-2.1%	91.67	3/22/16	99.56	8/5/15
5	LX133785	Del Monte Foods 2/14 Cov-Lite TL	Utilities	USA	3	93.13	-1.7%	93.13	3/31/16	97.88	10/26/15
Distressed											
1	LX138820	Southcross Holdings 8/14 Cov-Lite TL	Energy	USA	5	10.25	-31.7%	10.17	3/29/16	97.21	6/19/15
2	LX135673	Bauer Performance 4/14 TLB	Consumer Goods	CAN	4	75.10	-18.5%	75.10	3/31/16	99.71	9/15/15
3	LX130228	Quicksilver Resources 6/13 Cov-Lite 2nd Lien TL	Energy	USA	4	23.00	-10.5%	21.40	1/25/16	67.40	5/18/15
4	LX129507	Charlotte Russe 5/13 Cov-Lite TL	Consumer Services	USA	4	51.33	-10.5%	51.33	3/31/16	82.17	10/2/15
5	LX139654	Regent Energy 8/14 (USD) Cov-Lite TL	Energy	CAN	5	23.50	-10.1%	23.50	3/31/16	74.94	4/6/15

Source: Markit

² 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: March European loans best and worst price performance²

Europe

	LXID	Loan Name	Sector	Country	Liq score	3/31 price	% change	One year low	Date	One year high	Date
Best Performers											
Par											
1	LX139585	Formula One 8/14 (USD) Cov-Lite 2nd Lien TL	Consumer Services	LUX	1	91.56	+6.6%	81.30	2/11/16	100.30	7/17/15
2	LX139558	Endemol 8/14 (USD) Cov-Lite TL	Consumer Services	NLD	2	87.00	+6.2%	81.58	3/1/16	99.69	4/21/15
3	LX122688	Tronox (2/12) TL	Basic Materials	NLD	1	92.30	+4.9%	86.50	9/29/15	100.40	4/13/15
4	LX146779	AVR 7/15 Opco PIK TL	Industrials	NLD	4	91.50	+4.9%	87.17	2/17/16	97.08	8/21/15
5	LX138005	Mauser 7/14 (USD) Cov-Lite 2nd Lien TL	Industrials	DEU	4	86.09	+4.4%	81.83	2/26/16	99.75	6/2/15
Distressed											
1	LX129817	Pacific Drilling 5/13 TL	Energy	LUX	1	31.11	+62.1%	19.19	2/29/16	89.25	5/19/15
2	LX053493	HC Starck 11/06 (EUR) 2nd Lien TLA	Basic Materials	DEU	4	82.75	+25.4%	65.17	2/9/16	91.96	6/15/15
3	LX139588	Expro Holdings 8/14 Cov-Lite TL	Energy	LUX	2	67.17	+15.3%	57.91	2/16/16	89.88	4/16/15
4	LX136501	SkillSoft 4/14 Cov-Lite TL	Technology	LUX	1	79.75	+11.5%	71.13	2/3/16	99.94	4/28/15
5	LX135963	Petroleum Geo-Services 3/14 Cov-Lite TLB	Energy	NOR	3	56.42	+7.7%	52.00	2/16/16	93.50	5/15/15
Worst Performers											
Par											
1	LX137408	Rodenstock 5/14 TL	Consumer Goods	DEU	4	92.25	-4.7%	90.67	3/10/16	99.69	6/12/15
2	LX134782	HC Starck 12/13 (EUR) 1 TLE	Basic Materials	DEU	2	91.63	-2.2%	88.81	11/6/15	99.89	5/29/15
3	LX140009	Materis Chryso 8/14 TLB	Basic Materials	FRA	4	96.31	-1.9%	96.25	3/30/16	99.67	6/12/15
4	LX133109	Hilding Anders 9/13 (EUR) International Extended TLB2	Consumer Goods	SWE	4	92.13	-1.7%	88.25	3/3/16	99.08	6/26/15
5	LX135580	Mallinckrodt 3/14 Cov-Lite TL	Healthcare	LUX	1	96.21	-1.7%	91.40	11/10/15	100.00	5/11/15
Distressed											
1	LX137334	Deoleo 6/14 2nd Lien TL	Consumer Goods	ESP	5	45.00	-42.6%	45.00	3/31/16	93.00	4/8/15
2	LX129618	Algeco Scotsman 5/13 PIK TL	Consumer Goods	FRA	5	10.00	-25.0%	11.67	10/21/15	15.00	2/10/16
3	LX138453	Cortefiel 6/14 PIYC TLB3	Consumer Services	LUX	2	75.57	-6.6%	67.07	4/9/15	85.00	12/8/15
4	LX142327	BARTEC 11/14 TLC3	Industrials	DEU	1	79.22	-5.8%	76.10	3/4/16	99.88	6/26/15
5	LX130766	SICL TL	Financials	SAU	5	18.83	-2.6%	12.67	4/6/15	20.38	12/29/15

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	+15	+12	-7	-11	-14	-8	-8	+150
	EU	+25	+21	+3	-2	-5	+2	+1	+159
	Change NA-EU	-10.1	-9.5	-10.2	-9.6	-8.4	-9.9	-9.0	-9.4
Consumer Goods	NA	+11	+7	-11	-16	-18	-12	-13	+146
	EU	+21	+17	-1	-6	-10	-3	-4	+155
	Current NA-EU	-10.1	-9.4	-10.2	-9.6	-8.3	-9.9	-9.0	-9.4
Consumer Services	NA	-2	-5	-24	-28	-30	-25	-25	+133
	EU	+8	+5	-14	-18	-22	-15	-16	+143
	Current NA-EU	-10.0	-9.3	-10.1	-9.4	-8.2	-9.7	-8.9	-9.2
Energy	NA	-165	-168	-187	-192	-194	-188	-188	-30
	EU	-156	-160	-178	-183	-187	-179	-180	-22
	Current NA-EU	-9.1	-8.5	-9.3	-8.6	-7.4	-8.9	-8.1	-8.4
Financials	NA	+15	+12	-7	-11	-14	-8	-8	+150
	EU	+24	+20	+2	-3	-7	+0	-0	+158
	Current NA-EU	-8.7	-8.1	-8.8	-8.2	-7.0	-8.5	-7.6	-8.0
Healthcare	NA	-16	-19	-38	-42	-45	-39	-39	+119
	EU	-6	-10	-28	-33	-36	-29	-30	+128
	Current NA-EU	-10.0	-9.4	-10.1	-9.5	-8.3	-9.8	-8.9	-9.3
Industrials	NA	+12	+9	-10	-14	-16	-11	-11	+147
	EU	+22	+18	-0	-5	-9	-1	-2	+156
	Current NA-EU	-9.6	-8.9	-9.7	-9.0	-7.8	-9.3	-8.5	-8.8
Technology	NA	+26	+22	+4	-1	-3	+3	+2	+161
	EU	+35	+31	+13	+8	+4	+12	+11	+169
	Current NA-EU	-9.3	-8.6	-9.4	-8.7	-7.5	-9.1	-8.2	-8.5
Telecommunication Services	NA	+17	+14	-5	-9	-11	-6	-6	+152
	EU	+27	+23	+5	+0	-4	+4	+3	+161
	Current NA-EU	-9.5	-8.8	-9.6	-9.0	-7.8	-9.3	-8.4	-8.8
Utilities	NA	-0	-3	-22	-27	-29	-23	-23	+135
	EU	+9	+5	-13	-18	-22	-15	-16	+143
	Current NA-EU	-9.0	-8.3	-9.1	-8.5	-7.3	-8.8	-7.9	-8.3

Source: Markit

Credit default swaps

The rally in the CDS market may not have been as dramatic as leveraged loans, but it was impressive nonetheless. The Markit iTraxx Europe tightened by 26bps to close the month at 73bps, some 4bps tighter than where it started the year. It was a similar story in European high yield, where the Markit iTraxx Crossover rallied by 104bps to close at 304bps; 11bps tighter than the 2015 year-end level.

In mid-March, the ratio between the two indices hit 4.58x, the highest level since the September 2015 roll and well above the average of 4.11x over this period. This reflects the strong performance of the investment grade index, helped in part by the high concentration of financials. However, the index roll and the change in constituents drove the Crossover tighter and the ratio finished the month at 4.16x.

North American credit also experienced a stellar month, with the Markit CDX.NA.IG index rallying 108bps to 79bps. Unlike its European investment grade counterpart, the roll led to a tightening of 6bps. The roll had a relatively modest effect on the Markit CDX.NA.HY, but the high yield index still managed to rally from 99.05 to 102.7 (points).

Commodity firms led the best performers globally

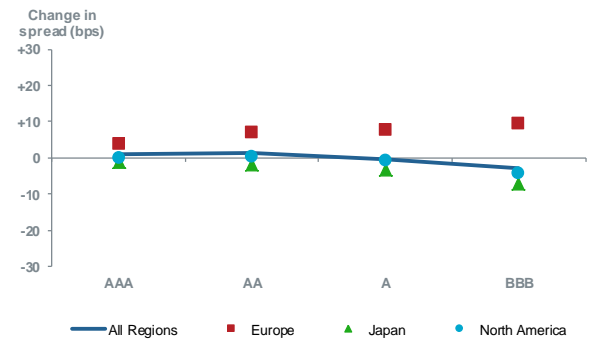
Give the recovery in risk assets, it was no surprise to see high beta sectors such as energy and basic materials post the strongest performance, particularly in Asia and North America (Table 4). In the latter region, exploration and production firms Hess Corp and EnCana led the way, tightening by 49% and 40% respectively.

In Europe, Repsol was the best performing energy name, though it lost out on top spot to Telecom Italia. The Italian telecoms carrier tightened by 33% over the month and the removal of CEO Marco Patuano was viewed as strengthening the position of major shareholder Vivendi.

M&A activity led to Sherwin-Williams taking the position as worst performing North American credit during March (Table 5). The paint producer bought rival firm Valspar in an all cash deal, funded by existing credit facilities, new debt and cash sitting on the balance sheet. This will obviously increase leverage and triggered a 32bps spread widening to 52bps. Moody's downgraded Sherwin to A3 from A2 and left it on review for downgrade, though it's worth noting that the current spreads level still gives it a single A implied rating, according to Markit data.

UK names contributed three of the five worst performing credits in Europe, with retailer Next topping the table. Uncertainty over Brexit may be a factor as the referendum to decide the UK's status in Europe draws nearer.

Figure 4: Q1 Change in energy CDS sector spreads by region



Source: Markit

CDS sector curve data (Figure 4) indicates that North American and Japanese energy company spreads have been tightening at a faster rate than European counterparts, which all remain wider during the quarter.

Figure 3: Global CDS sector summary
Global spreads by rating



Source: Markit

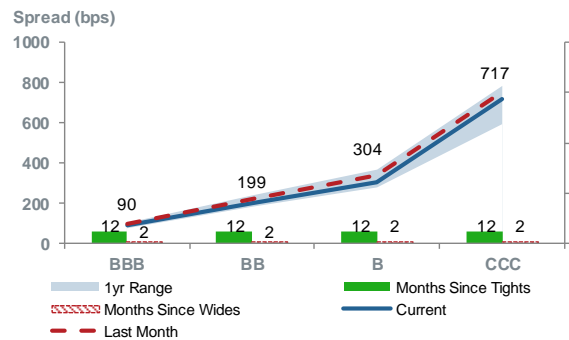
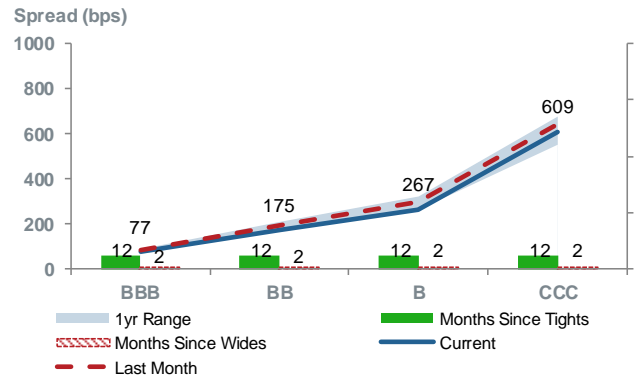
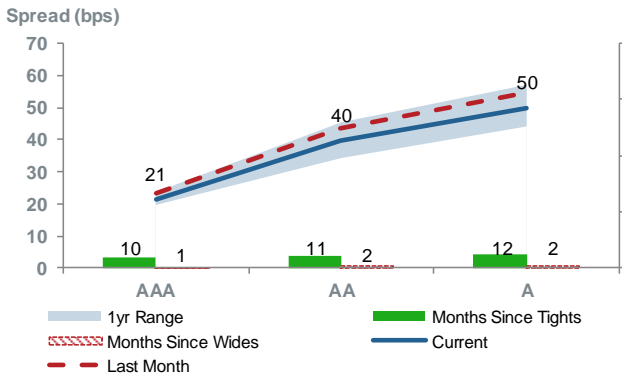
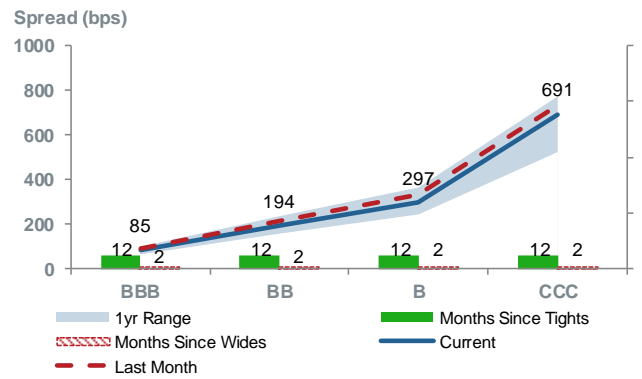


Figure 5: March regional CDS sector spread summary

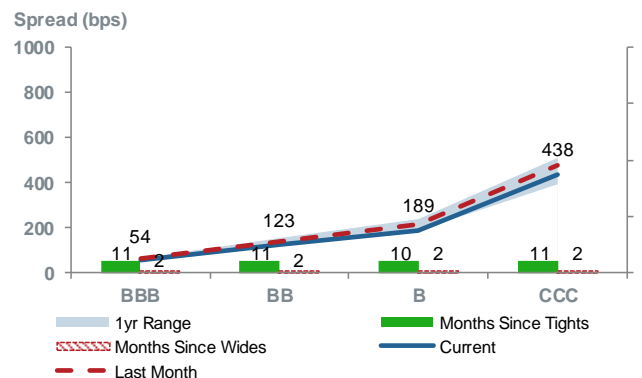
North America



Europe



Japan



Source: Markit

Table 4: March liquid 5yr corporate CDS best spread performance³

Best performers

	Ticker	Company	Sector	Country	Liq score	3/31 spread	Change	% change	One year tight	Date	One year wide	Date
Americas												
1	HESS	Hess Corp	Energy	USA	2	277	-267	-49.1%	136	5/6/15	635	2/19/16
2	AIG	Amern Intl Gp Inc	Financials	USA	2	72	-48	-39.8%	45	10/23/15	162	2/15/16
3	ECACN	EnCana Corp	Energy	CAN	2	542	-357	-39.7%	151	5/5/15	1180	2/19/16
4	MBI-InsCorp	MBIA Ins Corp	Financials	USA	2	1959	-1225	-38.5%	1275	4/23/15	4315	1/18/16
5	CHK	Chesapeake Engy Corp	Energy	USA	2	3231	-1807	-35.9%	364	4/8/15	10164	2/9/16
EMEA												
1	TIIMN	Telecom Italia SpA	Telecom Services	ITA	2	181	-88	-32.6%	132	4/10/15	287	2/16/16
2	REPSSA	REPSOL SA	Energy	ESP	2	271	-129	-32.3%	89	5/19/15	451	2/11/16
3	EDF	Electricite de France	Utilities	FRA	1	86	-40	-31.8%	52	4/10/15	139	2/11/16
4	COMPFIAA	Cie Financiere Du Groupe Michelin Senard Et Cie	Consumer Goods	CHE	2	55	-25	-31.4%	43	4/10/15	97	2/11/16
5	ASSGEN	Assicurazioni Generali S p A	Financials	ITA	2	129	-58	-31.1%	66	4/13/15	227	2/11/16
APAC												
1	NPG-NPI	Nippon Paper Inds CoLtd	Basic Materials	JPN	2	63	-39	-38.1%	63	3/31/16	146	1/21/16
2	KAWHI	Kawasaki Heavy Inds Ltd	Industrials	JPN	2	68	-36	-35.1%	32	4/24/15	120	2/17/16
3	KOBSTL	Kobe Stl Ltd	Basic Materials	JPN	2	171	-86	-33.5%	63	4/17/15	309	2/15/16
4	OJIHOL	Oji Hldgs Corp	Basic Materials	JPN	2	44	-21	-32.6%	44	3/31/16	76	1/21/16
5	MITTOA	Mitsui Chems Inc	Basic Materials	JPN	2	63	-26	-29.1%	63	3/31/16	117	10/1/15

Source: Markit

³ A liquid CDS is defined as an entity with a current Markit 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: March liquid 5yr corporate CDS worst spread performance³

Worst performers

	Ticker	Company	Sector	Country	Liq score	3/31 spread	Change	% change	One year tight	Date	One year wide	Date
Americas												
1	SHW	Sherwin Williams Co	Consumer Goods	USA	2	52	+32	+166.9%	17	3/10/16	54	3/29/16
2	MMC	Marsh & McLennan Cos Inc	Financials	USA	2	30	+5	+22.7%	18	4/9/15	41	10/2/15
3	SPLS	Staples Inc	Consumer Services	USA	2	249	+41	+19.5%	144	7/20/15	269	2/8/16
4	DUKECO	Duke Energy Carolinas LLC	Utilities	USA	1	12	+2	+17.7%	10	3/10/16	21	6/29/15
5	GIS	Gen Mls Inc	Consumer Goods	USA	1	30	+4	+16.0%	25	3/7/16	38	7/8/15
EMEA												
1	NXT	Next Plc	Consumer Services	GBR	2	95	+15	+18.7%	40	4/9/15	95	3/31/16
2	RWE	RWE AG	Utilities	DEU	2	162	+13	+8.6%	66	4/8/15	170	9/29/15
3	LLOYDBA	Lloyds Bank PLC	Financials	GBR	1	106	+6	+6.1%	44	12/2/15	122	2/8/16
4	ASTL	ASTALDI S per Azioni	Industrials	ITA	2	1020	+56	+5.8%	383	4/13/15	1207	2/11/16
5	BACR-Bank	Barclays Bk plc	Financials	GBR	1	134	+3	+2.6%	55	4/13/15	152	2/8/16
APAC												
1	TOYOTA	Toyota Mtr Corp	Consumer Goods	JPN	2	44	+2	+3.9%	17	4/24/15	46	2/17/16
2	FOSTGRO	Fosters Group Pty Ltd	Consumer Goods	AUS	2	50	+0.4	+0.9%	39	5/27/15	53	2/12/16
3	HNDA	Honda Mtr Co Ltd	Consumer Goods	JPN	2	62	-1	-1.1%	20	4/23/15	65	2/26/16
4	MITEST	Mitsubishi Estate Co Ltd	Financials	JPN	2	31	-0.4	-1.2%	23	5/5/15	34	10/1/15
5	OBACRP	Obayashi Corp	Industrials	JPN	2	41	-1	-3.0%	34	4/29/15	48	10/1/15

Source: Markit

Global corporate bonds

Central banks provide the momentum for rally

The European Central Bank's (ECB) decision to cut interest rates and increase the size of its QE programme set the tone for market sentiment in March, in what was the best month for fixed income assets since last October.

The positive sentiment was amplified by dovish comments from US Federal Reserve Chair Janet Yellen, who cited caution going forward. Markets were a lot calmer, with little negative news coming from China. A pickup in crude oil and commodity prices also boded well for risky assets.

According to [Markit iBoxx Corporate Bond Indices](#), liquid high yield (HY) bonds denominated in USD, GBP, and EUR all returned over 3%, reversing the losses accumulated during the first two months of the year (**Table 6**). [Markit iBoxx £ Liquid Investment Grade Index](#) returned 3.1% in March, and [Markit iBoxx \\$ Liquid Investment Grade Index](#) has now returned 3.7% so far this year, the best performing asset class among developed nation corporate bonds.

Basic materials, energy and financials outperform

March's broad based rally in corporate bonds saw numerous sectors post sizable returns. In dollars, the pickup in commodity prices saw the Basic Materials and Oil & Gas sectors return 4.49% and 5.97%, respectively. The [Markit iBoxx \\$ Telecommunications Index](#) also saw a 4.46% return in March, making it the stand out sector so far this year (6%).

The best performing North American bond in March was the Modular Space Corporation 10.25% maturing in 2019, which saw its price nearly double to 55-00, from 27-00 at the start of the month (**Table 7**).

Among the other top performers were bond issued by energy names Whiting Petroleum Corporation, Chesapeake Energy Corporation and Sm Energy Company. One of the worst performing bonds was Valeant's 7.25% 2022, which lost 12.9% in value as the company's woes deepened (**Table 8**)

European corporates were buoyed by the ECB's decision to extend QE to non-bank corporate bonds, seeing risk in the sector decline, boosting returns in the process.

The [Markit iBoxx € Insurance Index](#) returned 3.1% in March, a relief rally after key of further negative interest rates faded. Contingent convertible bonds also saw returns surge as European banking fears eased.

In Europe, the best performing bond was Globe Luxembourg's 9.625% maturing in 2018, which saw its

price rise 43%. The worst was Italian banks Veneto Banca's 6.411% subordinated bond, which saw a price decline of 29%.

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

	Total Return						Yield						Duration		
	Month			YTD			Current			Month			\$	€	£
	\$	€	£	\$	€	£	\$	€	£	\$	€	£			
Corporates	+2.77%	+1.41%	+3.08%	+3.74%	+2.43%	+2.94%	3.88%	1.38%	3.67%	-0.36%	-0.25%	-0.33%	6.6	5.1	8.0
Corporates AAA	+1.51%	+0.39%	+1.92%	+4.41%	+3.56%	+6.97%	3.25%	0.94%	2.55%	-0.13%	-0.04%	-0.12%	8.7	7.2	14.4
Corporates AA	+1.87%	+0.79%	+2.42%	+3.43%	+2.82%	+3.73%	3.10%	0.82%	2.98%	-0.24%	-0.13%	-0.24%	6.2	5.5	8.9
Corporates A	+2.01%	+1.06%	+3.18%	+3.38%	+2.29%	+3.00%	3.45%	1.10%	3.57%	-0.26%	-0.18%	-0.32%	6.4	5.1	8.6
Corporates BBB	+3.90%	+1.94%	+3.20%	+4.20%	+2.43%	+2.65%	4.53%	1.85%	4.04%	-0.49%	-0.36%	-0.38%	6.9	4.9	7.2
Banks	+1.56%	+0.77%	+3.08%	+1.94%	+1.19%	+1.30%	3.48%	1.17%	3.70%	-0.25%	-0.15%	-0.39%	4.8	4.2	6.3
Basic Materials	+4.49%	+2.15%	+5.49%	+5.92%	+5.66%	+7.61%	4.92%	1.76%	4.41%	-0.68%	-0.78%	-0.80%	6.9	5.1	7.0
Consumer Goods	+2.24%	+1.24%	+1.70%	+4.32%	+3.00%	+3.33%	3.42%	1.17%	2.87%	-0.28%	-0.21%	-0.24%	6.4	5.3	5.7
Consumer Services	+3.50%	+1.87%	+2.50%	+5.39%	+3.35%	+4.01%	3.94%	1.57%	3.44%	-0.37%	-0.18%	-0.26%	8.3	5.8	9.4
Financials	+1.67%	+1.10%	+3.08%	+2.18%	+1.38%	+1.39%	3.58%	1.49%	3.88%	-0.25%	-0.21%	-0.37%	5.2	4.5	6.8
Health Care	+2.56%	+0.93%	+3.78%	+4.76%	+3.01%	+6.07%	3.48%	1.09%	3.31%	-0.28%	-0.14%	-0.28%	7.6	5.8	12.3
Industrials	+2.15%	+1.10%	+2.66%	+4.27%	+2.69%	+4.25%	3.59%	1.04%	3.28%	-0.27%	-0.16%	-0.28%	7.3	5.0	8.6
Insurance	+2.37%	+3.09%	+4.15%	+2.48%	+1.31%	-0.27%	4.23%	3.14%	5.00%	-0.26%	-0.45%	-0.54%	7.6	6.1	6.8
Non-Financials	+3.39%	+1.64%	+3.08%	+4.63%	+3.22%	+3.98%	4.00%	1.32%	3.57%	-0.42%	-0.28%	-0.31%	7.4	5.5	8.8
Oil & Gas	+5.97%	+2.96%	+2.64%	+3.78%	+3.87%	+1.91%	5.02%	1.62%	3.25%	-0.86%	-0.48%	-0.35%	6.8	5.9	6.6
Technology	+2.27%	+0.89%	N/A	+4.20%	+3.80%	N/A	3.41%	0.94%	N/A	-0.29%	-0.11%	N/A	6.9	7.0	N/A
Telecommunications	+4.46%	+1.45%	+4.07%	+6.00%	+3.19%	+4.54%	4.24%	1.44%	3.80%	-0.46%	-0.20%	-0.43%	8.7	5.8	8.7
Utilities	+2.48%	+1.99%	+3.24%	+4.58%	+2.80%	+3.60%	4.16%	1.34%	3.79%	-0.25%	-0.33%	-0.29%	8.4	5.2	9.6
High Yield Liquid High Yield	+3.62%	+3.40%	+3.55%	+3.32%	+1.63%	+2.01%	7.63%	4.98%	6.08%	-0.55%	-0.80%	-0.83%	4.0	3.5	3.7
Convertible CVBX	+2.63%	+3.99%	+1.29%	-3.90%	-4.35%	+2.76%	1.10%	7.43%	7.62%	-0.65%	-0.84%	-0.13%	6.3	4.1	5.6
Contingent Convertible	+4.62%	+3.99%	+1.29%	-2.08%	-4.35%	+2.76%	8.00%	7.43%	7.62%	-0.81%	-0.84%	-0.13%	4.6	4.1	5.6

Source: Markit

Table 7: March global corporate bond best price performance

Best performers

Ticker	Issue	Sector	Country	CCY	Liq score	3/31 price	Change	% change	One year low	Date	One year high	Date
Americas												
1	MODSPA	Modular Space Corporation 10.25 1/2019	Industrials	USA	USD	2	55.00	+28.00	+103.7%	26.50	3/8/16	86.75 7/7/15
2	WHPEC	Whiting Petroleum Corporation 6.5 10/2018	Energy	USA	USD	1	67.50	+30.18	+80.9%	27.00	2/24/16	102.46 5/12/15
3	SMENG	Sm Energy Company 6.5 1/2023	Energy	USA	USD	1	71.63	+31.88	+80.2%	36.25	2/24/16	105.75 5/1/15
4	CHK	Chesapeake Energy Corporation 6.125 2/2021	Energy	USA	USD	1	37.33	+16.33	+77.8%	12.12	2/15/16	104.00 4/15/15
5	SMENG	Sm Energy Company 5.625 6/2025	Energy	USA	USD	1	69.75	+29.50	+73.3%	36.50	2/24/16	102.00 6/2/15
EMEA												
1	GLOBLUX	Globe Luxembourg Sca 9.625 5/2018	Energy	GBR	USD	1	76.00	+23.00	+43.4%	52.83	2/17/16	97.57 5/13/15
2	FIRQU	First Quantum Minerals Ltd. 7.25 5/2022	Basic Materials	ZMB	USD	1	66.89	+17.74	+36.1%	39.54	1/20/16	97.56 6/24/15
3	PACIFDR	Pacific Drilling V Limited 7.25 12/2017	Energy	LUX	USD	1	35.80	+8.80	+32.6%	26.00	3/1/16	94.00 4/24/15
4	FIRQU	First Quantum Minerals Ltd. 7 2/2021	Basic Materials	ZMB	USD	1	67.50	+15.75	+30.4%	39.00	1/21/16	97.75 5/25/15
5	INTSAT-Lux	Intelsat (Luxembourg) S.A. 6.75 6/2018	Telecommunications Services	LUX	USD	1	76.75	+16.50	+27.4%	51.75	2/24/16	100.44 5/1/15
APAC												
1	MIEHOL	Mie Holdings Corporation 7.5 4/2019	Energy	CHN	USD	1	45.51	+16.15	+55.0%	29.00	1/26/16	80.00 6/2/15
2	ANTOOIL	Anton Oilfield Services Group 7.5 11/2018	Energy	CHN	USD	1	44.48	+14.36	+47.7%	26.50	1/21/16	75.00 6/26/15
3	SWIBHOL	Swiber Holdings Ltd 7.125 4/2017	Energy	SGP	SGD	2	88.00	+28.00	+46.7%	50.00	1/21/16	88.00 3/31/16
4	INDOE	Indo Energy Finance li B.V. 6.375 1/2023	Energy	IDN	USD	1	47.46	+11.93	+33.6%	32.11	2/15/16	73.00 5/20/15
5	OTTAHOL	Ottawa Holdings Pte. Ltd. 5.875 5/2018	Financials	IDN	USD	1	69.56	+16.92	+32.2%	39.00	10/1/15	86.50 4/13/15

Source: Markit

Table 8: March global corporate bond worst price performance

Worst performers

Ticker	Issue	Sector	Country	CCY	Liq score	3/31 price	Change	% change	One year low	Date	One year high	Date
Americas												
1 APS	Neptune Orient Lines Limited 4.4 6/2021	Industrials	USA	SGD	3	56.00	-11.75	-17.3%	50.00	3/23/16	101.00	7/21/15
2 PSPACE	Pspc Escrow Corp. 6 2/2023	Basic Materials	USA	EUR	4	84.02	-15.73	-15.8%	84.02	3/31/16	105.00	4/21/15
3 OFFSDRI	Offshore Drilling Holding S.A. 8.375 9/2020	Energy	MEX	USD	1	48.25	-8.29	-14.7%	46.00	3/25/16	90.38	5/18/15
4 ODEBDRI	Odebrecht Drilling Norbe Viii/Ix Ltd. 6.35 6/2021	Energy	BRA	USD	2	30.00	-4.75	-13.7%	30.00	3/31/16	95.28	5/26/15
5 VALPIT	Valeant Pharmaceuticals International, Inc. 7.25 7/2022	Healthcare	USA	USD	1	80.00	-11.85	-12.9%	79.64	3/22/16	107.00	6/1/15
EMEA												
1 VENBAN	Veneto Banca Societa Cooperativa Per Azioni 6.411 12/2099	Financials	ITA	EUR	3	55.00	-22.00	-28.6%	55.00	3/31/16	88.00	7/27/15
2 EDCOLTD	Edcon Ltd 9.5 3/2018	Consumer Services	ZAF	EUR	1	35.22	-11.38	-24.4%	26.82	3/18/16	82.25	6/3/15
3 UKRLPLC	Ukrlandfarming Plc 10.875 3/2018	Consumer Goods	UKR	USD	1	28.50	-3.50	-10.9%	28.50	3/31/16	52.50	11/30/15
4 DTEKFI	Dtek Finance Plc 7.875 4/2018	Utilities	UKR	USD	1	35.50	-3.42	-8.8%	35.00	3/30/16	50.00	10/23/15
5 FRIGFIN	Frigoglass Finance B.V. 8.25 5/2018	Industrials	GRC	EUR	2	62.00	-5.31	-7.9%	50.65	3/30/16	101.75	5/26/15
APAC												
1 NAMCHE	Nam Cheong Limited 5.05 8/2019	Industrials	MYS	SGD	4	80.00	-17.45	-17.9%	80.00	3/31/16	97.75	4/16/15
2 BOHAGEN	Bohai General Capital Ltd 6.4 10/2017	Basic Materials	CHN	CNY	2	78.37	-14.25	-15.4%	66.50	3/22/16	100.38	6/10/15
3 GALLVEN	Gallant Venture Ltd. 7 4/2018	Consumer Services	SGP	SGD	3	93.00	-7.25	-7.2%	93.00	3/31/16	100.95	8/19/15
4 KEPSP	Keppel Corporation Limited 4 9/2042	Industrials	SGP	SGD	3	90.00	-5.75	-6.0%	85.00	1/27/16	97.25	6/10/15
5 HOC	Harvest Operations Corp. 6.875 10/2017	Energy	KOR	USD	1	60.75	-2.75	-4.3%	59.50	3/15/16	94.00	4/24/15

Source: Markit

Sovereigns

Among developed nation government bonds, the commodities rally in March was reflected in the sovereign world as many countries dependent on assets such as oil saw their credit risk fall over the month.

Australia near one year tightest CDS spread levels on higher commodity prices

The largest tightening in percentage terms was seen in Australian CDS spreads which fell by over a quarter to 36bps (**Table 10**). This takes the country's five year spread to within five basis points of its one year lows reported in June of last year.

Other commodities exporters benefiting from this trend include Qatar, Brazil and Mexico. Unlike Australia however, all three sovereigns still see their spreads much wider than the 12 months tightest registered last year which shows that the commodities rebound has yet to fully convince all bears.

The same trend was also evident in bonds, with firms reliant on commodities heading the top performing bond list.

Japan long government bond among the best performers as the result of negative rate policy

Japan's long dated 2055 note was another strong performer as the country's negative interest rate policy was felt further along the term structure (**Table 11**). This saw the price of the very volatile, high duration listing rise by over 13% which sent the bond's yield down to 1.03%; 37bps tighter than its coupon rate.

On the other side of the CDS scale, Belgium was the only liquid sovereign to see its CDS spread widen on the month, though the 1 bps widening was hardly ground breaking.

The commodities rally looks to have come too late for Venezuela, however, as the country continues to be gripped by political crisis. This saw the price of 8.25% note due in October 2024 sink by a further 6.3% to 34 cents on the dollar (**Table 12**). The note now yields over 28%.

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

			3/31 10yr bond yield	CDS change	3/31 CDS	% change	One year tight	Date	One year wide	Date
1	DBR	Germany	0.16%	-4.9	18.9	-20.6%	12.6	12/24/15	24.0	2/25/16
2	FRTR	France	0.50%	-4.7	32.4	-12.6%	25.7	12/24/15	41.8	2/11/16
3	ITALY	Italy	1.22%	-14.9	127.5	-10.5%	91.6	12/9/15	156.8	2/11/16
4	JAPAN	Japan	-0.06%	-4.2	46.2	-8.4%	34.0	8/18/15	56.1	2/12/16
5	CAN	Canada	1.22%	-0.1	26.4	-0.4%	19.1	4/29/15	26.9	3/16/16
6	UKIN	United Kingdom	1.42%	-0.1	38.4	-0.3%	15.2	9/30/15	39.5	2/11/16
7	USGB	United States	1.78%	+0.5	20.3	+2.5%	14.3	9/18/15	22.4	11/3/15

Source: Markit

Table 10: March liquid sovereign 5yr CDS best and worst spread performance³

			Liq Score	Change	3/31 spread	% change	One year tight	Date	One year wide	Date
Best Performers										
1	AUSTLA	Australia	1	-13	36	-25.6%	31	6/26/15	56	2/11/16
2	QATAR	Qatar	2	-29	96	-23.3%	57	7/22/15	140	2/3/16
3	COLOM	Colombia	1	-62	212	-22.7%	135	4/23/15	325	2/11/16
4	CHILE	Chile	1	-25	94	-21.0%	78	6/18/15	153	9/29/15
5	DBR	Germany	1	-5	19	-20.6%	13	12/24/15	24	2/25/16
6	BRAZIL	Brazil	1	-88	356	-19.9%	219	5/21/15	533	9/28/15
7	PANAMA	Panama	1	-36	158	-18.7%	132	7/14/15	225	2/11/16
8	MEX	Mexico	1	-36	160	-18.5%	112	5/25/15	231	2/11/16
9	PERU	Peru	1	-34	159	-17.7%	128	5/8/15	230	2/11/16
10	THAI	Thailand	1	-26	130	-16.5%	98	7/17/15	172	9/29/15
Worst Performers										
1	BELG	Belgium	2	+1	49	+1.7%	33	1/4/16	51	3/21/16
2	UKIN	United Kingdom	2	-0	38	-0.3%	15	9/30/15	39	2/11/16
3	NETHRS	Netherlands	2	-1	25	-2.0%	16	12/3/15	26	3/21/16
4	VENZ	Venezuela	1	-271	5926	-4.4%	3395	5/8/15	10686	2/15/16
5	SLOVAK	Slovak Republic	2	-3	43	-6.1%	43	3/30/16	52	7/24/15
6	CZECH	Czech Republic	2	-3	43	-6.5%	43	3/31/16	53	10/5/15
7	KAZAKS	Kazakhstan	2	-20	278	-6.7%	213	5/18/15	336	1/20/16
8	KOREA	South Korea	1	-5	64	-7.5%	46	5/18/15	82	9/29/15
9	AUST	Austria	2	-3	30	-8.1%	23	12/10/15	33	3/1/16
10	JAPAN	Japan	1	-4	46	-8.4%	34	8/18/15	56	2/12/16

Source: Markit

Table 11: March sovereign bond best price performance

Best performers

Ticker	Issue	CCY	Liq score	3/31 price	Change	% change	3/31 yield	One year low	Date	One year high	Date	
Americas												
1	ECUA	Republic Of Ecuador 10.5 3/2020	USD	1	89.58	+11.37	+14.5%	18.33%	68.44	1/20/16	109.50	5/14/15
2	BRAZIL	Federative Republic Of Brazil 6 8/2050	BRL	3	2715.68	+329	+13.8%		2201.04	9/24/15	2762.09	3/23/16
3	VENZ	Bolivarian Republic Of Venezuela 13.625 8/2018	USD	2	63.01	+6.76	+12.0%	44.69%	49.16	1/27/16	79.12	5/18/15
4	COLOM	Republic Of Colombia 5 6/2045	USD	2	93.76	+9.57	+11.4%	6.17%	75.00	1/20/16	104.70	4/6/15
5	MEX	United Mexican States 4 3/2115	EUR	2	86.66	+6.33	+7.9%	4.99%	79.99	2/12/16	104.38	4/14/15
EMEA												
1	GREECE	Hellenic Republic 3 2/2028	EUR	2	65.00	+7.73	+13.5%	9.88%	32.26	7/8/15	72.78	11/17/15
2	ZAMBIA	Republic Of Zambia 8.97 7/2027	USD	2	82.14	+8.58	+11.7%	12.05%	64.00	1/20/16	97.25	7/31/15
3	SOAF	Republic Of South Africa 5.375 7/2044	USD	1	100.14	+7.20	+7.7%	5.89%	85.35	1/20/16	110.17	4/8/15
4	CMRN	Republic Of Cameroon 9.5 11/2025	USD	2	93.97	+6.47	+7.4%	9.29%	81.00	1/18/16	98.12	11/30/15
5	RPGANA	Republic Of Ghana 10.75 10/2030	USD	2	97.86	+6.19	+6.8%	10.94%	86.96	2/11/16	108.40	11/4/15
APAC												
1	CHINA	People's Republic Of China 3.94 7/2045	CNY	4	106.99	+26.62	+33.1%	5.26%	80.37	2/29/16	111.56	3/30/16
2	JAPAN	Japan 1.4 3/2055	JPY	1	126.67	+14.63	+13.1%	1.03%	92.25	6/8/15	131.84	3/22/16
3	MONGAA	Mongolia 5.125 12/2022	USD	1	77.38	+8.45	+12.3%	11.95%	68.15	2/24/16	93.50	5/22/15
4	PHILIP	Republic Of The Philippines 8.125 12/2035	PHP	3	145.06	+12.68	+9.6%	5.43%	130.02	1/18/16	151.71	4/10/15
5	THAI	Kingdom Of Thailand 3.4 6/2036	THB	4	119.49	+9.94	+9.1%	2.78%	99.78	12/10/15	119.49	3/31/16

Source: Markit

Table 12: March sovereign bond worst price performance

Worst performers

Ticker	Issue	CCY	Liq score	3/31 price	Change	% change	3/31 yield	One year low	Date	One year high	Date	
Americas												
1	VENZ	Bolivarian Republic Of Venezuela 8.25 10/2024	USD	2	34.02	-2.29	-6.3%	28.33%	28.73	2/15/16	46.40	5/8/15
2	BRAZIL	Federative Republic Of Brazil 8.5 1/2024	USD	2	76.50	-2.80	-3.5%	12.75%	74.33	3/3/16	101.50	4/29/15
3	BLZE	Belize 5 2/2038	USD	3	47.50	-1.58	-3.2%	13.90%	47.50	3/31/16	76.00	6/24/15
4	COLOM	Republic Of Colombia 4.25 5/2017	COP	4	102.29	-1.27	-1.2%		102.29	3/31/16	106.78	4/3/15
5	CAN	Canada 2.75 12/2064	CAD	1	123.91	-.95	-0.8%	1.96%	108.36	6/10/15	130.93	2/10/16
EMEA												
1	SOAF	Republic Of South Africa 2.5 3/2046	ZAR	4	110.05	-5.19	-4.5%		110.05	3/31/16	122.80	5/12/15
2	ISRAEL	State Of Israel 4.25 3/2023	ILS	4	118.91	-4.46	-3.6%	0.84%	115.46	7/3/15	123.61	2/15/16
3	SWISS	Swiss Confederation 1.5 4/2042	CHF	4	133.47	-4.07	-3.0%	0.05%	117.74	6/12/15	138.20	3/1/16
4	NGERIA	Federal Republic Of Nigeria 14.2 3/2024	NGN	3	109.41	-2.30	-2.1%	11.89%	87.73	5/6/15	121.46	11/26/15
5	SLOVAK	Slovak Republic 4.2 4/2017	EUR	2	104.03	-1.73	-1.6%	-1.02%	104.03	3/31/16	108.31	4/9/15
APAC												
1	PHILIP	Republic Of The Philippines 15 3/2022	PHP	5	103.62	-54.77	-34.6%	4.01%	103.62	3/31/16	169.01	4/7/15
2	SRILAN	Democratic Socialist Republic Of Sri Lanka 5.35 3/2026	LKR	5	57.09	-8.19	-12.5%	11.21%	57.09	3/31/16	74.80	6/18/15
3	INDON	Republic Of Indonesia 4.45 2/2018	IDR	4	92.10	-2.25	-2.4%	7.61%	89.38	9/30/15	95.19	3/22/16
4	MALAYS	Malaysia 4.943 12/2028	MYR	3	105.43	-2.02	-1.9%	4.18%	101.29	1/7/16	110.01	5/22/15
5	AUSTLA	Commonwealth Of Australia 3.25 6/2039	AUD	1	101.06	-1.84	-1.8%	3.07%	93.73	11/12/15	103.82	3/1/16

Source: Markit

Municipal bonds

Last year's torrid pace of muni issuance in the wake of historically low rates and record issuance in corporate bonds has likely taken some of the steam out of this year's primary market. March's revenue bond issuance of \$21.9 billion indicated a continued decline in issuance, with YTD issuance for the sector 27% lower (\$50.7 billion YTD) than during the same time period last year (**Figure 6**). General obligation bond issuance is only 0.09% lower (\$45.2 billion YTD), resulting in this year being almost 8% below Q1 2015.

Federal Reserve looks to move certain GOs to Level 2B for HQLA

On April 1st, the US Federal Reserve released its version of a proposal that changes the High Quality Liquid Assets (HQLA) rule to allow certain municipal bonds to be treated as Level 2B assets (versus the House of Representative's version of the bill that made them Level 2A), which would increase banks' incentive to purchase the bonds. Regardless of the Fed's policy change, the final decision is made by Congress, with the bill now going to the Senate where it could potentially be revised before they vote on it.

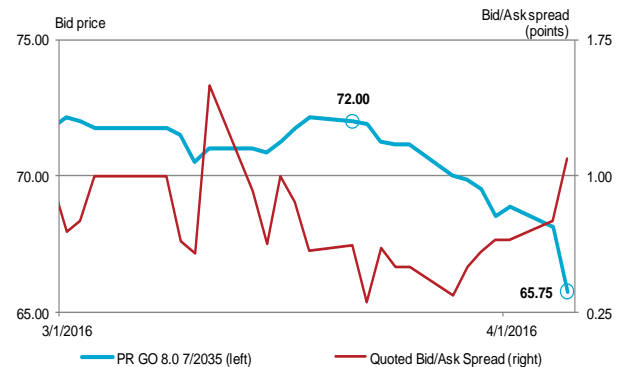
Illinois Supreme Court strike down Chicago's 2014 pension reform law

The Illinois Supreme Court ruled on March 24th that Chicago's 2014 pension reform law violated "pension protection clause of the Illinois Constitution" according to court documents. The city's politicians are currently working on a legal alternative, but in the interim have reverted back to lower contributions for the affected plans.

Puerto Rico's Senate votes to approve payment moratorium on GO and Cofina bonds

On April 5th, Puerto Rico's senate voted on a bond payment moratorium on various municipal debt until January 2017. According to Bloomberg⁴, the legislation affects debt backed by the government, Development Bank, and the Sales Tax Financing Corporation (Cofina). The bill was later passed by Puerto Rico's House of Representatives and signed into law by the governor. Certain bonds saw a sharp sell-off after the initial announcement (**Figure 7**), with the April 5th Markit closing price for the PR GO 8.0% 7/2035 down 3.5% from the prior close.

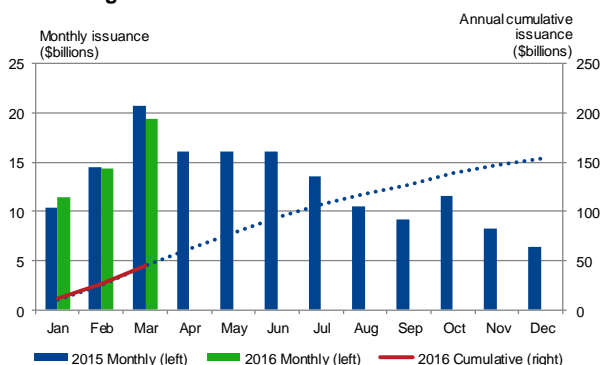
Figure 7: Puerto Rico's bond prices decline and bid/ask spread widens after PR Senate's bill



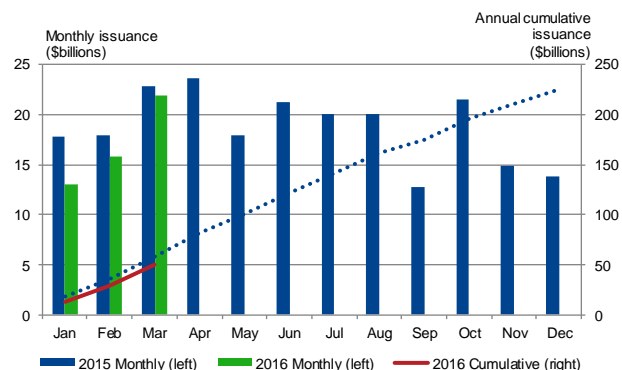
Source: Markit

Figure 6: Municipal bond issuance

General obligation



Revenue



Source: SIFMA

⁴ Source: Bloomberg News article, "Puerto Rico Senate Passes Sweeping Moratorium on Paying Debt" by Brian Chappatta and Michelle Kaske, published on April 5, 2016.

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

	Issuer	Issue	Liq score	3/31 price	Change	% change	One year low	Date	One year high	Date
1	Indiana St Fin Auth Environmental Rev	Environmental Improvement R - United States Steel Corporation 20 6 12/2026	1	83.18	+22.63	+37.4%	55.00	2/19/16	110.09	4/24/15
2	St John Baptist Parish La Rev	Fixed Rate Revenue - Marathon Oil Corporation 2007-A 5.125 06/2037	1	100.33	+4.58	+4.8%	95.70	2/26/16	105.87	4/15/15
3	Illinois Fin Auth Rev	Recovery Zone Fa - Navistar International Corporation Project 20 6.5 10/2040	3	100.35	+3.73	+3.9%	92.78	12/16/15	108.35	4/6/15
4	Hamilton Cnty Ohio Hosp Facs Rev	Hospital Fac - Cincinnati Childrens Hospital Medical Center 2014 5 05/2025	4	122.32	+3.67	+3.1%	113.63	6/12/15	122.32	3/31/16
5	Camden Cnty N J Impt Auth Rev	County Guaranteed Loan Revenue - County Capital Program 2015-A 5 01/2025	3	126.64	+3.79	+3.1%	121.14	12/16/15	126.64	3/31/16
6	Massachusetts St Dev Fin Agy Rev	Revenue - Emerson College Issue 2015 5 01/2025	3	120.12	+3.07	+2.6%	110.54	7/14/15	120.12	3/31/16
7	Cape Fear Pub Util Auth N C Wtr & Swr Sys Rev	Water And Sewer System Revenue And Refunding Revenue - 2014-A 5 06/2025	3	125.71	+2.91	+2.4%	118.32	6/10/15	125.71	3/31/16
8	New York St Dorm Auth Revs Non St Supported Debt	Nyu Hospitals Center Revenue - 2014 5 07/2025	3	121.04	+2.78	+2.4%	113.51	6/10/15	121.27	3/18/16
9	Monongalia Cnty W Va Bldg Commn Rev	Refunding And Impr - Monongalia Health System Obligated Group 20 5 07/2025	3	120.72	+1.08	+0.9%	112.77	7/1/15	121.06	2/11/16
10	Pennsylvania St Higher Edl Facs Auth Rev	Revenue - University Of Pennsylvania Health System 2015 5 08/2025	4	124.03	+1.09	+0.9%	117.28	6/11/15	124.45	2/11/16

Source: Markit

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

	Issuer	Issue	Liq score	3/31 price	Change	% change	One year low	Date	One year high	Date
1	Sanger Tex Indl Dev Corp Indl Dev Rev	Industrial Development Revenue - Texas Pellets Project 2012-B 8 7/2038	4	90.54	-5.82	-6.0%	89.57	3/7/16	97.14	2/11/16
2	Puerto Rico Comwlth Hwy & Transn Auth Transn Rev	Refunding Revenue - 2003-H 5.45 7/2035	3	18.97	-1.06	-5.3%	14.94	1/21/16	61.00	4/24/15
3	Puerto Rico Elec Pwr Auth Pwr Rev	Power Revenue - 2013-A 7.25 7/2030	3	62.50	-2.52	-3.9%	50.50	6/30/15	67.97	9/2/15
4	Massachusetts St Dev Fin Agy Rev	Revenue - Milford Regional Medical Center 2014-F 5 7/2025	5	109.18	-3.00	-2.7%	105.16	5/20/15	113.17	2/11/16
5	Puerto Rico Comwlth Aqueduct & Swr Auth Rev	Revenue (Senior Lien) - 2008-A 6 7/2038	1	67.74	-1.76	-2.5%	64.68	7/3/15	75.13	7/16/15
6	Breckinridge Cnty Ky Sch Dist Fin Corp Sch Bldg Rev	Revenue - 2016 5 4/2025	3	119.98	-2.22	-1.8%	119.63	3/30/16	122.39	2/25/16
7	New Jersey Economic Dev Auth Rev	School Facilities Construction Refunding - 2015-Xx 5 6/2024	3	110.29	-1.67	-1.5%	104.68	9/16/15	113.12	2/11/16
8	Snyder Cnty Pa Higher Ed Auth Univ Rev	University Revenue - Susquehanna University Project 2015 5 1/2025	4	118.34	-1.52	-1.3%	116.45	9/16/15	121.22	2/11/16
9	Los Angeles Cnty Calif Met Transn Auth Sales Tax Rev	Refunding Sales Tax Revenue - 2016-A 5 7/2025	3	128.16	-1.32	-1.0%	127.68	3/29/16	130.10	2/19/16
10	Virgin Islands Pub Fin Auth Rev	Revenue And Refunding Virgin Island Matching - 2009-B Senior Li 5 10/2025	3	109.82	-1.05	-0.9%	106.28	9/16/15	111.51	2/11/16

Source: Markit

Securitised products

Several securitised products sectors rallied alongside the broader credit markets in March, with CMBS and CLOs tightening the most. However, the improvements in most cases are only a retracement to the historically wide levels reported this January. CMBS spread tightening was augmented by a weak new issue calendar, with AAAs 21bps tighter, and AA down to BBB rated bonds tightening over 50bps versus swaps on the month (**Figure 9**). AAA 1.0 US and European CLO spreads tightened 8bps and 3bps, respectively, on the month (**Figure 8**). US 2.0 BBBs CLOs tightened the most, 36bps, to end the month at L+658 after reaching a new one year widest level of L+703 at the beginning of the month. We note that CLO issuance in March doubled to over \$4bn versus the prior month, but still remains more than 75% lower than last year's level during the same period.

Global consumer ABS spreads largely missed the broader rally, albeit on relatively light trading volume, with several categories hitting new one year wides again in March (**Table 16**). AAA-rated US 2-3yr floating-rate credit card, all senior prime auto, and 2+yr equipment spreads ended the month at their one year one levels.

Agency MBS pay-ups were mixed

Freddie Mac and Fannie Mae 30-year prepayments increased near 50% in March compared to February, driven by seasonal effects combined with the much higher day count (+3 days versus February) and an increase in the average loan size of refinances increasing significantly. Specified pool pay-ups were mostly lower in March, with pay-ups modestly lower across most of the 4.0% cohort (**Table 15**). The MHA >90 LTV story type was mostly lower across the board, as the HARP program is scheduled to end this December 31st and the lower LTV increases the likelihood that mortgages in this group will prepay much faster than the much higher LTV HARP pools. We note that mortgage rates remain at recent lows,

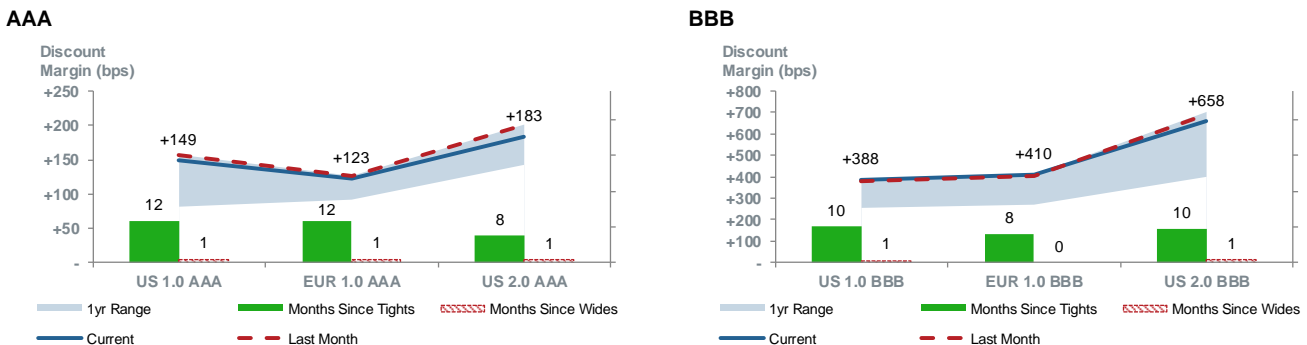
with Freddie Mac 30-yr fixed rates hitting 3.66% in February, which was lowest level since May of 2013.

Non-agency spreads tighten

Non-agency spreads rallied near 25bps across most sectors, with the subprime sector remaining close to unchanged and jumbo 2.0 paper continuing to be the most liquid and best performing sector. TRID appears to be slowing down prepayments across all mortgage sectors, but severities for certain states like New York continue to be more of a concern for investors. The Countrywide settlement will likely be finalised by the courts in early-May, with the payment of senior bonds likely to take precedence over the write-up of other bonds in the capital structure regardless of the language in each deal's Pooling and Servicing Agreements.

NY Fed data indicates non-agency dealer holdings increased almost \$400m in March to end the month at \$14.0bn, which is highest inventory level since mid-November. However, that total dropped slightly more than \$1bn the first week of April to \$12.9bn.

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



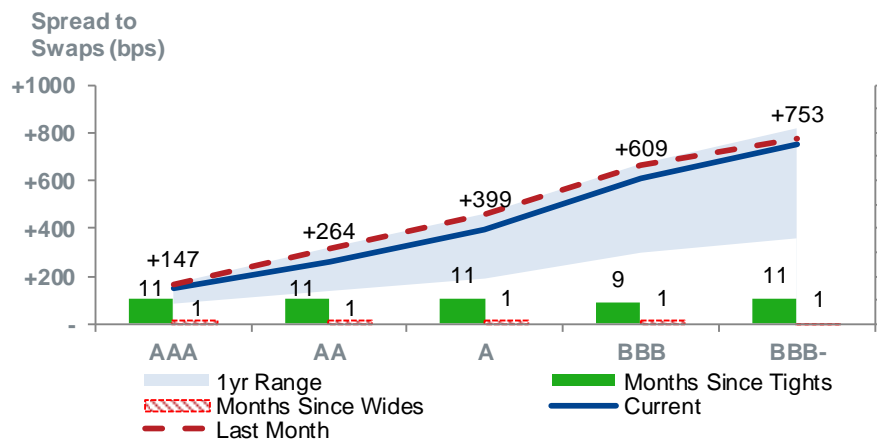
Source: Markit

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

Coupon	March 2016						Change vs prior month					
	3	3.5	4	4.5	5	5.5	3	3.5	4	4.5	5	5.5
LLB (85K)	0-15	0-29	1-18	2-05	2-26	2-22	+0-01	-0-01	-0-07	-0-09	-0-02	-0-13
MLB (110K)	0-12	0-23	1-12	1-31	1-27	2-17	+0-02	+0-02	-0-05	-0-08	+0-26	0-00
HLB (150K)	0-08	0-17	0-30	1-13	1-01	0-30	-0-01	0-00	-0-03	-0-01	-0-20	-0-03
New Prod	0-01	0-03	0-07	0-10	0-18	0-00	0-00	-0-02	-0-01	-0-02	0-00	0-00
Low FICO	0-05	0-04	0-06	0-15	0-17	0-26	+0-01	+0-03	-0-01	-0-03	-0-06	0-00
Investor	0-08	0-03	0-07	0-09	0-15	1-10	0-00	0-00	-0-01	-0-01	-0-05	0-00
MHA <90	0-02	0-03	0-08	0-12	0-21	2-03	-0-02	-0-02	-0-02	-0-09	-0-06	0-00
MHA <95	0-15	0-05	0-12	0-13	0-21	0-19	-0-02	-0-03	-0-01	0-00	0-00	0-00
MHA <100	0-10	0-03	0-10	0-21	0-23	0-25	+0-01	+0-03	+0-02	-0-08	-0-02	0-00
MHA <105	0-16	0-06	0-11	0-14	0-27	2-05	-0-01	-0-04	-0-04	+0-02	+0-01	0-00
<125 LTV	0-03	0-09	0-27	1-17	2-10	2-02	0-00	+0-01	-0-01	-0-04	0-00	0-00
125+ LTV	0-29	0-09	0-24	2-01	2-09	3-07	-0-01	+0-01	+0-01	0-00	0-00	0-00

Source: Markit

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	+57	+8	+24	5/8/15	+58	3/11/16
4-5yr AAA US Swaps	+68	+8	+35	4/1/15	+70	10/14/15
US Credit Card - Floating-Rate						
2-3yr AAA US LIBOR DM	+40	-	+25	5/13/15	+40	3/16/16
4-5yr AAA US LIBOR DM	+80	+10	+38	5/8/15	+84	3/2/16
European Credit Card - Floating-Rate						
AAA EUR LIBOR DM	+38	-22	+32	1/6/16	+60	2/1/16
US Prime Auto - Fixed-Rate						
0-2yr AAA EDSF	+45	+2	+19	5/13/15	+45	3/29/16
2+-yr AAA US Swaps	+60	+4	+25	4/7/15	+60	3/29/16
European Prime Auto Loan - Floating-Rate						
AAA EUR LIBOR DM	+51	-2	+26	6/3/15	+54	2/5/16
US Subprime Auto - Fixed-Rate						
1-2-yr AAA EDSF	+82	+3	+45	7/21/15	+84	3/18/16
2+yr AAA US Swaps	+96	+2	+48	6/15/15	+97	11/5/15
US Equipment - Fixed-Rate						
2+yr AAA US Swaps	+83	+20	+43	6/17/15	+83	3/30/16
European Equipment - Floating-Rate						
A EUR LIBOR DM	+127	-32	+115	6/10/15	+182	6/30/15
US FFELP Student Loans - Floating-Rate						
2-4yr AAA 3mo US LIBOR DM	+144	+41	+41	4/2/15	+151	3/25/16
10+yr AAA 3mo US LIBOR DM	+186	+21	+93	5/11/15	+191	3/21/16

Source: Markit

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