

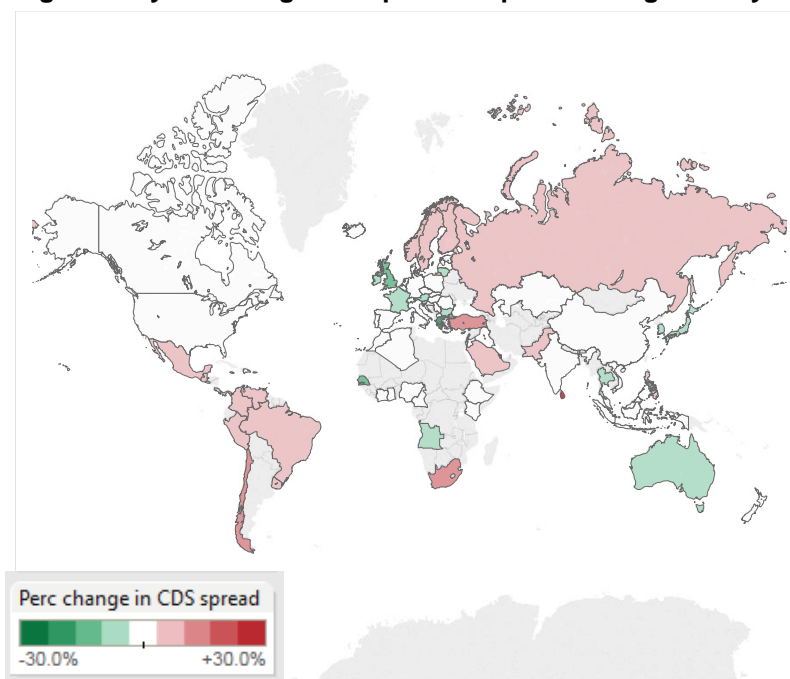
Global fixed income monthly focus – May 2016

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

After rallying in March and April, fixed income assets had a mixed May as positive sentiment faded as the month progressed. Stronger crude oil prices, ongoing “Brexit” fears and fluctuating Fed rhetoric were all key drivers of risk during the month.

- Energy and basic materials loan sector spreads widened across every rating category in May, with North American B- energy spreads widening 101bps, the most of the month. The rally in oil prices appears to have kept every energy issuer off the worst performers list this month
- CDS spreads staged a robust rally in the latter half of May, helped by a continued rise in the price of oil. The [Markit iTraxx Europe](#) started the month at 73bps, widened to 80bps on May 19th, then recovered to close the month at 72bps. The skew in the index was relatively stable – around 5bps – and marked a departure from the previous month, when single names outperformed indices
- Greek sovereign spreads tightened the most on a percentage basis (-21.1%) in May (**Figure 1**), with Senegal, the United Kingdom, and Cyprus spreads all tightening more than 10% on the month
- Developed nation corporate bonds had a more subdued month in comparison to the gains made the past two months. The [Markit iBoxx USD Liquid High Yield Index](#) continued to eke out gains, returning 0.54% in April
- On June 9th, the US House of Representatives passed Puerto Rico Oversight, Management and Economic Stability Act, or PROMESA, which enables Puerto Rico to restructure its debt, similar to a state. The bill had bipartisan support and was passed by a wide margin of 297-to-127 votes
- Securitised product spreads rallied across the sector to varying degrees in May. US consumer ABS was one of the best performing assets, on the heels of an influx in new issuance that was met with very strong demand

Figure 1: 5yr Sovereign CDS percent spread change in May



Source: Markit.

Leveraged loans

Energy and basic materials loan sector spreads come under pressure

Energy and basic materials loan sector spreads widened across every rating category in May, with North American B- energy spreads widening the most at 101bps on the month (**Table 3**). Utilities, consumer goods, and consumer services, the best performers on the month, were not able to escape the widening of B-cohort spreads that affected every sector. North American sector spreads ended the month 6-8bps wider than their European equivalent cohort.

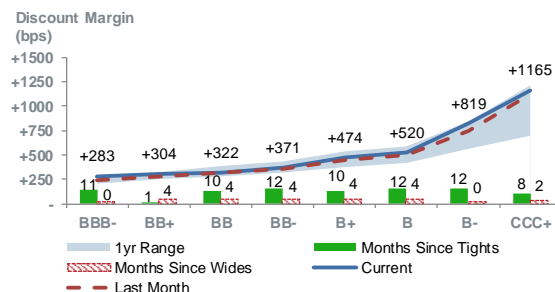
Basic material spreads continue to hover near their historically widest levels, with the BBB- and B- cohorts for both regions hitting new one year wides in May (**Figure 2**).

Not a single energy name on the worst performers list

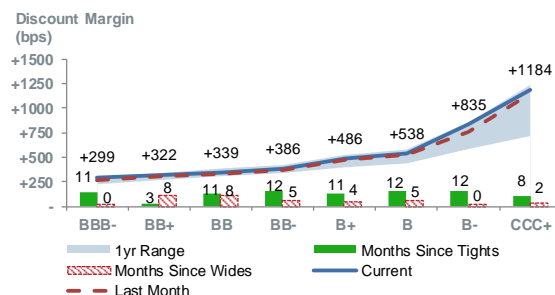
The rally in oil prices appears to have kept every energy issuer off the worst performers list this month. In fact, American Energy Marcellus 8/14 Cov-Lite TL was the best performer globally, increasing 43.3% to end the month at a price of 38.13 (**Table 1**). Energy issue BlackBrush 7/14 Cov-Lite 2nd Lien TL hit a new one year high price of 97.67 on May 30th, rising from a low of 66.83 on March 3rd.

European issues Autoban 10/14 Holdco PIK (w/ Equity) TL -60.4% and consumer service issuer Endemol 8/14 (EUR) Cov-Lite TL -4.7% were the worst performers in the distressed and par categories, respectively.

Figure 2: Basic materials sector spreads
North America



Europe



Source: Markit

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

North America

LXID	Loan Name	Sector	Country	Liq score	5/31 price	% change	One year low	Date	One year high	Date
Best Performers										
Par										
1	LX141386	Wheelabrator Technologies 10/14 2nd Lien Cov-Lite TL	USA	4	93.17	+21.2%	75.00	3/22/16	102.08	6/17/15
2	LX138458	BlackBrush 7/14 Cov-Lite 2nd Lien TL	USA	2	97.08	+14.0%	66.83	3/3/16	97.67	5/30/16
3	LX137320	Harrah's 6/14 B7 Non RSA TLB	USA	1	100.45	+7.2%	80.17	2/25/16	101.00	5/25/16
4	LX135944	Caesars Growth (Harrah's) 4/14 Cov-Lite TL	USA	2	93.50	+5.1%	75.33	3/16/16	93.50	5/31/16
5	LX132956	Laureate Education 10/13 New Series (2018) Extended TL	USA	1	96.94	+4.6%	74.25	2/11/16	96.94	5/31/16
Distressed										
1	LX138431	American Energy Marcellus 8/14 Cov-Lite TL	USA	3	38.13	+43.3%	15.30	3/3/16	78.00	6/26/15
2	LX133451	Town Sports 11/13 Cov-Lite TLB	USA	4	63.00	+42.4%	32.67	11/24/15	84.45	6/9/15
3	LX129883	Alpha Natural Resources 5/13 TLB	USA	3	42.92	+32.8%	30.40	3/21/16	72.05	7/16/15
4	LX143607	C&J Energy 3/15 Cov-Lite TLB2	USA	3	63.75	+20.9%	35.67	2/29/16	93.92	6/10/15
5	LX148807	EXCO Resources 10/15 (Fixed 12.50%) 2nd Lien Exchanged TL	USA	2	58.13	+20.0%	32.67	2/16/16	72.81	11/17/15
Worst Performers										
Par										
1	LX135908	Neiman Marcus 3/14 Cov-Lite TL	USA	1	91.58	-3.8%	83.29	2/19/16	100.04	7/22/15
2	LX133214	Omnitracs 11/13 Cov-Lite 2nd Lien TL	USA	3	89.00	-2.7%	89.00	5/31/16	98.33	6/8/15
3	LX135938	TNT Logistics 3/14 (USD) Cov-Lite TL	USA	2	85.19	-2.4%	75.88	3/10/16	95.00	6/5/15
4	LX141719	Compuware 12/14 TLB2	USA	2	93.88	-2.1%	87.33	2/23/16	98.00	7/21/15
5	LX133987	Intelsat Jackson 11/13 TLB2	BMU	1	91.96	-1.8%	86.89	2/23/16	99.90	7/16/15
Distressed										
1	LX129507	Charlotte Russe 5/13 Cov-Lite TL	USA	4	38.17	-27.5%	38.17	5/31/16	82.17	10/2/15
2	LX141201	Answers 10/14 Cov-Lite 2nd Lien TL	USA	5	11.75	-26.6%	11.08	5/30/16	16.67	4/19/16
3	LX131817	Rue 21 10/13 TLB	USA	3	59.33	-24.1%	59.33	5/31/16	93.29	7/20/15
4	LX135814	Nine West 4/14 Cov-Lite Unsecured Guaranteed TL	USA	5	22.33	-18.3%	22.33	5/31/16	81.75	6/2/15
5	LX127583	Ameriforge 1/13 2nd Lien TL	USA	5	16.20	-14.6%	14.33	1/18/16	84.67	6/12/15

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: May European loans best and worst price performance¹

Europe

	LXID	Loan Name	Sector	Country	Liq score	5/31 price	% change	One year low	Date	One year high	Date
Best Performers											
Par											
1	LX131858	BMC Software 8/13 (EUR) TL	Technology	IRL	1	94.44	+4.8%	87.08	2/9/16	100.61	6/2/15
2	LX146779	AVR 7/15 Opco PIK TL	Industrials	NLD	2	97.13	+4.1%	87.17	2/17/16	97.13	5/31/16
3	LX133025	CBR 9/13 Extended B/C Pro Rata	Consumer Services	DEU	3	85.79	+3.7%	80.17	3/1/16	99.56	6/24/15
4	LX134586	Prisa 12/13 Disposal TL3	Consumer Services	ESP	2	85.54	+3.4%	79.00	3/1/16	89.30	6/12/15
5	LX137596	Agrokor 5/14 PIK Toggle (Fixed 10.50%) TL	Consumer Goods	HRV	4	96.91	+3.2%	93.42	4/11/16	103.61	6/2/15
Distressed											
1	LX146780	AVR 7/15 Holdco PIK TL	Industrials	NLD	5	46.33	+12.4%	30.20	3/2/16	58.17	7/20/15
2	LX129817	Pacific Drilling 5/13 TL	Energy	LUX	1	31.70	+10.7%	19.19	2/29/16	86.10	6/1/15
3	LX139588	Expro Holdings 8/14 Cov-Lite TL	Energy	LUX	3	78.94	+8.9%	57.91	2/16/16	88.55	6/26/15
4	LX141502	Endeavour 10/14 TL	Energy	NLD	5	11.88	+8.5%	10.45	4/27/16	81.38	6/2/15
5	LX141286	Prisa 12/14 PPL TL3	Consumer Services	ESP	2	73.55	+5.5%	62.17	1/19/16	81.25	7/15/15
Worst Performers											
Par											
1	LX139557	Endemol 8/14 (EUR) Cov-Lite TL	Consumer Services	NLD	2	85.50	-4.7%	85.00	5/23/16	100.03	8/6/15
2	LX149492	David Lloyd 12/15 (EUR) TLB	Consumer Services	GBR	3	91.64	-3.8%	90.58	5/9/16	95.92	1/20/16
3	LX136123	TNT Logistics 3/14 (USD) Dutch BV Cov-Lite TL	Industrials	NLD	2	85.19	-2.4%	75.88	3/10/16	95.00	6/5/15
4	LX139559	Endemol 8/14 (GBP) Cov-Lite TL	Consumer Services	NLD	4	87.67	-2.3%	87.67	5/31/16	99.94	6/15/15
5	LX152168	HC Starck 3/16 (EUR) TLE	Basic Materials	DEU	5	90.63	-1.6%	90.50	5/26/16	93.00	4/12/16
Distressed											
1	LX141717	Autobar 10/14 Holdco PIK (w/ Equity) TL	Consumer Services	NLD	5	8.60	-60.4%	8.60	5/30/16	106.40	9/11/15
2	LX141989	Vivarte 10/14 Reinstated TL (ORA/Pref + Equity Stapled) TL	Consumer Goods	FRA	3	53.95	-16.3%	45.05	8/27/15	75.05	11/11/15
3	LX152169	HC Starck 3/16 PIK (EUR) 2nd Lien TL	Basic Materials	DEU	5	70.00	-14.6%	67.33	5/13/16	82.00	5/5/16
4	LX139562	Endemol 8/14 (USD) Cov-Lite 2nd Lien TL	Consumer Services	NLD	3	64.75	-10.5%	64.75	5/31/16	95.50	7/23/15
5	LX141716	Autobar 10/14 Senior TL	Consumer Services	NLD	2	68.67	-10.5%	66.81	5/25/16	96.26	6/1/15

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	+37	+26	+9	+16	+22	+19	+78	+40
	EU	+31	+19	+2	+9	+15	+11	+71	+32
	Change NA-EU	+6.8	+7.1	+7.2	+6.9	+7.9	+7.4	+7.5	+7.5
Consumer Goods	NA	+6	-5	-22	-15	-9	-12	+47	+9
	EU	-0	-12	-29	-21	-16	-19	+40	+1
	Current NA-EU	+6.3	+6.7	+6.7	+6.4	+7.5	+6.9	+7.1	+7.1
Consumer Services	NA	+3	-8	-26	-18	-12	-16	+44	+5
	EU	-3	-15	-32	-25	-19	-23	+37	-2
	Current NA-EU	+6.5	+6.9	+6.9	+6.6	+7.7	+7.1	+7.2	+7.2
Energy	NA	+61	+49	+32	+39	+46	+42	+101	+63
	EU	+53	+42	+24	+32	+38	+34	+94	+55
	Current NA-EU	+7.0	+7.4	+7.4	+7.1	+8.2	+7.6	+7.7	+7.8
Financials	NA	+6	-5	-23	-16	-9	-13	+47	+8
	EU	-2	-13	-31	-23	-18	-21	+38	-0
	Current NA-EU	+7.4	+7.8	+7.8	+7.5	+8.6	+8.0	+8.2	+8.2
Healthcare	NA	+8	-3	-20	-13	-6	-10	+49	+11
	EU	+2	-9	-27	-19	-14	-17	+42	+4
	Current NA-EU	+6.2	+6.6	+6.6	+6.3	+7.4	+6.8	+7.0	+7.0
Industrials	NA	+27	+15	-2	+5	+12	+8	+67	+29
	EU	+20	+8	-9	-2	+4	+0	+60	+21
	Current NA-EU	+6.9	+7.3	+7.3	+7.0	+8.1	+7.5	+7.6	+7.6
Technology	NA	+10	-2	-19	-12	-5	-9	+50	+12
	EU	+3	-9	-26	-19	-13	-16	+43	+4
	Current NA-EU	+6.8	+7.1	+7.2	+6.9	+7.9	+7.4	+7.5	+7.5
Telecommunication Services	NA	+22	+11	-6	+1	+8	+4	+63	+25
	EU	+16	+4	-13	-6	-0	-3	+56	+17
	Current NA-EU	+6.6	+7.0	+7.0	+6.7	+7.8	+7.2	+7.4	+7.4
Utilities	NA	+3	-9	-26	-19	-12	-16	+43	+5
	EU	-5	-16	-34	-26	-21	-24	+35	-3
	Current NA-EU	+7.4	+7.7	+7.8	+7.4	+8.5	+8.0	+8.1	+8.1

Source: Markit

Credit default swaps

CDS spreads staged a robust rally in the latter half of May, helped by a continued rise in the price of oil. The [Markit iTraxx Europe](#) started the month at 73bps, widened to 80bps on May 19th, then recovered to close the month at 72bps. The skew in the index was relatively stable –around 5bps – and a departure from the previous month, when single names outperformed indices.

Markit CDX North American Investment Grade skew widened slightly in May

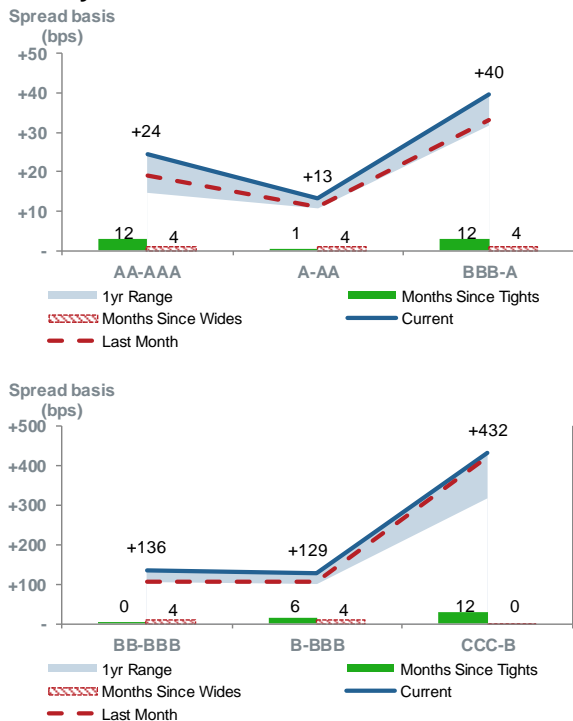
A similar pattern was observed in North America, with the [Markit CDX North American Investment Grade](#) index closing May at 76.7bps, almost 1bp tighter over the month. The skew did widen slightly to 10bps from 7.5bps, indicating a narrow underperformance in single names. But it's worth noting that this is still significantly smaller than the 20bps skew seen consistently in the Series 25 index earlier this year.

Target's negative earnings drive spreads to the widest level since January 2014

Names in the consumer sectors occupied positions in both the best and worst performing North American credits, a trend indicative of the month's mixed performance (**Table 4** and **Table 5**). Target Corp stood out with its poorest performance since January 2014. The US retailer's spreads widened 15bps (53.5%) to 42bps amid a slew of disappointing earnings in the sector, including Target's. But the deterioration in Target's credit standing, though large in percentage terms, needs to be kept in perspective. Target is rated 'single A', but it trades with an implied rating of 'AA', according to Markit data. This suggests that the market perceives it as a solid investment grade credit, despite the increase in bearish sentiment.

Gap was another retailer to see its spreads widen in May, and the steady rise in the oil price – Brent crude was back at \$50 a barrel by the end of the month – didn't help consumer sensitive names.

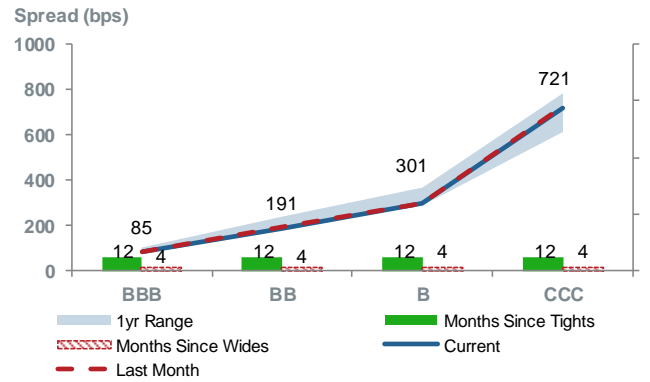
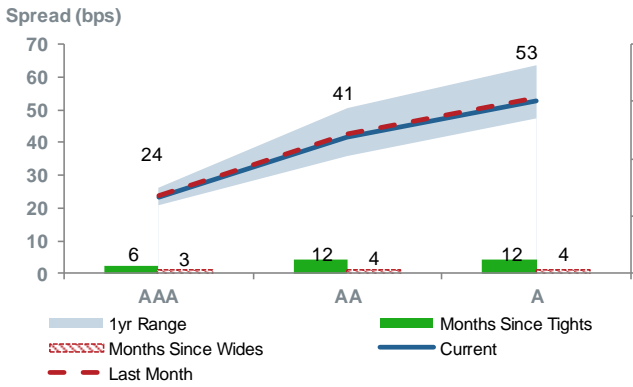
Figure 3: Global CDS sector ratings spread basis summary



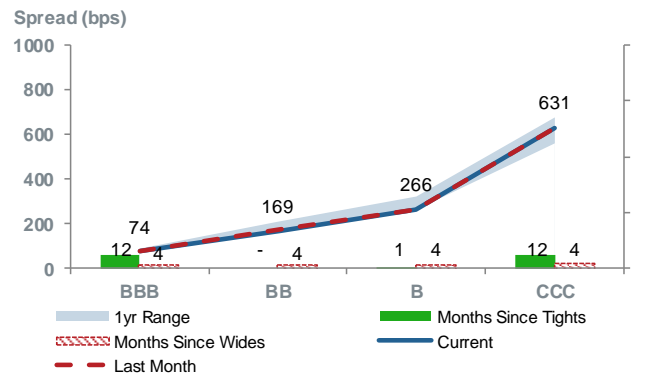
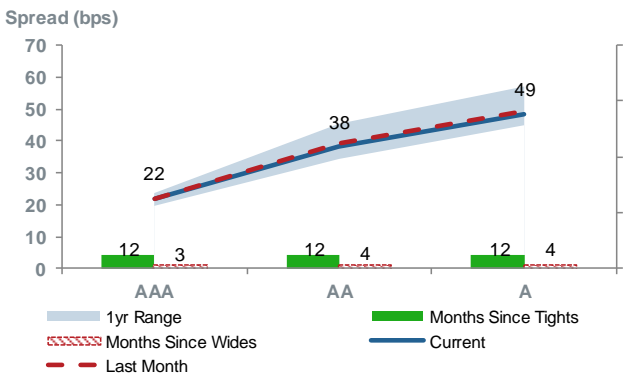
Source: Markit

Figure 4: May regional CDS sector spread summary

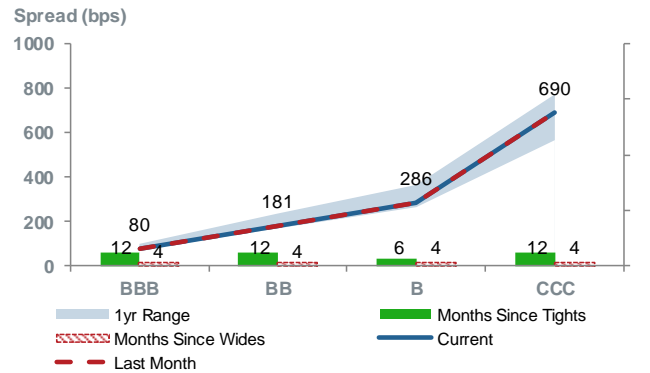
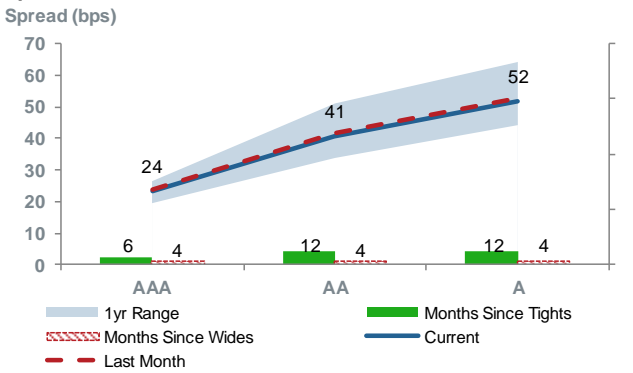
Global



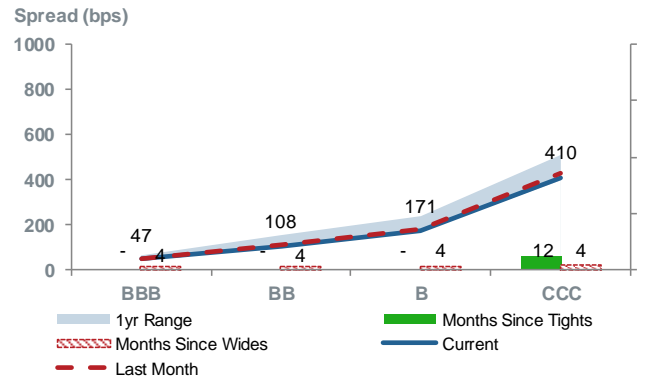
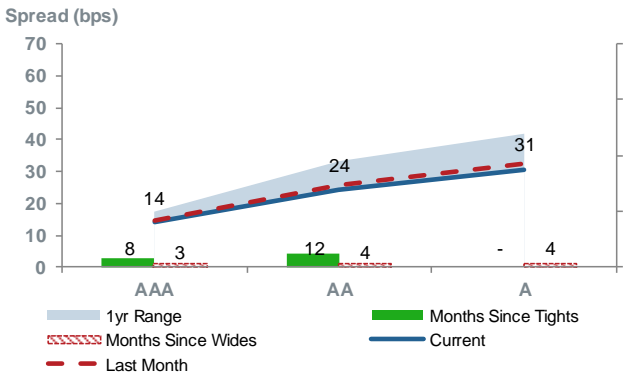
North America



Europe



Japan



Source: Markit

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

Best performers

	Ticker	Company	Sector	Country	Liq score	5/31 spread	Change	% change	One year tight	Date	One year wide	Date
Americas												
1	IHEAINC	iHeart Communications	Consumer Services	USA	2	3444	-1514	-30.5%	1662	6/4/15	6961	2/22/16
2	MBI-InsCorp	MBIA Ins Corp	Financials	USA	1	1319	-481	-26.7%	1317	5/30/16	4315	1/18/16
3	TW-Cab	Time Warner Cable Inc	Consumer Services	USA	1	59	-20	-25.7%	59	5/31/16	153	6/30/15
4	CMCSA	Comcast Corp	Consumer Services	USA	1	40	-11	-21.3%	28	12/9/15	53	10/2/15
5	AVT	Avnet Inc	Consumer Goods	USA	2	74	-17	-18.5%	56	12/30/15	96	7/8/15
EMEA												
1	EDP	EDP Energias de Portugal SA	Utilities	PRT	2	144	-38	-21.0%	102	7/20/15	355	2/24/16
2	AVLN	Aviva plc	Financials	GBR	1	72	-16	-18.2%	56	12/2/15	129	2/9/16
3	VW	Volkswagen AG	Consumer Goods	DEU	2	114	-23	-17.0%	58	6/23/15	297	9/29/15
4	ELTLX	AB Electrolux	Consumer Goods	SWE	2	51	-10	-16.0%	51	7/17/15	93	2/11/16
5	UPMKYM	UPM Kymmene CORP	Basic Materials	FIN	2	86	-16	-15.9%	86	5/31/16	211	2/11/16
APAC												
1	SUMIRD	Sumitomo Rlty & Dev Co Ltd	Financials	JPN	2	43	-9	-17.8%	43	5/31/16	73	9/30/15
2	HNDA	Honda Mtr Co Ltd	Consumer Goods	JPN	2	43	-8	-15.5%	22	8/5/15	71	4/11/16
3	MITSCO	Mitsui & Co Ltd	Energy	JPN	2	51	-9	-15.2%	38	6/12/15	102	1/22/16
4	CBA	Comwlth Bk Aust	Financials	AUS	2	89	-14	-13.7%	61	6/1/15	140	2/25/16
5	KAJIMA	Kajima Corp	Industrials	JPN	2	38	-6	-13.7%	38	5/31/16	59	10/2/15

Source: Markit

² 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: May liquid 5yr corporate CDS worst spread performance²

Worst performers

	Ticker	Company	Sector	Country	Liq score	5/31 spread	Change	% change	One year tight	Date	One year wide	Date
Americas												
1	WFT	Weatherford Intl Ltd	Energy	BMU	1	940	+334	+55.1%	251	6/11/15	1460	1/20/16
2	TGT	Target Corp	Consumer Services	USA	1	42	+15	+53.5%	21	10/12/15	44	5/23/16
3	X	Utd Sts Stl Corp	Basic Materials	USA	2	974	+247	+33.9%	470	6/19/15	2755	1/27/16
4	GPS	GAP INC	Consumer Services	USA	1	390	+97	+33.0%	84	8/4/15	431	5/18/16
5	NEM	Newmont Mng Corp	Basic Materials	USA	2	141	+33	+30.8%	103	5/3/16	286	11/27/15
EMEA												
1	BYIF	Bayer AG	Healthcare	DEU	2	61	+22	+54.9%	31	6/1/15	67	5/23/16
2	ASTL	ASTALDI S per Azioni	Industrials	ITA	1	1225	+382	+45.3%	416	7/31/15	1283	5/23/16
3	BASFSE	BASF SE	Basic Materials	DEU	2	48	+8	+20.9%	33	6/1/15	71	2/11/16
4	EDF	Electricite de France	Utilities	FRA	2	92	+15	+18.8%	53	7/20/15	139	2/11/16
5	GLCORE	Glencore Intl AG	Basic Materials	CHE	2	447	+61	+15.9%	155	6/23/15	1128	1/20/16
APAC												
1	BHP	BHP Billiton Ltd	Basic Materials	AUS	1	172	+27	+18.6%	70	6/1/15	252	1/21/16
2	RIOLN-Ltd	Rio Tinto Ltd	Basic Materials	AUS	1	193	+27.6	+16.7%	97	6/1/15	279	2/10/16
3	KOBSTL	Kobe Stl Ltd	Basic Materials	JPN	2	133	+14	+12.1%	71	6/2/15	309	2/15/16
4	MARUB	Marubeni Corp	Energy	JPN	2	88	+6.6	+8.0%	61	6/11/15	196	1/21/16
5	NPG-NPI	Nippon Paper Inds CoLtd	Basic Materials	JPN	2	66	+4	+6.7%	56	4/22/16	146	1/21/16

Source: Markit

Global corporate bonds

After rallying in March and April, fixed income assets had a mixed May as positive sentiment faded as the month progressed. Stronger crude oil prices, ongoing “Brexit” fears and fluctuating Fed rhetoric were all key drivers of risk during the month.

Corporate bond performance still positive in May, but more subdued than prior months

Developed nation corporate bonds had a more subdued month in comparison to the gains made over the past two months. The [Markit iBoxx USD Liquid High Yield Index](#) continued to eke out gains, returning 0.54% in April (**Table 6**). The index has now returned 7.39% YTD, having been down more than 5% in mid-February. Elsewhere among HY bonds the [Markit iBoxx GBP Liquid High Yield Index](#) returned 0.86% while the [Markit iBoxx EUR Liquid High Yield Index](#) returns were almost flat on the month. Global investment grade (IG) corporate bonds were mixed, with [Markit iBoxx \\$ Liquid Investment Grade Index](#) returning -0.14% in May. Despite the quiet month, USD and GBP denominated corporate bonds have returned almost 5% this year.

Financial related sectors reported the only positive returns for dollar denominated indices in May

Among dollar denominated IG bonds, only the financial sector saw positive returns as expectations rose of an imminent interest rate hike. The [Markit iBoxx \\$ Banks Index](#) reported a return of 0.18%, while the [Markit iBoxx \\$ Insurance Index](#) gained 0.37% in May. Despite a positive month, the financial related sectors remain among the worst performers this year. The [Markit iBoxx \\$ Basic Materials Index](#) is the best performer this year, returning 8.46%. The best performing bond globally was the Alta Mesa Holdings 9.625% 10/2018 from the energy sector, increasing 64.4% from April to end the month at a 71.50 price (**Table 7**).

European corporates fared better in May than their US counterparts, although not one sector was able to post a gain of more than 1%. The [Markit iBoxx € Contingent Convertible Index](#) also saw returns recover after a disappointing start to 2016, but still remains 2.08% in the red.

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

	Total Return						Yield						Duration		
	Month			YTD			Current			Month			\$	€	£
	\$	€	£	\$	€	£	\$	€	£	\$	€	£			
Corporates	-0.14%	+0.27%	+1.15%	+4.97%	+3.07%	+4.86%	3.77%	1.31%	3.52%	+0.06%	-0.03%	-0.11%	6.7	5.2	8.1
Corporates AAA	+0.11%	+0.68%	+2.51%	+5.30%	+4.19%	+9.10%	3.24%	0.87%	2.44%	+0.08%	-0.08%	-0.16%	9.5	7.1	14.6
Corporates AA	-0.10%	+0.42%	+1.38%	+4.05%	+3.20%	+5.58%	3.07%	0.78%	2.81%	+0.05%	-0.06%	-0.13%	6.3	5.5	8.7
Corporates A	-0.14%	+0.30%	+1.33%	+4.21%	+2.75%	+4.90%	3.41%	1.05%	3.39%	+0.05%	-0.04%	-0.15%	6.4	5.3	8.7
Corporates BBB	-0.17%	+0.20%	+0.93%	+6.07%	+3.33%	+4.59%	4.35%	1.73%	3.90%	+0.08%	-0.02%	-0.06%	6.9	5.0	7.3
Banks	+0.18%	+0.46%	+1.39%	+2.90%	+1.93%	+3.09%	3.40%	1.12%	3.52%	+0.02%	-0.06%	-0.16%	4.9	4.4	6.4
Basic Materials	-0.77%	+0.15%	+0.58%	+8.46%	+7.14%	+10.93%	4.53%	1.42%	4.10%	+0.15%	-0.02%	-0.01%	7.0	5.4	7.5
Consumer Goods	-0.32%	+0.17%	+0.65%	+5.04%	+3.40%	+4.40%	3.41%	1.19%	2.76%	+0.08%	-0.01%	-0.08%	6.3	5.6	5.6
Consumer Services	-0.45%	+0.34%	+1.40%	+6.48%	+3.89%	+6.23%	3.88%	1.26%	3.25%	+0.08%	-0.05%	-0.12%	8.4	5.9	9.6
Financials	+0.20%	+0.36%	+1.38%	+3.23%	+2.21%	+3.34%	3.48%	1.40%	3.68%	+0.01%	-0.05%	-0.16%	5.3	4.7	6.9
Health Care	-0.61%	-0.20%	+1.72%	+4.92%	+2.78%	+8.09%	3.53%	1.14%	3.20%	+0.11%	+0.03%	-0.12%	7.7	5.7	12.3
Industrials	-0.12%	+0.37%	+1.20%	+5.40%	+3.27%	+6.08%	3.52%	0.95%	3.14%	+0.06%	-0.03%	-0.11%	7.4	5.1	8.7
Insurance	+0.37%	-0.35%	+1.43%	+4.07%	+2.51%	+2.21%	4.01%	2.91%	4.74%	-0.05%	+0.05%	-0.16%	7.6	6.2	6.8
Non-Financials	-0.34%	+0.20%	+1.01%	+5.96%	+3.72%	+5.87%	3.90%	1.26%	3.43%	+0.09%	-0.02%	-0.09%	7.5	5.6	8.9
Oil & Gas	-0.23%	+0.28%	+0.99%	+6.80%	+4.71%	+3.27%	4.64%	1.57%	3.14%	+0.08%	-0.03%	-0.11%	7.1	5.7	6.5
Technology	-0.11%	+0.51%	N/A	+4.92%	+4.21%	N/A	3.44%	0.91%	N/A	+0.09%	-0.06%	N/A	6.9	6.9	N/A
Telecommunications	-0.49%	+0.42%	+0.86%	+6.99%	+3.74%	+6.95%	4.20%	1.38%	3.62%	+0.10%	-0.06%	-0.05%	8.6	6.0	9.0
Utilities	-0.07%	+0.01%	+0.96%	+6.40%	+3.13%	+5.50%	4.02%	1.34%	3.66%	+0.05%	+0.02%	-0.08%	8.5	5.3	9.6
High Yield Liquid High Yield	+0.54%	+0.02%	+0.86%	+7.39%	+3.64%	+3.78%	6.98%	4.48%	5.80%	+0.00%	+0.02%	-0.14%	4.0	3.5	3.5
Convertible CVBX	+0.33%	+1.48%	+1.29%	-1.63%	-2.08%	+2.76%	0.22%	7.14%	7.62%	+0.22%	-0.21%	-0.13%	5.2	4.0	5.6
Contingent Convertible	+1.15%	+1.48%	+1.29%	+0.99%	-2.08%	+2.76%	7.56%	7.14%	7.62%	-0.12%	-0.21%	-0.13%	4.5	4.0	5.6

Source: Markit

Table 7: May global corporate bond best price performance

Best performers

Ticker	Issue	Sector	Country	CCY	Liq score	5/31 price	Change	% change	One year low	Date	One year high	Date	
Americas													
1	ALTAMES	Alta Mesa Holdings, Lp 9.625 10/2018	Energy	USA	USD	2	71.50	+28.00	+64.4%	15.00	2/19/16	81.38	6/4/15
2	HALCRES	Halcon Resources Corporation 13 2/2022	Energy	USA	USD	1	54.00	+21.00	+63.6%	10.00	2/17/16	74.00	9/25/15
3	AV	Avaya Inc. 10.5 3/2021	Technology	USA	USD	1	28.28	+8.22	+41.0%	20.06	4/29/16	85.62	6/1/15
4	IHEAINC	Iheartcommunications, Inc. 10 1/2018	Consumer Services	USA	USD	1	54.75	+15.50	+39.5%	27.25	2/24/16	87.50	6/5/15
5	APS	Neptune Orient Lines Limited 4.4 6/2021	Industrials	USA	SGD	3	79.00	+22.00	+38.6%	50.00	3/23/16	101.00	7/21/15
EMEA													
1	BPESP	Banco Popular Espanol, S.A. 8.25 10/2021	Financials	ESP	EUR	3	101.50	+18.59	+22.4%	68.50	2/12/16	102.50	7/20/15
2	CONSMIN	Consolidated Minerals Limited 8 5/2020	Basic Materials	JEY	USD	2	39.17	+7.17	+22.4%	28.85	4/20/16	80.50	6/11/15
3	BACR-Bank	Barclays Bank Plc 3/2038	Financials	GBR	GBP	3	66.61	+10.61	+18.9%	52.00	10/5/15	66.61	5/31/16
4	WASTITA	Waste Italia S.P.A. 10.5 11/2019	Industrials	ITA	EUR	3	28.67	+4.36	+17.9%	22.25	2/11/16	91.50	6/2/15
5	PUBLIPO	Public Power Corporation Finance Plc 5.5 5/2019	Utilities	GRC	EUR	2	85.60	+11.74	+15.9%	54.00	7/9/15	89.05	11/12/15
APAC													
1	HKELFI	Hongkong Electric Finance Limited 2.58 4/2031	Utilities	HKG	HKD	4	96.00	+13.11	+15.8%	81.37	4/28/16	96.58	5/13/16
2	NAMCHE	Nam Cheong Limited 5.05 8/2019	Industrials	MYS	SGD	3	80.00	+10.50	+15.1%	67.50	5/24/16	97.45	3/23/16
3	TMSK-TF	Temasek Financial (I) Limited 4.2 8/2050	Financials	SGP	SGD	4	114.21	+13.27	+13.1%	100.85	5/3/16	118.41	3/31/16
4	CHICIT	China City Construction (International) Co., Limited 5.35 7/2017	Industrials	CHN	CNY	2	98.63	+10.13	+11.4%	84.52	5/6/16	100.50	6/10/15
5	SEAGHDD	Seagate Hdd Cayman 5.75 12/2034	Technology	SGP	USD	1	71.25	+6.50	+10.0%	59.75	2/24/16	72.00	3/29/16

Source: Markit

Table 8: May global corporate bond worst price performance

Worst performers

Ticker	Issue	Sector	Country	CCY	Liq score	5/31 price	Change	% change	One year low	Date	One year high	Date
Americas												
1 OFFSDRI	Offshore Drilling Holding S.A. 8.375 9/2020	Energy	MEX	USD	1	34.00	-10.70	-23.9%	29.00	5/19/16	90.25	6/4/15
2 OISA	Oi S.A. 5.75 2/2022	Telecommunications Services	BRA	USD	1	19.70	-5.77	-22.7%	17.58	3/2/16	90.50	6/4/15
3 CSNRES	Csn Resources S.A. 6.5 7/2020	Basic Materials	BRA	USD	1	51.12	-14.88	-22.5%	35.75	3/3/16	88.20	6/1/15
4 OIBRA	Oi Brasil Holdings Cooperatief U.A. 5.625 6/2021	Telecommunications Services	BRA	EUR	2	17.12	-4.33	-20.2%	15.94	5/17/16	74.00	11/10/15
5 CLST	Claire's Stores, Inc. 8.875 3/2019	Consumer Services	USA	USD	1	21.90	-4.91	-18.3%	14.00	2/11/16	49.00	6/1/15
EMEA												
1 PLTMPL-IntFin	Portugal Telecom International Finance B.V. 5.242 11/2017	Telecommunications Services	PRT	EUR	1	21.17	-9.70	-31.4%	20.25	5/26/16	105.86	6/12/15
2 AREVAG	Areva 4.875 9/2024	Utilities	FRA	EUR	1	72.60	-13.27	-15.5%	72.31	5/10/16	111.57	6/5/15
3 INTSAT-Lux	Intelsat (Luxembourg) S.A. 7.75 6/2021	Telecommunications Services	LUX	USD	1	29.75	-3.75	-11.2%	22.50	2/24/16	91.00	6/2/15
4 TAKKLUX	Takko Luxembourg 2 S.C.A. 9.875 4/2019	Consumer Services	DEU	EUR	4	55.00	-6.83	-11.1%	44.50	7/10/15	66.45	11/13/15
5 GALAPHO	Galapagos Holding S.A. 7 6/2022	Industrials	DEU	EUR	2	82.39	-10.20	-11.0%	77.25	2/15/16	97.00	6/1/15
APAC												
1 ROLTAME	Rolta Americas Llc 8.875 7/2019	Technology	IND	USD	1	19.25	-20.81	-52.0%	19.25	5/31/16	86.75	6/3/15
2 KRISLTD	Krisenergy Ltd. 5.75 8/2018	Energy	THA	SGD	3	80.92	-11.08	-12.0%	75.00	5/5/16	99.10	8/13/15
3 SWIBCAP	Swiber Capital Pte. Ltd. 6.5 8/2018	Energy	SGP	SGD	3	40.00	-5.00	-11.1%	40.00	5/31/16	99.95	4/28/16
4 TRONFIN	Tronox Finance Llc 6.375 8/2020	Basic Materials	AUS	USD	1	77.08	-7.42	-8.8%	56.00	1/20/16	96.25	6/2/15
5 IVLSIN	Ivi Singapore Pte. Ltd. 3.73 10/2025	Basic Materials	THA	SGD	4	101.00	-7.86	-7.2%	99.19	11/26/15	111.02	4/7/16

Source: Markit

Sovereigns

Sovereign bonds returned to form in May after slipping in April on a total return basis. Every single major developed market saw their bonds deliver positive total returns according to the [Markit iBoxx](#) suite of sovereign bond indices.

UK CDS and bonds feel the impact of the upcoming Brexit vote

UK bonds continued to prove volatile over the month in both the cash bond and CDS markets as the country prepares to host a referendum on its membership with the European Union, the result of which has been the source of much market uncertainty.

While the CDS spread tightened over May (**Table 9**), the country's spread at the end of the month still stood at over twice the yearly tightness seen in September of last year which underscores the level of market angst leading up to the referendum.

Eurozone sovereign bonds also proved relatively resilient over the month with long dated French, Belgium, and Austrian listings all featured among the five best performing bond issues (**Table 11**). The longest dated of the three, a French note maturing in 2066, now yields a paltry 2.02%.

Qatar CDS come under pressure

On the other side of the performance divide (**Table 10**), Qatar saw its CDS spread widen by a fifth over the month as it tapped the credit market in order to plug a hole in its finances left by the collapse in oil prices. This widening means that the Qatari CDS spread is back over the 100bps mark. Turkey follows Qatar among the worst performing sovereign issuers, as its CDS spread widened by over 12% during the month as the country's political uncertainty continued.

Brazil bonds hit by economic reality

Brazilian bonds, which had enjoyed a strong run in recent months, also suffered a setback over the month as the most recent snapshot of the [Markit Brazil Manufacturing PMI](#) indicated that the thawing political impasse has not managed to snap the country's manufacturing sector back into expansion territory. Brazilian sovereign CDS spreads jumped by 26bps (8%) over the month in the weeks before the May release of the PMI indicated that the country's business conditions deteriorated to the worst level since February 2009. On the cash bond side, the 8.25% 2034 bond issued by the Brazilian Federal Government saw its price retreat by over 3% as investors demanded more yield in order to be compensated for the increased credit risk (**Table 12**).

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

			5/31 10yr bond yield	CDS change	5/31 CDS	% change	One year tight	Date	One year wide	Date
1	UKIN	United Kingdom	1.43%	-3.8	32.0	-10.6%	15.2	9/30/15	42.6	4/13/16
2	JAPAN	Japan	-0.12%	-2.4	33.6	-6.6%	33.3	5/30/16	56.1	2/12/16
3	FRTR	France	0.49%	-1.6	36.6	-4.3%	25.7	12/24/15	41.8	2/11/16
4	CAN	Canada	1.32%	-0.5	25.5	-1.9%	19.7	6/5/15	26.9	3/16/16
5	USGB	United States	1.86%	-0.1	18.9	-0.6%	14.3	9/18/15	24.5	5/23/16
6	ITALY	Italy	1.36%	+1.6	127.1	+1.3%	91.6	12/9/15	156.8	2/11/16
7	DBR	Germany	0.14%	+0.3	18.9	+1.5%	12.6	12/24/15	24.0	2/25/16

Source: Markit

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

			Liq Score	Change	5/31 spread	% change	One year tight	Date	One year wide	Date
Best Performers										
1	UKIN	United Kingdom	1	-4	32	-10.6%	15	9/30/15	43	4/13/16
2	KOREA	South Korea	1	-5	59	-7.5%	48	6/11/15	82	9/29/15
3	AUSTLA	Australia	1	-3	36	-6.7%	31	6/26/15	56	2/11/16
4	JAPAN	Japan	1	-2	34	-6.6%	33	5/30/16	56	2/12/16
5	AUST	Austria	1	-1	29	-4.9%	23	12/10/15	33	3/1/16
6	FRTR	France	2	-2	37	-4.3%	26	12/24/15	42	2/11/16
7	IRELND	Ireland	2	-3	63	-4.1%	38	12/16/15	71	2/25/16
8	THAI	Thailand	1	-5	120	-3.7%	98	7/17/15	172	9/29/15
9	CHINA	China	1	-4	123	-2.8%	87	6/3/15	148	2/11/16
10	MALAYS	Malaysia	1	-3	160	-1.7%	114	6/1/15	238	9/29/15
Worst Performers										
1	QATAR	Qatar	2	+20	113	+21.1%	57	7/22/15	140	2/3/16
2	TURKEY	Turkey	1	+29	266	+12.2%	206	7/13/15	323	9/29/15
3	CHILE	Chile	1	+11	109	+11.6%	78	6/18/15	153	9/29/15
4	SOAF	South Africa	1	+32	312	+11.5%	200	6/23/15	387	1/20/16
5	PANAMA	Panama	1	+13	172	+8.1%	132	7/14/15	225	2/11/16
6	BRAZIL	Brazil	1	+26	356	+8.0%	232	6/18/15	533	9/28/15
7	VENZ	Venezuela	1	+366	5710	+6.8%	4025	12/9/15	10686	2/15/16
8	SWED	Sweden	2	+1	23	+6.7%	13	12/30/15	23	5/26/16
9	COLOM	Colombia	1	+14	231	+6.5%	148	6/2/15	325	2/11/16
10	MEX	Mexico	1	+10	171	+6.1%	119	6/2/15	231	2/11/16

Source: Markit

Table 11: May sovereign bond best price performance

Best performers

Ticker	Issue	CCY	Liq score	5/31 price	Change	% change	5/31 yield	One year low	Date	One year high	Date	
Americas												
1	BLZE	Belize 5 2/2038	USD	2	56.95	+5.15	+9.9%	13.30%	46.50	4/7/16	76.00	6/24/15
2	ECUA	Republic Of Ecuador 10.5 3/2020	USD	2	99.48	+5.33	+5.7%	12.43%	68.44	1/20/16	105.50	6/1/15
3	BRAZIL	Federative Republic Of Brazil 6 8/2026	BRL	3	2890.16	+150.42	+5.5%		2689.03	3/18/16	2908.95	5/30/16
4	ARGENT	Argentine Republic 7.625 4/2046	USD	2	102.23	+4.09	+4.2%	7.79%	97.11	5/4/16	102.23	5/31/16
5	CAN	Canada 2.75 12/2064	CAD	1	125.73	+4.29	+3.5%	2.05%	108.36	6/10/15	130.93	2/10/16
EMEA												
1	GREECE	Hellenic Republic 3 2/2026	EUR	1	75.66	+6.98	+10.2%	8.42%	32.93	7/8/15	76.42	5/25/16
2	FRTR	French Republic 1.75 5/2066	EUR	1	97.85	+6.42	+7.0%	2.02%	91.36	4/27/16	102.85	4/20/16
3	BELG	Kingdom Of Belgium 1.6 6/2047	EUR	1	101.15	+5.89	+6.2%	1.80%	94.85	4/27/16	104.40	4/5/16
4	UKIN	United Kingdom Of Great Britain And Northern Ireland 3.5 7/2068	GBP	1	146.61	+7.41	+5.3%	2.23%	120.19	7/14/15	147.40	2/11/16
5	AUST	Republic Of Austria 1.5 2/2047	EUR	1	104.78	+5.29	+5.3%	1.52%	98.19	3/10/16	108.85	4/5/16
APAC												
1	PHILIP	Republic Of The Philippines 15 3/2022	PHP	5	161.78	+57.28	+54.8%	13.84%	103.62	4/20/16	166.27	6/1/15
2	CHINA	People'S Republic Of China 5.31 11/2063	CNY	5	137.48	+36.48	+36.1%	5.25%	101.00	5/4/16	147.44	4/5/16
3	AUSTLA	Commonwealth Of Australia 1.25 8/2040	AUD	4	109.16	+5.56	+5.4%		100.25	11/13/15	109.44	5/30/16
4	NZ	New Zealand 2.5 9/2035	NZD	4	109.81	+4.32	+4.1%		97.82	6/4/15	110.00	5/30/16
5	MONGAA	Mongolia 7.5 6/2018	CNY	2	89.50	+3.50	+4.1%	15.36%	80.50	2/17/16	99.00	7/17/15

Source: Markit

Table 12: May sovereign bond worst price performance

Worst performers

Ticker	Issue	CCY	Liq score	5/31 price	Change	% change	5/31 yield	One year low	Date	One year high	Date	
Americas												
1	VENZ	Bolivarian Republic Of Venezuela 13.625 8/2018	USD	2	65.01	-3.88	-5.6%	34.24%	49.16	1/27/16	74.31	6/1/15
2	MEX	United Mexican States 7.75 11/2042	MXN	3	110.39	-4.88	-4.2%	6.53%	107.37	12/11/15	115.83	4/19/16
3	ELSALV	Republic Of El Salvador 7.625 2/2041	USD	2	84.72	-3.13	-3.6%	8.84%	74.50	2/10/16	102.10	6/2/15
4	COLOM	Republic Of Colombia 5.625 2/2044	USD	2	98.95	-3.40	-3.3%	5.46%	82.00	1/20/16	107.40	6/1/15
5	BRAZIL	Federative Republic Of Brazil 8.25 1/2034	USD	2	111.25	-3.64	-3.2%	6.79%	94.19	12/21/15	128.95	6/1/15
EMEA												
1	REPUOFAF	Republic Of Mozambique 10.5 1/2023	USD	3	75.25	-6.58	-8.0%	14.83%	73.67	5/19/16	89.79	4/12/16
2	NGERIA	Federal Republic Of Nigeria 10 7/2030	NGN	4	77.19	-5.62	-6.8%	12.63%	70.87	10/7/15	93.34	11/26/15
3	TURKEY	Republic Of Turkey 8.8 9/2023	TRY	3	93.18	-5.42	-5.5%	9.06%	88.25	1/19/16	98.86	4/22/16
4	EGYPT	Arab Republic Of Egypt 5.875 6/2025	USD	1	85.76	-4.10	-4.6%	7.43%	82.75	1/27/16	100.38	6/5/15
5	QATAR	State Of Qatar 5.75 1/2042	USD	2	119.11	-5.58	-4.5%	4.17%	110.50	1/20/16	126.23	4/26/16
APAC												
1	INDON	Republic Of Indonesia 6.1 2/2037	IDR	5	72.91	-8.91	-10.9%	7.89%	65.75	9/30/15	82.83	4/19/16
2	CHINA	People's Republic Of China 3.74 10/2045	CNY	5	99.66	-5.09	-4.9%	3.48%	80.79	11/6/15	107.64	3/30/16
3	THAI	Kingdom Of Thailand 3.4 6/2036	THB	3	114.40	-4.31	-3.6%	2.24%	99.78	12/10/15	123.54	4/6/16
4	BHREIN	Kingdom Of Bahrain 6 9/2044	USD	2	77.73	-2.17	-2.7%	7.76%	70.00	1/18/16	96.75	6/1/15
5	SRILAN	Democratic Socialist Republic Of Sri Lanka 6.125 6/2025	USD	1	91.69	-2.26	-2.4%	7.04%	82.50	2/11/16	99.38	6/2/15

Source: Markit

Municipal bonds

Revenue bond issuance surged in May, with \$25.5 billion in new supply added to the market, making it the highest issuance month the past two years (**Figure 6**). General obligation bond issuance was slightly more tepid \$14.1 billion, bringing the sector's YTD issuance to \$73.6 billion or 5.3% lower than the same period last year.

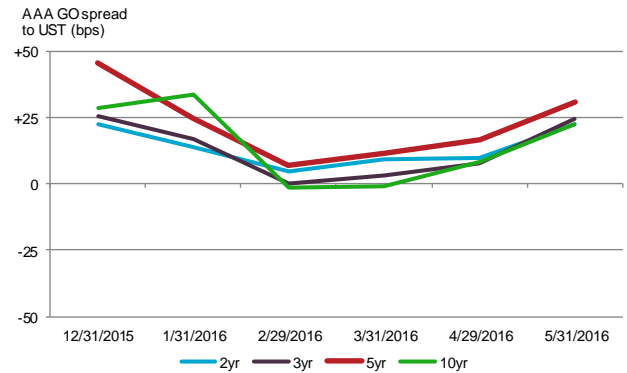
AAA GO spreads to equivalent maturity treasuries have been widening since hitting the tightest levels of 2016 in February (**Figure 5**). 5-year bond spreads were the widest on May 31st at Treasuries+31bps, while 2- and 5-year bonds are both Treasuries +22bps and 3-years are Treasuries +25bps.

House of Representatives passes its version of Puerto Rico debt bill

On June 9th, the US House of Representatives passed Puerto Rico Oversight, Management and Economic Stability Act, or PROMESA, which enables Puerto Rico to restructure its debt similar to a state. The bill had bipartisan support and was passed by a wide margin of 297-to-127 votes. A key to the successful passage of the bill was that it does not include any explicit taxpayer bailout. The bill includes the creation of an oversight board to manage the territory's finances, as well as an exemption from federal minimum wage laws for certain workers.

The US Senate is expediting its review of the bill, with the hope of voting and passing the legislation ahead of the territory's \$2 billion payments due on July 1st. It's difficult to determine if the passage of the bill will have any impact on the decision to make those specific payments, but the ability to restructure the debt would give much more flexibility in how its manages future debt service.

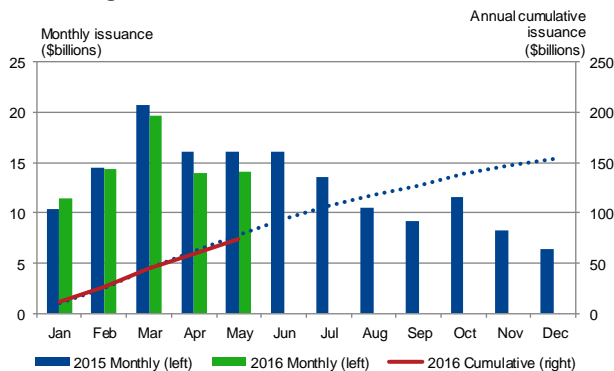
Figure 5: AAA GO month end spread to Treasuries



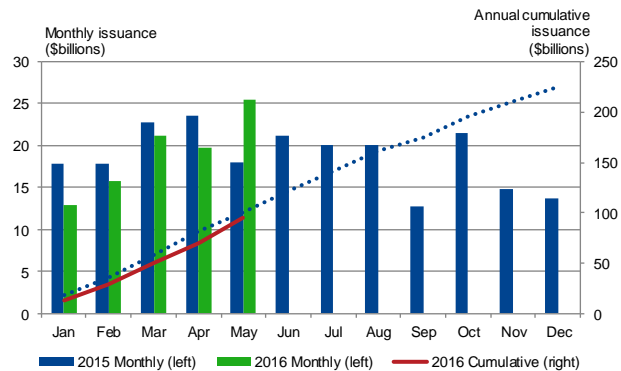
Source: Markit

Figure 6: Municipal bond issuance

General obligation



Revenue



Source: SIFMA

Table 13: May municipal revenue bond best price performance

Best performers

	Issuer	Issue	Liq score	5/31 price	Change	% change	One year low	Date	One year high	Date
1	Puerto Rico Sales Tax Fing Corp Sales Tax Rev	Sales Tax Revenue - 2007-B 6.05 8/2038	1	62.50	+3.27	+5.5%	52.25	12/28/15	68.00	6/4/15
2	Puerto Rico Comwlth Aqueduct & Swr Auth Rev	Revenue (Senior Lien) - 2008-A 6 7/2038	2	68.00	+3.01	+4.6%	63.50	5/11/16	75.13	7/16/15
3	Orange Cnty N Y Indl Dev Agy Life Care Cmnty Rev	Life Care Community Revenue - The Glen Arden, Inc. 1998 5.7 1/2028	2	90.24	+3.96	+4.6%	84.15	4/25/16	97.58	4/19/16
4	Hamilton Cnty Ohio Health Care Facs Rev	Healthcare Facilities Revenue - The Christ Hospital Project 2012 5 6/2042	2	114.91	+4.13	+3.7%	103.97	6/12/15	115.53	5/17/16
5	New York Liberty Dev Corp Liberty Rev	Revenue - 3 World Trade Center Project 2014 Class 1 5 11/2044	1	112.38	+3.93	+3.6%	98.86	9/3/15	112.95	5/19/16
6	Wisconsin St Health & Edl Facs Auth Rev	Revenue - Mercy Alliance Inc 2012 5 6/2039	2	111.64	+3.07	+2.8%	104.89	7/1/15	112.23	5/17/16
7	New Jersey St Transn Tr Fd Auth	Transportation System - 2011-B 5 6/2042	2	105.83	+2.90	+2.8%	98.24	8/26/15	106.30	5/17/16
8	University Kans Hosp Auth Health Facs Rev	Health Facilities Refunding And Improvemen - Ku Health System 20 5 9/2029	2	121.08	+3.31	+2.8%	111.51	7/1/15	121.57	5/23/16
9	South Carolina St Pub Svc Auth Rev	Revenue Obligations Tax-Exempt Refunding And Improvement - 2015- 5 12/2055	2	116.44	+2.62	+2.3%	106.86	7/15/15	117.28	5/17/16
10	New York St Dorm Auth Revs Non St Supported Debt	Columbia University Revenue - 2016 A-2 5 10/2046	2	145.29	+2.63	+1.8%	141.38	4/26/16	146.09	5/24/16

Source: Markit

Table 14: May municipal revenue bond worst price performance

Worst performers

	Issuer	Issue	Liq score	5/31 price	Change	% change	One year low	Date	One year high	Date
1	Puerto Rico Pub Bldgs Auth Rev Gtd	Government Facilities Revenue - 2007-N 5 7/2032	2	51.73	-1.92	-3.6%	51.73	5/31/16	67.25	6/8/15
2	Ohio St Air Quality Dev Auth Rev	Air Quality Developm - Firstenergy Generation Corp. Project 2009 5.7 8/2020	2	109.64	-3.08	-2.7%	108.98	12/15/15	112.94	5/6/16
3	Virgin Islands Wtr & Pwr Auth Elec Sys Rev	Electric System Subordinated Revenue - 2007-A 5 7/2031	2	98.23	-2.64	-2.6%	98.23	5/31/16	101.98	4/5/16
4	Louisiana Pub Facs Auth Rev	Revenue - Loyola University Project 2011 5.25 10/2033	2	112.74	-2.54	-2.2%	109.16	6/10/15	115.56	5/6/16
5	Otsego Cnty N Y Cap Resource Corp Rev	Tax-Exempt Revenue - Hartwick College Project 2015-A 5 10/2045	1	108.20	-2.38	-2.2%	104.69	7/1/15	111.15	5/10/16
6	Iowa Fin Auth Midwestern Disaster Area Rev	Midwestern Disaster Area Re - Iowa Fertilizer Company Project 20 5 12/2019	2	103.10	-2.24	-2.1%	102.41	4/5/16	107.47	6/1/15
7	Massachusetts St Sch Bldg Auth Dedicated Sales Tax Rev	Senior Dedicated Sales Tax Refunding - 2012-A 5 8/2021	2	119.37	-2.52	-2.1%	117.28	6/10/15	123.33	3/1/16
8	Pennsylvania St Higher Edl Facs Auth Rev	University Of Pennsylvania Health System Revenue - 2011 5.25 8/2025	2	118.19	-2.44	-2.0%	116.27	7/1/15	121.62	5/5/16
9	California St Pub Wks Brd Lease Rev	Lease Revenue (Trustees Of - J Paul Leonard & Sutro Library 2009 6 11/2034	2	115.89	-2.07	-1.8%	115.89	5/31/16	118.51	7/8/15
10	Arizona Health Facs Auth Rev	Revenue - Scottsdale Lincoln Hospitals Project 2014-A 5 12/2042	2	114.47	-1.95	-1.7%	106.76	7/13/15	117.18	5/17/16

Source: Markit

Securitised products

Securitized product spreads rallied across the sector to varying degrees in May. US consumer ABS was one of the best performing assets, on the heels of an influx in new issuance that was met with very strong demand. However, student loans continue to lag behind the broader consumer ABS sector as uncertainty over FFELP loan extensions continues to weigh heavily on that market.

The CLO rally that started in March was short lived as supply and uncertainty around regulation pushed spreads wider in May. AAA 1.0 US CLOs AAA hit new one year wides of L+170bps in early May, but ended the month almost unchanged at L+148bps. 1.0 European CLOs were the best performer in that sector, tightening 11bps on the month (Figure 8). On the credit side, US 2.0 BBBs CLOs spreads retreated for the first time since March, widening 16bps to end the month at L+555bps.

The CMBS credit curve flattened slightly during the month, with AAA +2bps, AAs +5bps, and As 7bps wider and BBB and BBB- tranches both 3bps tighter (Figure 9). The entire capital structure still remains far from the tightest levels over the past 12 months, but there is some optimism for the sector, as the primary market had its busiest week of the year during the week of May 16th.

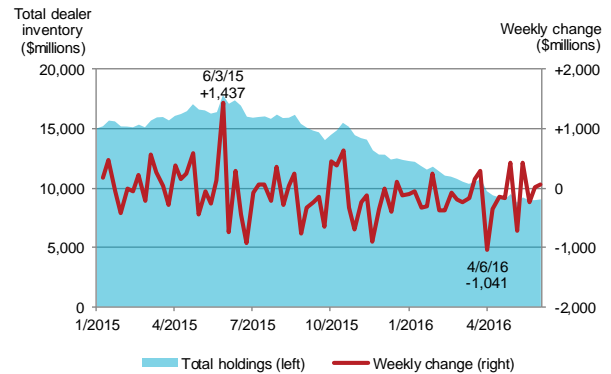
Ginnie Mae 4.0 pools best performers in May

Fannie Mae and Freddie Mac specified pool pay-ups were mixed in May, with declines in most pay-ups being modest and increases being more than an eighth of a point for several story types (Table 15). The Ginnie Mae 4.0 coupon cohort was among the best performers during the month, with pay-ups for 85K and 110K loan size stories increasing 15 and 19 ticks, respectively.

Non-agency remains strong

Non-agency spreads rallied alongside the broader credit markets, with floating-rate Alt-A paper being the top performer on the month. The broader sector trailed CMBS and CLOs, despite relatively steady growth in home prices over the past year. Dealer inventory continues to decline relatively rapidly, with the average weekly change of -\$144 million this year versus only -\$52 million per week in 2015 (Figure 7). April 6th reported the largest weekly decline of -\$1.041 billion or -9.7% from the prior week.

Figure 7: Non-agency MBS dealer inventory continues to decline



Source: NY Federal Reserve

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

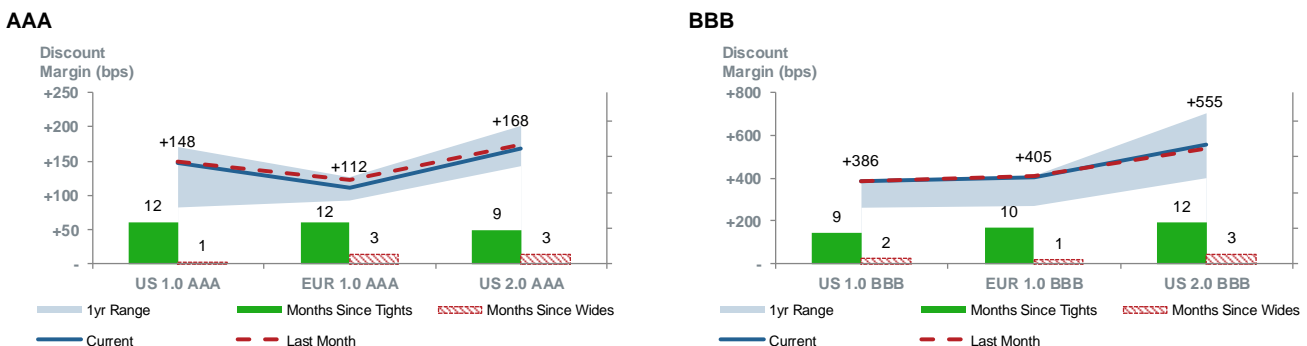


Table 15: May 2016 agency specified pools pay-ups in ticks (1/32 points)

FNM/FHL 30Y Specified Pools Pay-ups					
Coupon	3	3.5	4	4.5	5
LLB (85K)	0-17	1-07	2-02	2-11	2-32
MLB (110K)	0-15	1-04	1-25	2-05	2-21
HLB (150K)	0-10	0-27	1-10	1-15	1-06
New Prod	0-00	0-06	0-08	0-18	0-18
Low FICO	0-03	0-09	0-14	0-12	0-28
Investor	0-09	0-08	0-09	0-14	0-17
MHA <90	0-05	0-06	0-08	0-15	0-21
MHA <95	0-14	0-07	0-11	0-18	0-24
MHA <100	0-08	0-10	0-15	0-25	0-20
MHA <105	0-20	0-16	0-21	0-28	0-24
<125 LTV	0-04	0-19	0-31	1-20	2-02
125+ LTV	0-26	0-14	1-04	1-30	2-09

Source: Markit

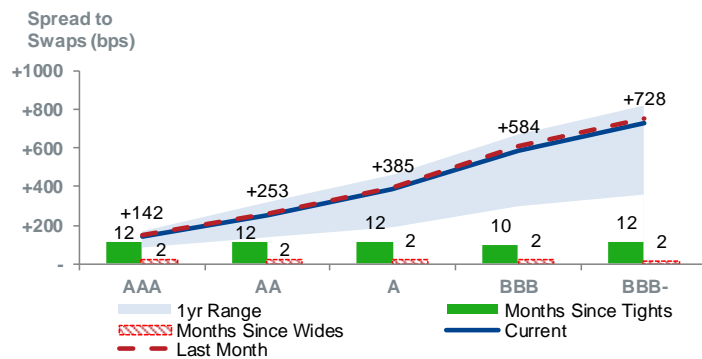
MoM Change				
3	3.5	4	4.5	5
-0-02	-0-01	0-00	-0-04	0-00
-0-01	+0-02	+0-02	-0-01	+0-01
-0-01	+0-02	+0-02	0-00	0-00
-0-02	+0-05	+0-02	+0-05	0-00
-0-01	+0-01	-0-01	-0-01	+0-03
0-00	+0-02	+0-01	-0-01	+0-01
+0-01	+0-01	-0-01	+0-02	-0-02
+0-06	0-00	-0-01	-0-01	+0-03
+0-01	+0-01	-0-01	+0-04	+0-01
-0-01	+0-02	-0-01	-0-01	0-00
+0-02	+0-06	+0-02	+0-08	0-00
0-00	0-00	+0-01	-0-07	0-00

GNMA 30Y Specified Pools Pay-ups					
Coupon	3	3.5	4	4.5	5
LLB (85K)	0-16	1-05	2-27	2-08	1-31
MLB ₁ (110K)	0-11	0-23	2-15	2-17	3-08
MLB ₂ (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: Markit

MoM Change				
3	3.5	4	4.5	5
-0-02	+0-02	+0-19	0-00	0-00
+0-03	0-00	+0-15	+0-03	+0-05
-0-05	+0-01	+0-06	+0-09	0-00
-0-01	+0-01	+0-10	+0-03	+0-02
+0-01	+0-01	-0-03	-0-03	0-00
-0-07	+0-02	+0-04	+0-05	+0-04
-0-08	+0-08	+0-10	-0-02	0-00

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	+45	-12	+25	7/21/15	+58	3/11/16
4-5yr AAA US Swaps	+50	-16	+38	6/15/15	+71	4/18/16
US Credit Card - Floating-Rate						
2-3yr AAA US LIBOR DM	+39	-1	+25	7/16/15	+40	3/16/16
4-5yr AAA US LIBOR DM	+82	+2	+40	7/20/15	+96	5/16/16
US Prime Auto - Fixed-Rate						
0-2yr AAA EDSF	+41	-3	+21	6/5/15	+45	3/29/16
2+yr AAA US Swaps	+54	-6	+28	6/5/15	+60	3/29/16
European Prime Auto Loan - Floating-Rate						
AAA EUR LIBOR DM	+43	-4	+26	6/3/15	+54	2/5/16
US Subprime Auto - Fixed-Rate						
1-2-yr AAA EDSF	+81	-	+45	7/21/15	+84	5/12/16
2+yr AAA US Swaps	+85	-9	+48	6/15/15	+97	11/5/15
US Equipment - Fixed-Rate						
2+yr AAA US Swaps	+74	-5	+43	6/17/15	+83	3/30/16
European Equipment - Floating-Rate						
A EUR LIBOR DM	+114	-18	+114	5/30/16	+182	6/30/15
US FFELP Student Loans - Floating-Rate						
2-4yr AAA 3mo US LIBOR DM	+130	-9	+48	6/1/15	+151	3/25/16
10+yr AAA 3mo US LIBOR DM	+180	-3	+97	6/17/15	+191	3/21/16

Source: Markit

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