

# Global fixed income monthly focus – February 2017

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

February showed the same picture as in January, as markets remain positive for now. During February, the bond markets continued to absorb a wide range of deals from emerging market borrowers, several of which had struggled to issue in the second half of 2016. Investors also continued to buy long-duration debt in Euros, and have shown strong appetite for bank contingent capital. Significant political concerns regarding the outcome of EU elections during 2017 continued to hover over the markets, with potential challenges to Eurozone and even EU stability, and the French election seeming particularly sensitive. There are risks to US rates rising sharply from more expansionary fiscal policy and increased infrastructure spending, with adverse implications for higher risk asset classes.

Rapid Eurozone bank acquisition of government debt: in January the annual growth rate of Eurozone bank loans to general government was 10.5%, down from 11.7% in December, but four times the growth rate for credit to the household or corporate sectors in the same time period. Given negative ECB deposit rates, banks appear to be taking increased duration and asset valuation risks by buying longer-dated government assets to improve returns while retaining high perceived credit quality (especially when a bank buys government debt in its home country). However, when interest rates do rise in the Eurozone, this would increase the risk of an adverse loop amplifying the dampening effects of tighter monetary policy: banks would face potential valuation losses which could impact their profitability and capital positions.

**Figure 1** shows the impact of changes in 2- and 10-yr US treasury yields on the [Markit iBoxx \\$ Treasuries Index](#) from January 1999 to February 2017. This month's returns were a modest 0.5% given only a slight change in US rates, with July 2003 reporting the worst monthly return of -4.2% and November 2008 the best at 5.5%.

- [Markit iBoxx USD Gold Mining Index](#) returned 3.04% in February, bringing its YTD performance to 6.58%
- Leveraged loan energy sector spreads widened for across all rating categories in February, with the exception of B- and CCC+ after Crude oil prices came under pressure partially due to burgeoning US inventories
- Securitized products spreads were slightly tighter to unchanged in February, with relatively low issuance continuing to support spreads. The credit curve continued to flatten and spreads between tier one and tier two issuers compressed during the month

**Figure 1: January 1999 – February 2017 monthly Markit iBoxx \$ Treasuries Index performance versus 2- and 10-year US treasury spread change (bps)**



Source: IHS Markit

## Indices

Markets flourished in February following Fed Chair Janet Yellen's hawkish comments that it would be "unwise" to hold off on raising rates. Given the positive US economic data in the form of healthy growth in retail sales and an uptick in core CPI, the market signalled its readiness to absorb the modest 25bps hike that became a reality at the March meeting. The S&P 500 Index provided a total return of 3.97% in February, while the [Markit iBoxx \\$ Liquid High Yield Index](#) and [Markit iBoxx \\$ Overall Index](#) returned 1.50% and 1.11% respectively. The overall USD debt market, as measured by the [Markit iBoxx \\$ Overall Index](#), returned 0.73%.

Treasury yields rose in the days just before Yellen addressed congress, only to steadily retrace lower afterwards. US treasuries actually declined during the month, leading to a February [Markit iBoxx \\$ Treasuries Index](#) return of 0.53%.

### Gold continues to shine

Political uncertainty and inflationary concerns continued to drive demand for gold, which reverberated throughout the fixed income markets. [Markit iBoxx USD Gold Mining Index](#) returned 3.04% in February (**Table 1**), bringing its YTD performance to 6.58%. The performance of gold mining debt tracked the price movements of gold to some degree, with the metal's price increasing 3.56% in February and is 8.69% YTD as of the end of February.

Looking at the path of gold prices since Brexit, returns in the [Markit iBoxx USD Gold Mining Index](#) started following the movements in gold prices in Q3 2016, however managed to outperform gold considerably. From June 30, 2016, through the end of February 2017, the gold mining Index returned 7.18% while gold actually lost 5.84%. For the index, income returned 3.06% while price movements added another 4.12%. Barrick Gold continued to lead the charge within the index with an issuer return of 4.34% in February, bringing Barrick's YTD return to 9.48%.

**Table 1: Markit iBoxx USD Gold Mining Index February 2017 returns**

Ticker	Issuer	% weight (12/31)	Return Contribution	Issuer Return
ABXCN	Barrick Gold	38.79%	1.68%	4.34%
NEM	Newmont Mining	29.71%	0.83%	2.80%
NCMAU	Newcrest Mining	13.93%	0.33%	2.38%
YRICN	Yamana Gold	3.38%	0.06%	1.90%
GCN	Goldcorp	14.18%	0.13%	0.89%
<b>Total</b>		<b>100.00%</b>	<b>3.04%</b>	<b>3.04%</b>

Source: IHS Markit

### Intelsat lifts CCC-rated debt

Returns for the [Markit iBoxx USD Liquid High Yield CCC Index](#) more than doubled the B-rated and tripled the BB-rated indices in February. The CCC-rated index returned 3.45% in February, versus 1.64% and 0.97% earned by the B and BB-rated buckets (**Table 2**). The Telecommunications sector provided the best performance in the CCC-rated Index by far with an 8.61% return.

**Table 2: Markit iBoxx USD Liquid High Yield CCC Index February returns by sector**

iBoxx Sector Level 5	% weight (1/31)	Return Contribution	Sector Return
Telecommunications	6.99%	0.60%	8.61%
Technology	9.47%	0.55%	5.83%
Consumer Services	11.52%	0.49%	4.28%
Industrials	8.03%	0.32%	3.94%
Health Care	31.88%	1.23%	3.85%
Basic Materials	7.45%	0.20%	2.64%
Financials	1.78%	0.04%	2.06%
Consumer Goods	7.29%	0.09%	1.20%
Utilities	1.95%	0.02%	1.11%
Oil & Gas	13.63%	-0.09%	-0.63%
<b>Total</b>	<b>100.00%</b>	<b>3.45%</b>	<b>3.45%</b>

Source: IHS Markit

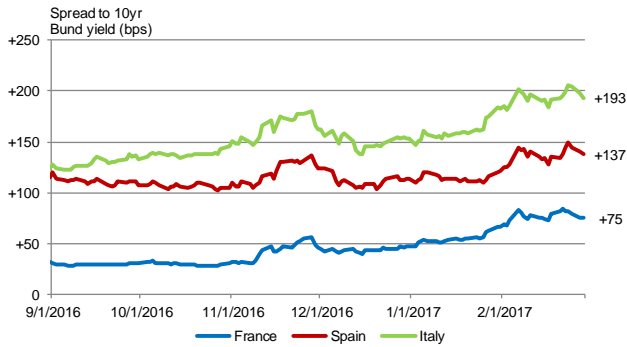
Within telecoms, performance was entirely driven by bonds issued by Intelsat Jackson Holdings SA, which delivered an outsized 17.42% return. This followed news that their parent company, Intelsat SA, agreed to merge with OneWeb Ltd., a satellite company owned by Japan's SoftBank Group.

### European sovereigns

Looking at the yields of their respective sovereign indices, rates have been on an upward trajectory for the four largest economies in the Eurozone over the past six months. The greatest increase occurred in Italy where the yield of the [Markit iBoxx € Italy Index](#) rose by 87bps to 2.07%. German Bund yields increased the least, rising by only 26bps. However this move was still quite meaningful, as six months ago the yield on the [Markit iBoxx € Germany Index](#) was -0.02% and now finds itself well back into positive territory.

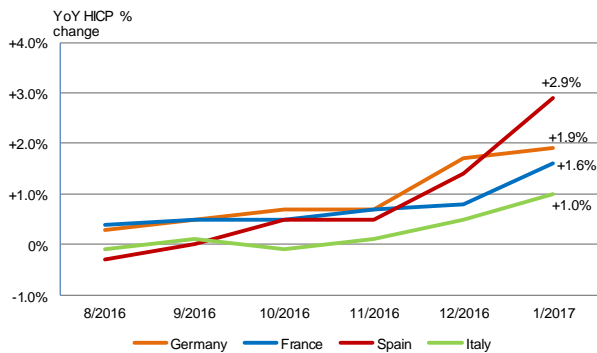
Over the past six months the yield basis between France, Italy or Spain 10-year sovereign bonds versus German bunds has been increasing rapidly. Of the three, France's 10-year maintains the tightest spread to bunds at 75bps as of late February (**Figure 2**).

**Figure 2: 10-year French, Italian, and Spanish government bonds' spread to German Bunds**



Source: IHS Markit

**Figure 3: Harmonised Index of Consumer Prices (HICP) year-over-year**



Source: Eurostat

In the inflation-linked markets, investors in Germany and France continued to be willing to accept negative real yields as nominal yields remain low and inflation rates slowly tick up. Spain, which six months ago was suffering from slight deflation, ended February with an inflation rate just shy of 3% - the highest of the Eurozone's four largest economies (**Figure 3**).

# Leveraged loans

## Energy underperformed all other sectors in February

Leveraged loan energy sector spreads widened across all rating categories in February, with the exception of B- and CCC+ (Table 5) after Crude oil prices came under pressure partially due to burgeoning US inventories. The B- and CCC+ cohorts did tighten across every North American and European sector, with the energy sector tightening the least for both rating groups. On a positive note, the BB+, B-, and CCC+ energy cohorts reached their tightest levels over the past 12 months in February (Figure 4).

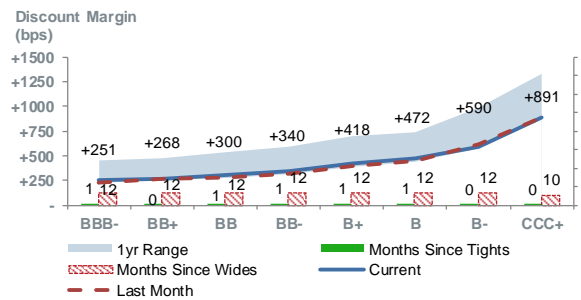
The European utility sector was the best performer during the month, as each rating cohort also reported its tightest level in 12 months in February (Figure 5). The B- cohort tightened 90bps during the month, which made it the best performing loan cohort during the month.

Figure 6 indicates that the BBB-/BB+ portion of the credit curve (inflection point between IG/HY) had flattened sharply during the month to end at a 17bps basis versus the one year average of 27bps.

## Merger drives technology company issue to become the best performer globally

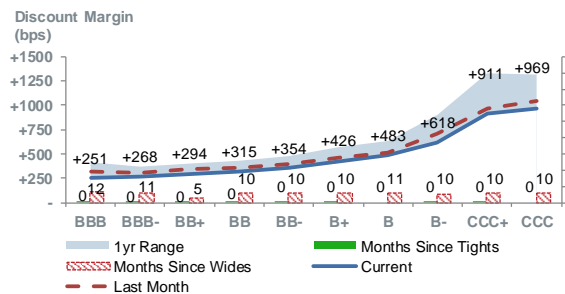
There were five industrial company issues that made it onto the best performers list for North America (Table 3). During the month, the announcement of the merger between two IT service providers Novitex and SourceHOV on February drove the latter's 10/14 2nd Lien TL issue to be the best performing loan globally after rallying almost 51% to end the month at a price of 97.13 after being as low as 50.00 on August 12, 2016. We note that the issuer's 10/14 TLB was the third best performing par loan globally, increasing almost 9% to end the month at a 98.42 price.

Figure 4: North American energy sector spreads to LIBOR



Source: IHS Markit

Figure 5: European utilities sector spreads to LIBOR



Source: IHS Markit

Figure 6: BBB-/BB+ North American average credit basis across all sectors



Source: IHS Markit

**Table 3: February North American loans best and worst price performance<sup>1</sup>**
**North America**

LXID	Loan Name	Sector	Country	Liq score	2/28 price	% change	One year low	Date	One year high	Date	
<b>Best performers</b>											
<b>Par</b>											
1	LX141603	SourceHOV 10/14 2nd Lien TL	Technology	USA	3	97.13	+50.9%	50.00	8/12/16	97.31	2/27/17
2	LX151042	Veritas 1/16 (USD) Cov-Lite TLB2	Financials	USA	4	98.75	+9.5%	85.00	7/4/16	98.80	2/24/17
3	LX141601	SourceHOV 10/14 TLB	Technology	USA	3	98.42	+8.8%	64.25	4/11/16	98.42	2/28/17
4	LX137241	Floatel 5/14 Cov-Lite TL	Energy	USA	3	87.42	+6.8%	43.00	3/10/16	87.42	2/28/17
5	LX137138	UTEX Industries 5/14 2nd Lien TL	Industrials	USA	3	86.05	+5.8%	38.00	3/3/16	86.05	2/28/17
<b>Distressed</b>											
1	LX128751	Total Safety 3/13 2nd Lien TL	Industrials	USA	5	27.33	+75.2%	14.67	1/26/17	41.67	1/4/17
2	LX135660	Payless ShoeSource 3/14 2nd Lien TL	Consumer Services	USA	3	12.95	+17.7%	11.00	1/31/17	23.00	3/23/16
3	LX127581	Ameriforge 1/13 TL	Industrials	USA	4	64.88	+15.9%	43.25	3/1/16	64.88	2/28/17
4	LX117989	Gymboree (Cov-Lite 2/11) TL	Consumer Services	USA	1	55.45	+12.7%	49.00	1/27/17	79.85	9/23/16
5	LX134252	Cumulus Media 12/13 TLB	Consumer Services	USA	1	72.84	+11.3%	59.44	11/28/16	72.84	2/28/17
<b>Worst performers</b>											
<b>Par</b>											
1	LX126298	Savers 10/12 Cov-Lite TLC	Consumer Services	USA	3	88.60	-3.8%	74.00	3/2/16	93.00	1/16/17
2	LX158994	PETCO 1/17 Cov-Lite TLB1	Consumer Services	USA	1	96.25	-2.4%	96.25	2/28/17	100.44	1/17/17
3	LX148925	U.S. Renal Care 12/15 Cov-Lite TL	Healthcare	USA	1	92.00	-2.3%	90.81	12/5/16	100.13	4/13/16
4	LX148871	Blackhawk Mining 10/15 (Fixed 13.50%) TLB1	Energy	USA	4	98.43	-2.3%	98.43	2/28/17	101.25	2/14/17
5	LX142645	Caraustar 12/14 TL	Basic Materials	USA	4	100.00	-1.7%	97.25	4/7/16	101.81	2/7/17
<b>Distressed</b>											
1	LX154148	SunEdison 7/16 W/O Rights A3 2nd Lien TL	Technology	USA	4	26.83	-24.4%	26.83	2/28/17	54.83	9/9/16
2	LX127583	Ameriforge 1/13 2nd Lien TL	Industrials	USA	5	9.67	-20.6%	10.20	2/22/17	19.22	4/22/16
3	LX141448	Education Management 1/15 TLA	Consumer Services	USA	5	35.35	-10.8%	22.10	1/25/17	39.88	2/13/17
4	LX144914	Academy Sports 7/15 TLB	Consumer Services	USA	2	78.88	-9.5%	78.88	2/28/17	98.81	4/26/16
5	LX126268	GNC 10/12 TL	Consumer Services	USA	1	83.56	-4.6%	79.13	2/20/17	99.70	10/26/16

Source: IHS Markit

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

Table 4: February European loans best and worst price performance<sup>1</sup>

## Europe

	LXID	Loan Name	Sector	Country	Liq score	2/28 price	% change	One year low	Date	One year high	Date
<b>Best performers</b>											
<b>Par</b>											
1	LX137213	Saur 10/13 PIK TLC	Utilities	FRA	4	87.00	+5.7%	58.00	7/1/16	87.00	2/28/17
2	LX137157	ERM (Environmental Resources) 5/14 (EUR) Cov-Lite TLB2	Industrials	GBR	3	95.58	+4.7%	89.33	11/9/16	95.58	2/28/17
3	LX147070	Maxeda 7/15 E3 TL	Consumer Services	NLD	3	96.92	+4.5%	80.18	3/2/16	96.92	2/28/17
4	LX143866	Fraikin 11/12 Opco TL	Consumer Services	FRA	5	93.70	+4.0%	90.13	2/10/17	93.70	2/28/17
5	LX155222	Keter 10/16 (EUR) Cov-Lite TLB	Consumer Goods	NLD	1	100.07	+2.7%	97.19	1/4/17	100.07	2/28/17
<b>Distressed</b>											
1	LX059053	Fraikin 2/07 (EUR) Holdco TL	Consumer Services	FRA	4	82.33	+24.0%	54.33	3/1/16	94.42	1/6/17
2	LX137914	PagesJaunes 6/14 (EUR) A7 TL	Technology	FRA	1	67.33	+11.8%	49.40	3/11/16	67.33	2/28/17
3	LX152169	HC Starck 3/16 PIK (EUR) 2nd Lien TL	Basic Materials	DEU	3	55.14	+10.3%	31.57	12/19/16	82.00	5/5/16
4	LX129907	CSM Bakery Supplies 5/13 2nd Lien Cov-Lite TL	Consumer Goods	NLD	3	82.42	+10.0%	73.50	1/2/17	82.42	2/28/17
5	LX128563	DryDocks World PPL TLA	Financials	ARE	4	18.67	+3.7%	18.00	2/27/17	18.67	2/28/17
<b>Worst performers</b>											
<b>Par</b>											
1	LX153882	Riemser 8/16 TLB	Healthcare	DEU	2	85.58	-8.8%	84.00	2/14/17	94.10	1/11/17
2	LX155433	Eircom 10/16 B5 TLB	Telecom Services	LUX	1	100.21	-1.4%	100.18	2/27/17	101.72	2/24/17
3	LX155286	Mauser 9/16 TL	Industrials	LUX	1	100.13	-1.3%	99.96	2/15/17	101.50	12/8/16
4	LX139558	Endemol 8/14 (USD) Cov-Lite TL	Consumer Services	NLD	1	89.68	-0.9%	79.63	5/19/16	94.45	12/8/16
5	LX152975	Ethypharm 6/16 TL	Healthcare	FRA	2	100.08	-0.8%	99.92	6/28/16	101.43	2/16/17
<b>Distressed</b>											
1	LX137596	Agrokor 5/14 PIK Toggle (PIK 10.50%) TL	Consumer Goods	HRV	2	25.67	-48.0%	23.83	2/10/17	97.95	6/28/16
2	LX141989	Vivarte 10/14 Reinstated TL (ORA/Pref + Equity Stapled) TL	Consumer Goods	FRA	2	14.25	-12.6%	10.31	11/4/16	72.70	3/14/16
3	LX116034	AHAB / Ahmad Hamad Algozaibi & Bros 5/07 TL	Industrials	SAU	5	16.38	-11.1%	14.17	8/19/16	18.42	2/7/17
4	LX129817	Pacific Drilling 5/13 TL	Energy	LUX	1	45.18	-9.6%	20.00	3/2/16	50.39	1/30/17
5	LX139588	Expro Holdings 8/14 Cov-Lite TL	Energy	LUX	1	80.88	-9.2%	58.42	3/1/16	89.83	1/20/17

Source: IHS Markit

**Table 5: North American and European loan sector curve monthly discount margin spread change in basis points**

		BBB-	BB+	BB	BB-	B+	B	B-	CCC+
<b>Basic Materials</b>	NA	-8	-25	-15	-13	-14	-9	-62	-30
	EU	-15	-33	-22	-20	-20	-15	-70	-37
	Change NA-EU	+6.9	+8.5	+6.6	+6.5	+6.7	+6.7	+8.3	+7.2
<b>Consumer Goods</b>	NA	-4	-20	-11	-9	-9	-4	-58	-26
	EU	-11	-29	-17	-15	-16	-11	-66	-33
	Current NA-EU	+6.7	+8.3	+6.4	+6.3	+6.5	+6.5	+8.1	+7.0
<b>Consumer Services</b>	NA	-2	-18	-8	-7	-7	-2	-55	-23
	EU	-8	-26	-15	-13	-14	-8	-63	-30
	Current NA-EU	+6.6	+8.2	+6.3	+6.2	+6.4	+6.4	+8.0	+6.9
<b>Energy</b>	NA	+21	+5	+14	+16	+16	+21	-33	-1
	EU	+15	-3	+8	+10	+9	+14	-41	-7
	Current NA-EU	+6.5	+8.1	+6.2	+6.1	+6.3	+6.3	+7.9	+6.8
<b>Financials</b>	NA	+3	-14	-4	-2	-3	+2	-51	-19
	EU	-5	-23	-11	-10	-10	-5	-60	-27
	Current NA-EU	+7.5	+9.1	+7.2	+7.1	+7.3	+7.3	+8.9	+7.8
<b>Healthcare</b>	NA	-0	-17	-7	-5	-6	-1	-54	-22
	EU	-7	-25	-14	-12	-12	-7	-62	-29
	Current NA-EU	+6.8	+8.4	+6.5	+6.4	+6.6	+6.6	+8.2	+7.1
<b>Industrials</b>	NA	+9	-7	+3	+4	+4	+9	-44	-12
	EU	+3	-15	-4	-2	-3	+2	-53	-19
	Current NA-EU	+6.8	+8.4	+6.5	+6.4	+6.6	+6.6	+8.2	+7.1
<b>Technology</b>	NA	-13	-30	-20	-18	-19	-14	-67	-35
	EU	-20	-38	-27	-25	-25	-20	-75	-42
	Current NA-EU	+6.8	+8.5	+6.6	+6.5	+6.7	+6.7	+8.2	+7.2
<b>Telecommunication Services</b>	NA	-5	-22	-12	-10	-11	-6	-59	-27
	EU	-11	-29	-18	-16	-17	-11	-67	-33
	Current NA-EU	+6.2	+7.8	+5.9	+5.8	+6.0	+6.0	+7.6	+6.5
<b>Utilities</b>	NA	-26	-42	-32	-31	-31	-26	-80	-47
	EU	-35	-52	-41	-39	-40	-35	-90	-56
	Current NA-EU	+8.8	+10.4	+8.5	+8.4	+8.6	+8.6	+10.2	+9.1

Source: IHS Markit

## Credit default swaps

European credit underperformed its counterpart in the US, no doubt due to political risk weighing on the region.

The [Markit iTraxx Europe](#) index started the month at 72.5bps and failed to threaten the 70bps level. It hit 76bps in the first week of February, with investors using the strong liquidity of the index to take bearish positions. This resulted in the index skew widening (index trading wider than underlying constituents), reversing the trend seen in January. A similar pattern was observed in the [Markit iTraxx Crossover](#), where the skew hit 25bps in the last week of February.

It was a different story in North America, where spreads continued to rally. The [Markit CDX.NA.IG Index](#) started the month at 66bps and tightened steadily by 4bps to close the month at 62bps. It was notable that the skew is reversed in the [Markit CDX.NA.IG Index](#) – the theoretical level was trading 7bps wider than the index, though this did narrow as the month progressed.

CDS sector curve data indicates that the credit curve for the North American healthcare sector was generally flatter across the entire ratings spectrum and reached its flattest point of the past 12 months for both A/BBB and BBB/BB at +17bps and +61bps, respectively, in February (**Figure 7**).

### Community Health Systems best performer globally

Among single names, Community Health Systems (CYH) was the outstanding performer, tightening by nearly 500bps to close the month at 805bps (**Table 6**). The US hospital operator is generally quoted upfront, reflecting its distressed condition. But it surprised investors by easily beating 2016 fourth-quarter earnings estimates. Despite its improvement, CYH remains a high risk name – its implied rating is CCC, according to IHS Markit data.

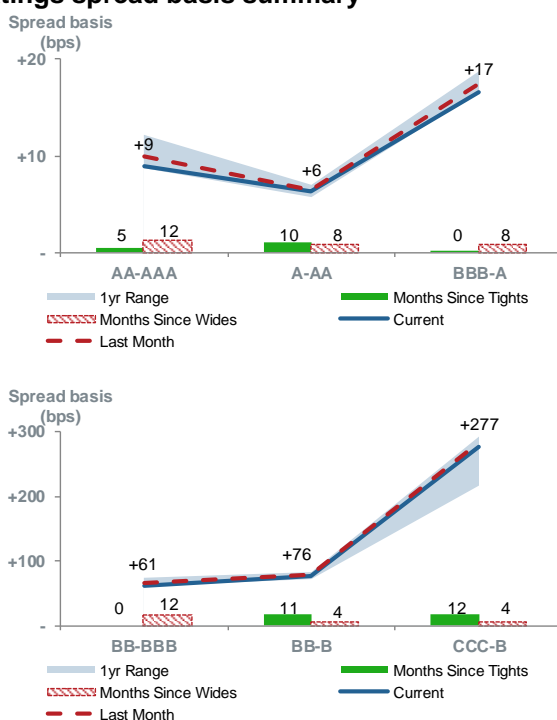
Europe’s best performer was Novo Banco, a name that is very well known in the CDS world thanks to its controversial credit event in 2014 and subsequent debt restructurings. The Portuguese bank, also quoted upfront, rallied by 35% on the prospect that it will finally be sold to US private equity firm Lone Star. The deal should result in a €1bn capital injection into Novo Banco.

Anglo Australian miners BHP Billiton and Rio Tinto continued their good run and were the strongest performers in Asia-Pacific. The two mining giant have benefitted from an improved outlook for commodity prices in 2017.

### Unilever CDS wider after merger falls apart on UK government investigation

Perhaps the most newsworthy name in the worst performers was Unilever (**Table 7**). The Anglo-Dutch consumer goods company was the subject of high-profile bid from Kraft-Heinz, which was abandoned two days later after the UK government ordered an investigation into the deal. This led to a recovery in Unilever’s spreads, but they were still wider on the month due to the market pricing in risk of another takeover bid from an alternative suitor.

**Figure 7: North American healthcare CDS sector ratings spread basis summary**

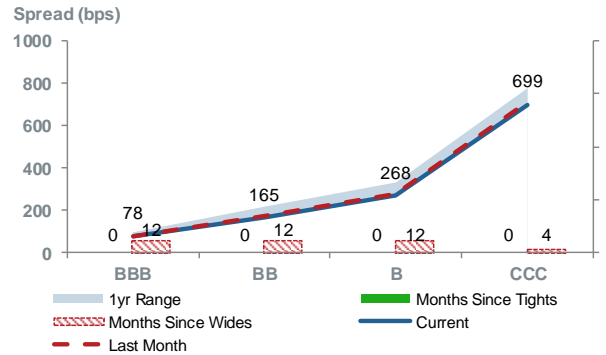
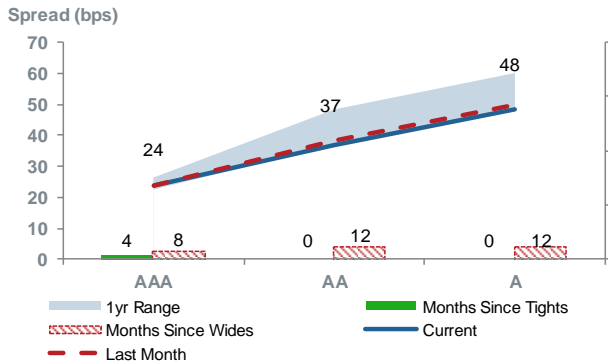


Source: IHS Markit

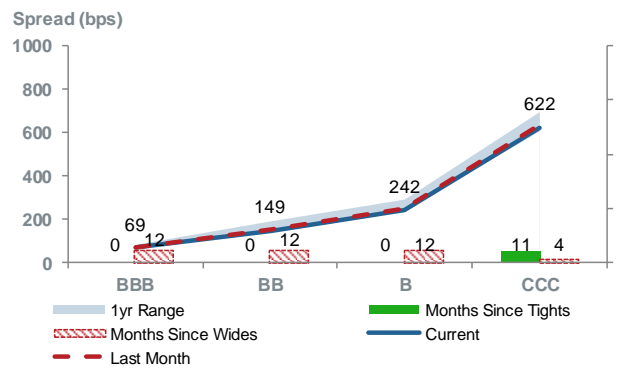
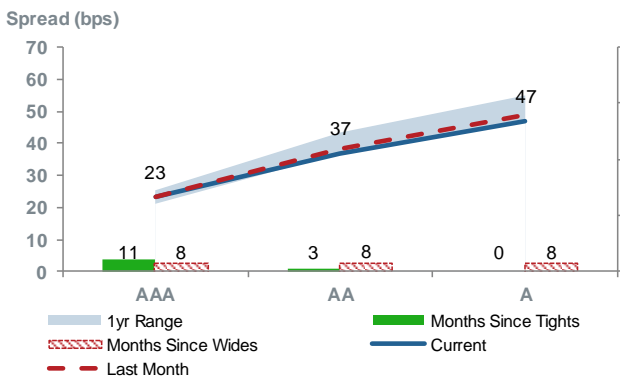


Figure 8: February regional CDS sector spread summary

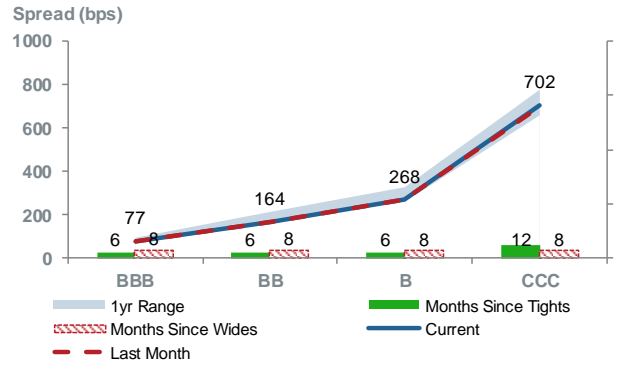
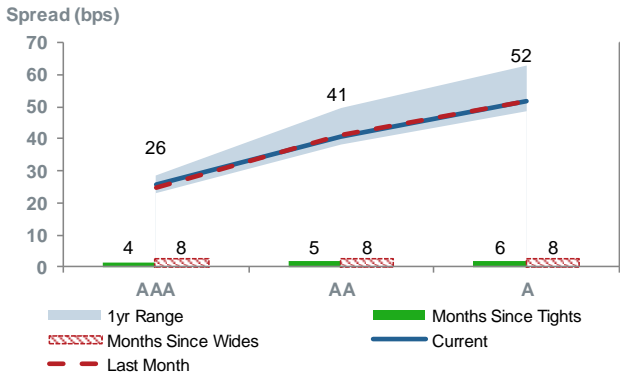
Global



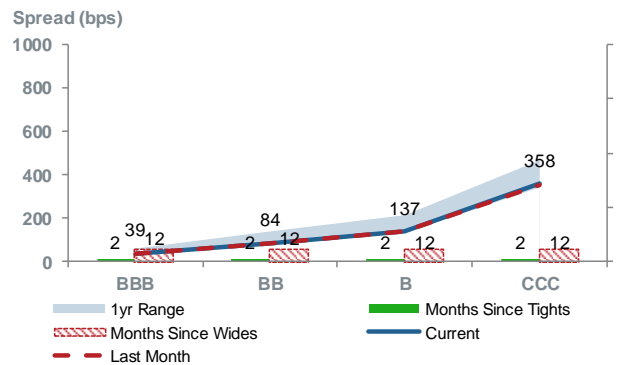
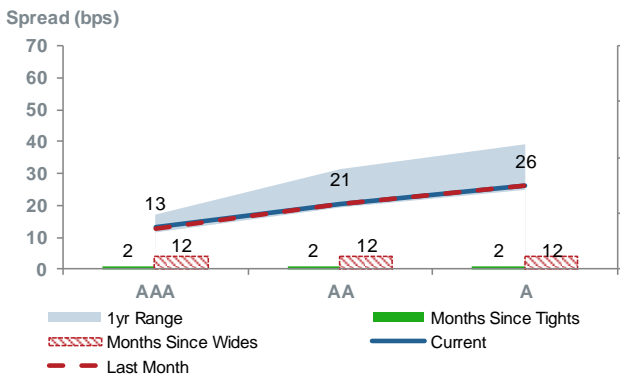
North America



Europe



Japan



Source: IHS Markit

Table 6: February liquid 5yr corporate CDS best spread performance<sup>2</sup>

## Best performers

	Ticker	Company	Sector	Country	Liq score	2/28 spread	Change	% change	One year tight	Date	One year wide	Date
<b>Americas</b>												
1	CYH	Cmnty Health Sys Inc	Healthcare	USA	2	805	-497	-38.2%	647	4/21/16	1633	12/1/16
2	ABX	Barrick Gold Corp	Basic Materials	CAN	1	90	-36	-28.4%	89	2/27/17	211	3/1/16
3	WFT	Weatherford Intl Ltd	Energy	BMU	1	392	-141	-26.4%	392	2/6/17	1152	5/9/16
4	VIAINC	Viacom	Consumer Services	USA	1	92	-30	-24.3%	84	10/26/16	200	3/28/16
5	DISHN-DDBSC	Dish Dbs Corp	Consumer Services	USA	1	204	-64	-23.9%	204	2/28/17	403	6/27/16
<b>EMEA</b>												
1	NOVOBAN	Novo Bco Sa	Financials	PRT	2	1063	-582	-35.4%	1041	3/2/16	2541	9/19/16
2	SELEGRO	Selecta Group Bv	Consumer Services	NLD	2	706	-262	-27.1%	678	4/28/16	1192	6/27/16
3	ARMLL	Arcelormittal	Basic Materials	LUX	1	200	-68	-25.2%	191	2/23/17	700	3/3/16
4	LMETEL	Telefonab L M Ericsson	Technology	SWE	2	103	-29	-21.7%	71	3/14/16	155	1/25/17
5	WINDAQ	Wind Acquisition Fin Sa	Telecommunications Services	LUX	1	236	-65	-21.4%	234	9/8/16	589	5/6/16
<b>APAC</b>												
1	BHP	Bhp Billiton Ltd	Basic Materials	AUS	1	68	-21	-23.9%	67	2/22/17	206	3/1/16
2	RIOLN-Ltd	Rio Tinto Ltd	Basic Materials	AUS	1	78	-21	-21.6%	77	2/22/17	227	3/1/16
3	WPLAU	Woodside Pete Ltd	Energy	AUS	1	95	-22	-19.1%	95	2/28/17	247	3/1/16
4	HUWHY	Hutchison Whampoa Ltd	Consumer Services	HKG	2	82	-19	-18.8%	78	2/27/17	131	3/1/16
5	CNOOC	Cnooc Ltd	Energy	HKG	2	102	-21	-17.3%	102	2/28/17	149	3/1/16

Source: IHS Markit

<sup>2</sup> 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 7: February liquid 5yr corporate CDS worst spread performance<sup>2</sup>

## Worst performers

	Ticker	Company	Sector	Country	Liq score	2/28 spread	Change	% change	One year tight	Date	One year wide	Date
<b>Americas</b>												
1	AVP	Avon Prods Inc	Consumer Goods	USA	1	619	+98	+18.8%	485	10/25/16	994	3/1/16
2	PBI	Pitney Bowes Inc	Technology	USA	1	194	+24	+13.8%	119	3/14/16	202	2/2/17
3	CHK	Chesapeake Engy Corp	Energy	USA	1	622	+55	+9.7%	543	1/26/17	4938	3/1/16
4	LBRAAA	L Brands Inc	Consumer Services	USA	2	223	+17	+8.3%	143	3/18/16	231	5/19/16
5	HRB-Fllc	Block Finl Llc	Financials	USA	2	132	+8	+6.8%	83	3/1/16	209	5/9/16
<b>EMEA</b>												
1	NSINO	Norske Skogindustrier Asa	Basic Materials	NOR	2	4270	+1235	+40.7%	2561	10/19/16	5953	3/16/16
2	ULVR	Unilever N V	Consumer Goods	NLD	1	33	+8	+34.6%	21	9/8/16	39	2/17/17
3	NEWLOOA C	New Look Sr Issuer Plc	Consumer Services	GBR	2	1193	+223	+23.0%	372	3/18/16	1193	2/28/17
4	PNL	Postnl Nv	Industrials	NLD	2	37	+6	+17.7%	31	1/30/17	64	5/12/16
5	SABMLIM	Sabmiller Ltd	Consumer Goods	GBR	2	38	+5	+16.7%	32	12/26/16	38	2/24/17
<b>APAC</b>												
1	HITACH	Hitachi Ltd	Industrials	JPN	2	35	+11	+45.0%	20	12/21/16	44	3/1/16
2	TOSH	Toshiba Corp	Industrials	JPN	2	404	+111	+38.1%	82	12/13/16	520	2/14/17
3	MITHI	Mitsubishi Heavy Inds Ltd	Industrials	JPN	2	38	+9	+30.1%	23	9/16/16	61	3/1/16
4	OJIHOL	Oji Hldgs Corp	Basic Materials	JPN	2	29	+3	+9.6%	21	12/15/16	65	3/1/16
5	NPG-NPI	Nippon Paper Inds Coltd	Basic Materials	JPN	2	47	+4	+9.1%	34	9/9/16	95	3/1/16

Source: IHS Markit

## Global corporate bonds

### UK gilt indices reported solid returns in February

10-year UK gilt yields rallied almost 40bps in February, which resulted in every gilt category rating and sector category returning significantly more than its USD or Euro equivalent. Sterling AAA corporate bonds were the best performer (by a wide margin) during the month, returning 4.09% after being the worst performer last month.

The [Markit iBoxx £ Liquid Investment Grade Index](#) returned 2.61% in February, followed by [Markit iBoxx € Liquid Investment Grade Index](#) at 1.21%. [Markit iBoxx \\$ Liquid Investment Grade Index](#) returned the least of the three currencies at 1.11% during the month (**Table 8**).

Higher commodity prices resulted in the [Markit iBoxx \\$ Basic Materials Index](#) being the best performing dollar sector, ending the month at a 1.70% total return. The [Markit iBoxx € Technology Index](#) was the second best performing EUR index at 1.66% after the stellar euro AAA corporates return of 1.82%.

### Two Italian bank issues the worst performers globally

Italian banks credit concerns continue to linger alongside the political uncertainty in Europe, with the two worst performers this month coming from that sector (**Table 10**). Banca Popolare Di Vicenza SpA 9.5 9/2025 was the worst performer globally, declining over 41% to end the month at a one year low price of 25.25. Banca Monte Dei Paschi Di Siena SpA 5.6 9/2020 was the second worst performer, declining 23% to end the month at a one year low price of 39.87. We note that both issues were near a 95.00 price at the beginning of last summer and have recently sought a state rescue. Banca Monte Dei Paschi Di Siena applied for the rescue in February and Banca Popolare Di Vicenza followed, so it is possible that their junior debt could be bailed in for at least the non-retail investors.

**Table 8: February corporate bond US and European iBoxx indices performance**

	Total Return						Yield						Duration		
	Month			YTD			Current			Month			\$	€	£
	\$	€	£	\$	€	£	\$	€	£	\$	€	£			
Corporates	+1.11%	+1.21%	+2.61%	+1.47%	+0.58%	+1.63%	3.85%	1.11%	2.80%	-0.12%	-0.20%	-0.28%	6.7	5.3	8.5
Corporates AAA	+1.53%	+1.82%	+4.09%	+1.13%	+0.45%	+1.40%	3.62%	0.93%	1.97%	-0.13%	-0.20%	-0.26%	9.7	8.1	14.9
Corporates AA	+0.89%	+1.24%	+2.68%	+1.12%	+0.54%	+1.51%	3.33%	0.60%	2.19%	-0.10%	-0.21%	-0.27%	6.1	5.4	9.1
Corporates A	+1.00%	+1.17%	+2.80%	+1.27%	+0.44%	+1.55%	3.59%	0.89%	2.72%	-0.11%	-0.21%	-0.29%	6.5	5.2	9.2
Corporates BBB	+1.26%	+1.23%	+2.41%	+1.76%	+0.70%	+1.74%	4.21%	1.42%	3.07%	-0.13%	-0.20%	-0.29%	7.0	5.3	7.6
Banks	+0.87%	+0.96%	+2.64%	+1.16%	+0.48%	+2.18%	3.57%	0.96%	2.77%	-0.10%	-0.18%	-0.37%	4.9	4.5	6.5
Basic Materials	+1.70%	+1.47%	+2.73%	+2.97%	+1.05%	+2.75%	4.15%	0.83%	2.42%	-0.18%	-0.27%	-0.37%	7.2	5.4	7.7
Consumer Goods	+1.06%	+1.33%	+1.73%	+1.38%	+0.65%	+0.75%	3.67%	0.95%	2.11%	-0.12%	-0.23%	-0.27%	6.3	5.5	5.9
Consumer Services	+1.38%	+1.39%	+2.97%	+1.34%	+0.66%	+1.66%	4.07%	0.97%	2.55%	-0.12%	-0.23%	-0.28%	8.3	5.5	10.0
Financials	+0.95%	+1.08%	+2.63%	+1.32%	+0.63%	+2.35%	3.63%	1.23%	2.97%	-0.11%	-0.18%	-0.34%	5.3	4.8	7.0
Health Care	+1.21%	+1.48%	+3.38%	+1.49%	+0.63%	+0.92%	3.80%	1.05%	2.52%	-0.11%	-0.22%	-0.26%	7.5	6.1	12.3
Industrials	+1.14%	+1.27%	+2.78%	+1.53%	+0.55%	+1.43%	3.69%	0.83%	2.51%	-0.10%	-0.21%	-0.28%	7.6	5.3	9.2
Insurance	+1.35%	+1.45%	+2.61%	+2.14%	+1.31%	+3.27%	4.13%	2.66%	3.92%	-0.14%	-0.19%	-0.33%	7.5	6.0	7.0
Non-Financials	+1.21%	+1.30%	+2.59%	+1.56%	+0.54%	+1.19%	3.94%	1.04%	2.73%	-0.12%	-0.21%	-0.26%	7.5	5.6	9.4
Oil & Gas	+1.06%	+1.38%	+2.18%	+1.93%	+0.70%	+1.42%	4.12%	1.12%	2.30%	-0.09%	-0.21%	-0.26%	7.2	5.9	7.5
Technology	+1.31%	+1.66%	N/A	+1.32%	+0.69%	N/A	3.64%	0.66%	N/A	-0.15%	-0.24%	N/A	7.2	6.5	N/A
Telecommunications	+1.22%	+1.30%	+2.56%	+0.65%	+0.31%	+0.95%	4.51%	1.27%	3.22%	-0.11%	-0.19%	-0.24%	8.4	5.9	9.8
Utilities	+1.17%	+1.06%	+2.62%	+1.90%	+0.27%	+1.11%	4.05%	1.21%	2.87%	-0.10%	-0.17%	-0.24%	8.6	5.5	10.2
High Yield Liquid High Yield	+1.50%	+0.82%	+1.20%	+2.58%	+1.48%	+1.57%	5.62%	3.17%	4.98%	-0.26%	-0.23%	-0.28%	3.5	3.1	2.8
Contingent Convertible	+1.92%	+1.73%	+1.29%	+3.79%	+3.67%	+2.76%	6.40%	5.42%	7.62%	-0.40%	-0.30%	-0.13%	4.0	3.6	5.6

Source: IHS Markit

Table 9: February global corporate bond best price performance

## Best performers

Ticker	Issue	Sector	Country	CCY	Liq score	2/28 price	Change	% change	One year low	Date	One year high	Date	
<b>Americas</b>													
1	INTELS	Intelsat Connect Finance S.A. 12.5 4/2022	Telecom Services	USA	USD	3	87.14	+23.95	+37.9%	60.00	1/25/17	87.14	2/28/17
2	NBLGP	Noble Group Limited 6 12/2099	Basic Materials	USA	USD	3	82.81	+19.41	+30.6%	34.50	3/1/16	86.50	2/13/17
3	GRUPFAM	Grupo Famsa S.A.B. De C.V. 7.25 6/2020	Consumer Services	MEX	USD	3	83.92	+14.69	+21.2%	67.00	12/20/16	91.32	5/24/16
4	GOLLUX	Gol Luxco S.A. 8.875 1/2022	Industrials	BRA	USD	3	90.04	+15.39	+20.6%	24.30	4/26/16	90.25	2/27/17
5	COMMHS	Chs/Community Health Systems, Inc. 6.875 2/2022	Healthcare	USA	USD	3	87.38	+14.40	+19.7%	65.50	12/1/16	93.25	4/20/16
<b>EMEA</b>													
1	BRUNRAI	Brunswick Rail Finance Limited 6.5 11/2017	Industrials	RUS	USD	3	72.67	+9.64	+15.3%	37.33	3/4/16	73.50	2/15/17
2	ALGESCO	Algeco Scotsman Global Finance Plc 10.75 10/2019	Industrials	GBR	USD	3	86.17	+10.23	+13.5%	25.50	3/16/16	87.62	2/8/17
3	NOVOBAN	Novo Banco, S.A. 3.5 1/2043	Financials	PRT	EUR	3	59.31	+6.16	+11.6%	47.61	10/12/16	59.31	2/28/17
4	PTBH	Peterborough (Progress Health) Plc 5.58 10/2042	Healthcare	GBR	GBP	3	111.65	+10.00	+9.8%	91.82	12/12/16	111.65	2/28/17
5	HSBC-HSBCBank	Hsbc Bank Plc 4.75 3/2046	Financials	GBR	GBP	3	124.38	+10.94	+9.6%	89.31	3/1/16	132.83	8/12/16
<b>APAC</b>													
1	INDOE	Indo Energy Finance li B.V. 6.375 1/2023	Energy	IDN	USD	3	92.21	+15.38	+20.0%	35.77	3/1/16	92.21	2/28/17
2	TDBM	Trade And Development Bank Of Mongolia Llc 9.375 5/2020	Financials	MNG	USD	3	105.50	+6.90	+7.0%	77.50	3/2/16	105.50	2/28/17
3	HONGGRO	Honghua Group Limited 7.45 9/2019	Energy	CHN	USD	3	102.55	+6.61	+6.9%	38.50	3/1/16	102.79	2/20/17
4	NEWCFIN	Newcrest Finance Pty Limited 5.75 11/2041	Basic Materials	AUS	USD	3	104.92	+6.26	+6.3%	77.04	3/1/16	105.22	8/24/16
5	PLNIJ	Perusahaan Listrik Negara (P.T.) 5.25 10/2042	Utilities	IDN	USD	3	97.12	+5.71	+6.2%	83.75	3/1/16	104.00	8/18/16

Source: IHS Markit

Table 10: February global corporate bond worst price performance

## Worst performers

Ticker	Issue	Sector	Country	CCY	Liq score	2/28 price	Change	% change	One year low	Date	One year high	Date
<b>Americas</b>												
1 CUMUMED	Cumulus Media Holdings Inc. 7.75 5/2019	Consumer Services	USA	USD	2	33.00	-6.43	-16.3%	24.50	3/4/16	44.00	11/10/16
2 GATELE	Global A&T Electronics Ltd. 10 2/2019	Technology	USA	USD	1	54.00	-9.00	-14.3%	48.50	6/28/16	66.00	3/2/16
3 HRNBEC	Hornbeck Offshore Services, Inc. 5.875 4/2020	Industrials	USA	USD	1	66.13	-8.37	-11.2%	54.00	3/3/16	76.62	1/19/17
4 NE-Int	Noble Holding International Limited 5.25 3/2042	Energy	USA	USD	2	66.50	-6.60	-9.0%	40.63	3/3/16	73.44	2/6/17
5 VANGNAT	Vanguard Natural Resources, Llc 7.875 4/2020	Energy	USA	USD	2	69.31	-6.63	-8.7%	10.00	3/8/16	80.00	1/24/17
<b>EMEA</b>												
1 BANCPODI	Banca Popolare Di Vicenza S.P.A. 9.5 9/2025	Financials	ITA	EUR	2	25.25	-17.75	-41.3%	25.25	2/28/17	94.45	5/2/16
2 MONTE	Banca Monte Dei Paschi Di Siena S.P.A. 5.6 9/2020	Financials	ITA	EUR	2	39.87	-11.93	-23.0%	39.87	2/28/17	95.00	6/9/16
3 AGROK	Agrokor D.D. 8.875 2/2020	Consumer Goods	HRV	USD	2	70.00	-19.13	-21.5%	67.64	2/27/17	106.75	6/8/16
4 FRIGFIN	Frigoglass Finance B.V. 8.25 5/2018	Industrials	GRC	EUR	1	52.65	-9.86	-15.8%	49.51	2/23/17	66.61	3/1/16
5 HOLDIK	Holdikks 6.75 7/2021	Consumer Services	FRA	EUR	2	68.21	-8.85	-11.5%	68.21	2/28/17	99.86	4/25/16
<b>APAC</b>												
1 NAMCHE	Nam Cheong Limited 5.05 8/2019	Industrials	MYS	SGD	3	25.00	-23.49	-48.4%	25.00	2/28/17	97.45	3/23/16
2 EZRAHOL	Ezra Holdings Limited 4.875 4/2018	Energy	SGP	SGD	3	25.00	-15.23	-37.9%	25.00	2/28/17	84.50	3/16/16
3 MUFJ-BTMUFJ	The Bank Of Tokyo-Mitsubishi Ufj, Ltd. 4.1 9/2023	Financials	JPN	USD	1	105.30	-3.39	-3.1%	104.17	12/15/16	112.14	7/8/16
4 CHINAEN	China Energy Reserve And Chemicals Group Overseas Company Limited 5.55 4/2021	Energy	CHN	USD	3	94.25	-2.12	-2.2%	94.25	2/28/17	97.75	12/15/16
5 CITYDL	City Developments Limited 3.48 6/2026	Consumer Services	SGP	SGD	3	97.77	-2.13	-2.1%	97.27	2/14/17	102.36	8/16/16

Source: IHS Markit

## Sovereigns

### Emerging markets dominate this month's best performing sovereign CDS

There was a clear dichotomy between developing and developed markets in the sovereign CDS market during February. All but one of the top gainers in February – Japan – were emerging market sovereigns, with Mexico the sole representative from the western hemisphere (**Table 12**).

That means the bulk of the improving names were from Asia, and it was notable that three of the sovereigns were Middle Eastern; Abu Dhabi, Qatar and Saudi Arabia. All three are GCC states, and are still heavily reliant on oil revenues. The stabilization in the price of Brent crude around \$55 a barrel will have helped their credit standing, though a reversal to \$50 since has led to some modest widening in spreads.

It's worth noting that Markit liquidity metrics indicate that these sovereigns are becoming more liquid, which in the case of Saudi Arabia is no surprise. The sovereign entered the international debt markets for the first time last year, and is embarking on a radical shift in economic policy to make it less dependent on oil.

### All of the worst performing sovereign CDS are from developed countries

The losers table paints a very different picture. All of the sovereigns that widened in February were developed countries, and all but one – Australia – were western European. France was the clear underperformer, its spreads widening by 16bps to close the month at 57bps. The sovereign's spreads gapped out in reaction to polls showing National Front leader Marine le Pen leading in the race to become President. Le Pen has vowed to lead France out of the Eurozone if she wins, and the widening in spreads was no doubt a reaction to this risk.

It should be noted that sovereign CDS traded under the ISDA 2014 definitions give more protection for redenominated liabilities, hence a large basis opened up with the 2003 contracts. This trend has been observed on Italy CDS for some time, but is new to France.

Political risk was also the likely driver of spreads in the Netherlands widening by 24%. The country's general election was due in March with far-right, anti-EU leader Geert Wilders ahead in the polls at the time. In the event, the centre-right incumbent party won the most votes, and spreads have recovered accordingly.

**Table 11: February G7 industrialised countries ranked by percent change in CDS spreads**

			2/28 10yr bond yield	CDS change	2/28 CDS	% change	One year tight	Date	One year wide	Date
1	JAPAN	Japan	0.05%	-4.1	24.1	-14.4%	23.7	2/23/17	50.6	3/1/16
2	CAN	Canada	1.62%	-0.3	30.9	-0.8%	25.5	6/23/16	36.0	1/12/17
3	USGB	United States	2.36%	+0.1	23.8	+0.3%	17.6	3/18/16	28.8	11/11/16
4	ITALY	Italy	2.08%	+14.2	185.6	+8.3%	112.1	3/14/16	195.4	2/22/17
5	DBR	Germany	0.21%	+1.9	22.1	+9.4%	16.3	9/6/16	30.8	12/5/16
6	UKIN	United Kingdom	1.14%	+2.6	29.7	+9.7%	27.1	1/31/17	50.6	6/24/16
7	FRTR	France	0.88%	+15.5	56.5	+37.8%	26.8	9/16/16	68.2	2/22/17

Source: IHS Markit



Table 12: February liquid sovereign 5yr CDS best and worst spread performance<sup>2</sup>

			Liq Score	Change	2/28 spread	% change	One year tight	Date	One year wide	Date
<b>Best performers</b>										
1	THAI	Thailand	1	-18	56	-24.4%	54	2/24/17	152	3/1/16
2	EMIABD	Emirate Of Abu Dhabi	2	-11	48	-18.6%	48	2/28/17	116	3/3/16
3	CHINA	China	1	-19	92	-17.1%	91	2/27/17	133	3/1/16
4	MALAYS	Malaysia	1	-22	109	-16.7%	109	2/28/17	172	3/1/16
5	MEX	Mexico	1	-25	140	-15.3%	129	9/7/16	194	11/18/16
6	QATAR	Qatar	2	-12	69	-15.1%	69	2/28/17	120	6/14/16
7	PHILIP	Philippines	1	-14	85	-14.5%	85	2/28/17	130	11/18/16
8	JAPAN	Japan	1	-4	24	-14.4%	24	2/23/17	51	3/1/16
9	INDON	Indonesia	1	-21	129	-14.1%	125	2/22/17	226	3/1/16
10	SAUDI	Saudi Arabia	2	-14	98	-12.7%	98	2/28/17	188	6/27/16
<b>Worst performers</b>										
1	FRTR	France	1	+16	57	+37.8%	27	9/16/16	68	2/22/17
2	NETHRS	Netherlands	2	+6	30	+23.8%	23	3/18/16	35	6/28/16
3	UKIN	United Kingdom	1	+3	30	+9.7%	27	1/31/17	51	6/24/16
4	DBR	Germany	1	+2	22	+9.4%	16	9/6/16	31	12/5/16
5	ITALY	Italy	1	+14	186	+8.3%	112	3/14/16	195	2/22/17
6	BELG	Belgium	2	+2	35	+6.6%	27	10/24/16	68	6/27/16
7	AUSTLA	Australia	1	+1	25	+5.7%	20	9/8/16	49	3/1/16
8	FINL	Finland	2	+1	24	+4.6%	18	5/27/16	30	6/24/16
9	IRELND	Ireland	2	+3	67	+4.3%	55	9/8/16	92	6/27/16
10	SPAIN	Spain	2	+2	77	+2.1%	69	10/24/16	137	6/27/16

Source: IHS Markit

Table 13: February sovereign bond best price performance

## Best performers

Ticker	Issue	CCY	Liq score	2/28 price	Change	% change	2/28 yield	One year low	Date	One year high	Date	
<b>Americas</b>												
1	VENZ	Bolivarian Republic Of Venezuela 7.75 10/2019	USD	3	65.25	+4.71	+7.8%	30.09%	34.64	4/7/16	65.42	2/24/17
2	BLZE	Belize 5 2/2038	USD	3	48.00	+2.54	+5.6%	15.42%	34.88	11/18/16	57.53	5/25/16
3	BRAZIL	Federative Republic Of Brazil 6 5/2035	BRL	3	3313.15	+174.16	+5.5%		2517.87	3/1/16	3315.45	2/24/17
4	ELSALV	Republic Of El Salvador 7.625 2/2041	USD	3	90.36	+4.25	+4.9%	9.05%	83.70	2/6/17	107.63	9/8/16
5	DOMREP	Dominican Republic 6.85 1/2045	USD	3	102.74	+4.44	+4.5%	6.99%	92.39	11/14/16	114.53	8/29/16
<b>EMEA</b>												
1	SOAF	Republic Of South Africa 2.5 3/2046	ZAR	3	110.05	+9.80	+9.8%		100.25	2/22/17	115.24	3/11/16
2	BELG	Kingdom Of Belgium 2.15 6/2066	EUR	3	105.72	+9.32	+9.7%	2.27%	91.33	5/12/16	130.42	7/29/16
3	UKIN	United Kingdom Of Great Britain And Northern Ireland 1.75 7/2057	GBP	3	103.58	+7.83	+8.2%	1.90%	94.30	1/30/17	103.58	2/28/17
4	EGYPT	Arab Republic Of Egypt 8.5 1/2047	USD	3	108.42	+7.67	+7.6%	8.43%	100.75	2/3/17	108.42	2/28/17
5	GREECE	Hellenic Republic 3 2/2041	EUR	3	62.36	+4.09	+7.0%	7.84%	52.65	3/1/16	66.53	12/1/16
<b>APAC</b>												
1	MONGAA	Mongolia 10.875 4/2021	USD	3	114.00	+8.50	+8.1%	9.25%	98.67	4/8/16	114.00	2/28/17
2	SIGB	Republic Of Singapore 2.75 3/2046	SGD	3	106.21	+6.95	+7.0%	2.79%	97.51	12/13/16	114.61	9/9/16
3	SRILAN	Democratic Socialist Republic Of Sri Lanka 6.125 6/2025	USD	3	100.89	+4.63	+4.8%	6.72%	86.71	3/1/16	105.06	8/15/16
4	INDON	Republic Of Indonesia 8.5 10/2035	USD	3	144.75	+6.14	+4.4%	5.24%	128.27	3/1/16	153.14	8/15/16
5	CHINA	People's Republic Of China 3.27 8/2046	CNY	3	92.55	+3.39	+3.8%	3.89%	88.17	12/20/16	103.04	10/26/16

Source: IHS Markit

Table 14: February sovereign bond worst price performance

## Worst performers

Ticker	Issue	CCY	Liq score	2/28 price	Change	% change	2/28 yield	One year low	Date	One year high	Date
<b>Americas</b>											
1 COLOM	Republic Of Colombia 3 3/2033	COP	2	92.26	-1.88	-2.0%		80.15	3/2/16	94.61	1/27/17
2 BRAZIL	Federative Republic Of Brazil 6 8/2018	BRL	4	2997.84	-57.93	-1.9%		2824.13	3/1/16	3069.94	2/15/17
3 VENZ	Bolivarian Republic Of Venezuela 9.25 9/2027	USD	2	52.25	-.96	-1.8%	20.04%	37.12	4/7/16	57.42	10/4/16
4 REPUOFBC	Republic Of Suriname 9.25 10/2026	USD	2	99.50	-1.25	-1.2%	9.13%	97.20	12/19/16	105.13	10/26/16
5 PERU	Republic Of Peru 6.7142 2/2055	PEN	2	95.99	-1.10	-1.1%	6.93%	85.09	3/2/16	102.58	8/16/16
<b>EMEA</b>											
1 ISRAEL	State Of Israel 6 2/2019	ILS	3	111.17	-5.94	-5.1%	-2.01%	111.17	2/28/17	117.22	2/13/17
2 CZECH	Czech Republic 4.2 12/2036	CZK	2	154.07	-4.16	-2.6%	0.96%	151.95	2/22/17	161.75	9/8/16
3 RUSSIA	Russian Federation 7 8/2023	RUB	1	94.07	-1.38	-1.4%	7.90%	87.82	3/16/16	95.68	1/19/17
4 RPGANA	Republic Of Ghana 8.125 1/2026	USD	1	96.03	-1.40	-1.4%	8.62%	75.32	4/18/16	100.70	1/17/17
5 SPAIN	Kingdom Of Spain 1.8 11/2024	EUR	2	112.22	-1.41	-1.2%		107.30	3/1/16	115.71	10/3/16
<b>APAC</b>											
1 IGB	Republic Of India 7.72 10/2055	INR	3	102.27	-5.78	-5.3%	7.11%	96.00	3/16/16	114.46	12/5/16
2 CHINA	People's Republic Of China 3.38 7/2026	CNY	3	93.11	-3.81	-3.9%	3.77%	93.10	2/27/17	102.52	9/9/16
3 AUSTLA	Commonwealth Of Australia 1.25 8/2040	AUD	3	101.85	-1.92	-1.9%		101.34	2/22/17	121.05	8/3/16
4 THAI	Kingdom Of Thailand 3.58 12/2027	THB	3	106.12	-1.11	-1.0%	2.80%	104.57	12/28/16	121.28	4/6/16
5 MALAYS	Malaysia 3.493 10/2023	MYR	3	96.71	-.58	-0.6%	3.95%	93.99	11/22/16	100.00	6/6/16

Source: IHS Markit

## Municipal bonds

February's municipal bond issuance was relatively light after last month's very strong start to the year (**Figure 11**). General obligations issuance totalled \$9.2bn and revenue \$12.4bn, which was 36% and 22%, respectively, lower than last February's total. YTD issuance is approximately 28% lower than the same time period last year, but is expected to gain some momentum in the coming months as issuers look to price deals ahead of rising rates and any additional volatility driven by changes in the new administration's policy proposals on taxes, healthcare, and infrastructure spending.

### Yield basis between AAA 5yr and 10yr municipal bonds near widest level in 12 months

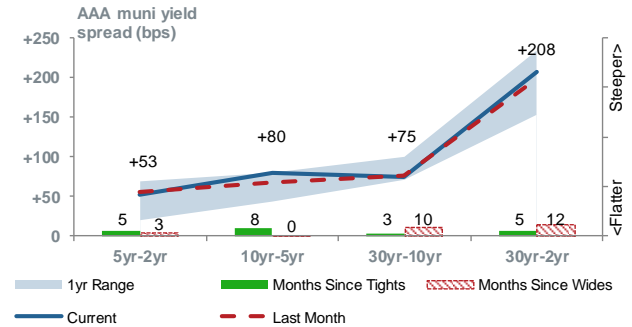
The yield basis between 5yr and 10yr AAA municipal bonds widened 12bps to end the month at 80bps, which is its widest basis in 12 months (**Figure 9**). The 10yr and 30yr basis ended the month 1bp tighter at 75bps and continues to hover near its tightest level of 71bps reported in December. The overall curve, as represented by the basis between 2yr and 30yr bond yields, steepened 9bps on the month to 208bps.

5yr AAA municipal bonds spread to treasuries tightened 15bps to end the month at Treasuries -44bps, which is the tightest level in 12 months (**Figure 10**). 2yr municipal bonds tightened the most at 17bps to a spread of Treasuries -30bps, which is 9bps wider than the tightest level reported in January 2016.

### Healthcare bonds top the best performers list

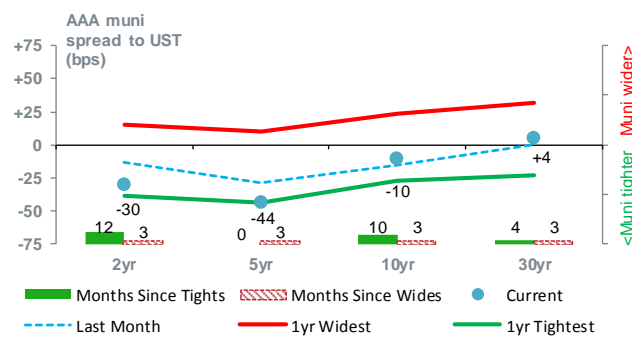
The New Jersey Health Care Facilities Financing Authority's St Joseph's Healthcare System Obligated Group Issue 2016-5 7/2026 was the best performing revenue bond in February, increasing almost 5% to end the month at a 112.33 price (**Table 15**). There were three other healthcare issues that were among the best performing revenue bonds this month.

**Figure 9: AAA muni yield curve basis by maturity<sup>3</sup>**



Source: IHS Markit

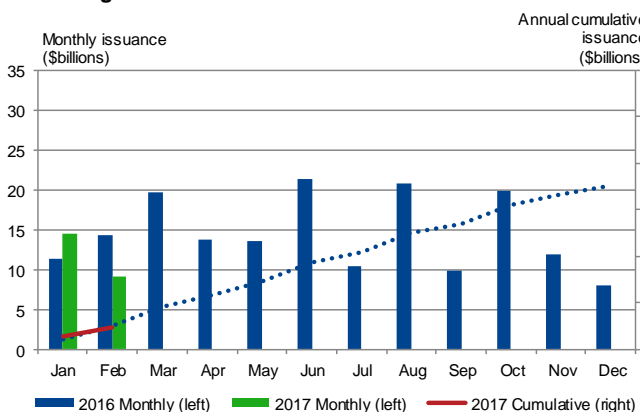
**Figure 10: AAA muni spreads to US treasuries<sup>3</sup>**



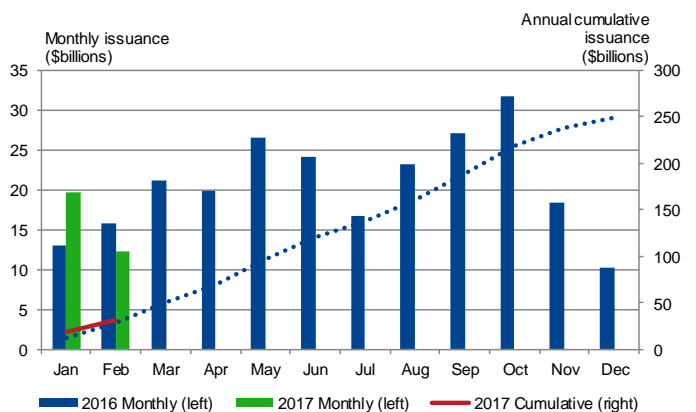
Source: IHS Markit

**Figure 11: Municipal bond issuance**

#### General obligation



#### Revenue



Source: SIFMA

Table 15: February municipal revenue bond best price performance

## Best performers

	Issuer	Issue	Liq score	2/28 price	Change	% change	One year low	Date	One year high	Date
1	New Jersey Health Care Facs Fing Auth Rev	St Joseph's Healthcare System Obligated Group Issue 2016-5 7/2026	2	112.33	+5.11	+4.8%	106.84	1/26/17	123.67	8/24/16
2	Michigan Fin Auth Rev	Hospital Revenue And Refunding - Holland Community Hospital 2013-5 1/2040	2	111.06	+4.96	+4.7%	104.35	12/2/16	112.97	7/6/16
3	Oxford Ala Pub Bldg Auth Rev	Revenue - City Of Oxford Project 2015-A 5 10/2027	1	116.83	+5.18	+4.6%	109.56	12/2/16	121.04	7/6/16
4	California St Pub Wks Brd Lease Rev	Lease Revenue - Various Capital Projects 2012-G 5 11/2030	2	117.05	+4.84	+4.3%	110.62	12/2/16	121.01	7/6/16
5	Chattanooga Tenn Health Edl & Hsg Fac Brd Rev	Revenue - Catholic Health Initiatives 2013-A 5.25 1/2045	3	106.64	+4.30	+4.2%	102.13	1/26/17	114.99	7/6/16
6	East Carolina Univ N C Univ Rev	General Revenue - 2016-A 5 10/2025	2	121.12	+4.64	+4.0%	114.07	12/2/16	127.08	7/6/16
7	Delaware Transn Auth U S 301 Proj Rev	Revenue - Us 301 Project 2015-5 6/2055	2	111.19	+4.24	+4.0%	105.86	12/16/16	120.20	7/28/16
8	Fresno Calif Jt Pwrs Fing Auth Lease Rev	Lease Revenue - Police And Fire Master Lease Projects 2009-A 6.375 4/2039	1	110.19	+3.59	+3.4%	106.25	2/15/17	110.86	6/27/16
9	Butler Cnty Ohio Hosp Facs Rev	Hospital Facilities Revenue - Uc Health 2010 5.5 11/2040	1	108.97	+3.46	+3.3%	105.25	1/26/17	109.12	2/14/17
10	New Jersey St Transn Tr Fd Auth	Transportation System - 2011-B 5.25 6/2023	2	107.65	+3.29	+3.2%	103.66	12/20/16	114.16	8/24/16

Source: IHS Markit

**Table 16: February municipal revenue bond worst price performance****Worst performers**

	Issuer	Issue	Liq score	2/28 price	Change	% change	One year low	Date	One year high	Date
1	Los Angeles Calif Dept Wtr & Pwr Rev	Power System Revenue - 2014-E 5 7/2044	1	112.93	-3.96	-3.4%	109.68	3/11/16	121.47	7/12/16
2	South Carolina St Pub Svc Auth Rev	Revenue Obligations Tax-Exempt - 2013-A 5.125 12/2043	2	109.43	-3.83	-3.4%	108.65	2/15/17	119.95	9/28/16
3	Colorado Health Facs Auth Rev	Revenue - Catholic Health Initiatives 2011-A 5 2/2041	3	101.89	-3.42	-3.2%	101.85	2/27/17	111.69	4/8/16
4	Long Beach Calif Bd Fin Auth Nat Gas Pur Rev	Natural Gas Purpose Revenue - 2007-A 5.5 11/2037	2	118.27	-3.85	-3.2%	115.08	11/30/16	139.00	7/6/16
5	University Wis Hosps & Clinics Auth Rev	Revenue - 2013-A 5 4/2038	2	109.60	-3.47	-3.1%	109.17	2/21/17	117.49	7/6/16
6	University Calif Revs	General Revenue - 2016-Ar 5 5/2035	2	113.42	-3.51	-3.0%	111.64	12/2/16	130.51	6/27/16
7	San Diego Calif Pub Facs Fing Auth Wtr Rev	Subordinated Water Revenue Refunding - 2016-B 5 8/2036	2	114.15	-3.43	-2.9%	109.95	12/2/16	127.14	6/27/16
8	New York St Dorm Auth Revs Non St Supported Debt	Teachers College Revenue - 2012-B 5 7/2042	1	110.47	-3.05	-2.7%	109.17	12/2/16	117.78	7/6/16
9	California Statewide Cmnty Dev Auth Rev	Revenue - Adventist Health System/West 2015-A 4.375 3/2044	1	102.81	-2.56	-2.4%	102.27	12/2/16	115.20	8/29/16
10	New York N Y City Mun Wtr Fin Auth Wtr & Swr Sys Rev	Water And Sewer System Second General Resolution - Fiscal 2013- 5 6/2047	1	110.98	-2.47	-2.2%	108.03	12/16/16	120.57	7/6/16

Source: IHS Markit

## Securitised products

Securitised products spreads were slightly tighter to unchanged in February, with relatively low issuance continuing to support spreads. The credit curve continued to flatten and spreads between tier one and tier two issuers compressed during the month.

On the consumer ABS side, 1-2yr AAA subprime auto paper hit the tightest spread level in 12 months, tightening 1bp to end the month at EDSF +33bps (**Table 18**). European 1-4yr AAA equipment paper was among the best performers, tightening 28bps to end the month at a spread of EURIBOR +87bps.

### A through BBB rated CMBS spreads tightest in 12 months

CMBS spreads were significantly tighter for lower rated CMBS this month, with A-rated bonds the best performer after tightening 26bps to end the month at Swaps +191bps (**Figure 13**). BBB and BBB- spreads tightened 9bps to Swaps +422bps and 11bps to Swaps +472bps, respectively, during the month.

### Loan balance pay-ups generally higher again this month

Fannie Mae and Freddie Mac MLB (110K) loan balance stories were modestly higher across every coupon in February, while most high LTV stories were sharply lower (**Table 17**). The Fannie Mae and Freddie Mac 3.0% coupon 125+ LTV story was the worst performer across all issuers and coupons, decreasing 21 ticks on the month. Ginnie Mae 5.0% coupon 110K balance cohort was the best performer, increasing 11 ticks versus last month's levels.

### CLO investors focus more on refinance upside

Spread compression and loan prepayments continue to be a theme in a weakening CLO equity environment. It appears that many investors who were previously focused on quarterly distributions have diverted their attentions to deals with potential refinance upside.

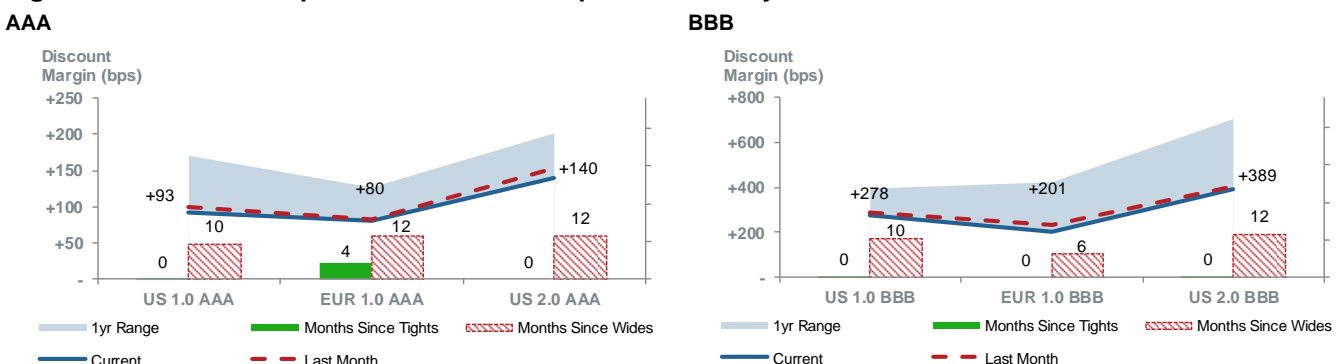
Refis will likely dominate issuance for the foreseeable future, as the limited arbitrage between loan spreads and liability costs will further dampen primary volumes. For new issuance, many 2017 CLOs coming to market have longer reinvestment periods of five years versus the usual four, which benefits equity investors due to the additional year of cash flows to offset potentially lower returns from a portfolio with lower coupons. The greater demand for the mezzanine portion of the capital structure has driven BBBs spreads tighter.

CLO spreads were tighter across the credit curve and both regions in February, with all but the EUR 1.0 AAAs reaching their tightest spreads in 12 months (**Figure 12**). EUR 1.0 BBB tightened the most again this month, ending the month 31bps tighter to a spread of L+201bps.

### Non-agency spreads remained flat, while CRT credit generally tighter

Legacy non-agency MBS spreads were slightly tighter during the month. The increase in the number of NAIC modelled non-agency bonds is one potential driver of greater demand for certain bonds in the sector, with relatively flat spreads leaving prepayments and interest carry as the main source of returns for the sector this year. On a positive note, prime 2.0 paper tightened 8bps to end the month at Swaps +110bps.

Figure 12: US and European CLO AAA/BBB spread summary



**Table 17: February 2016 agency specified pools pay-ups in ticks (1/32 points)**

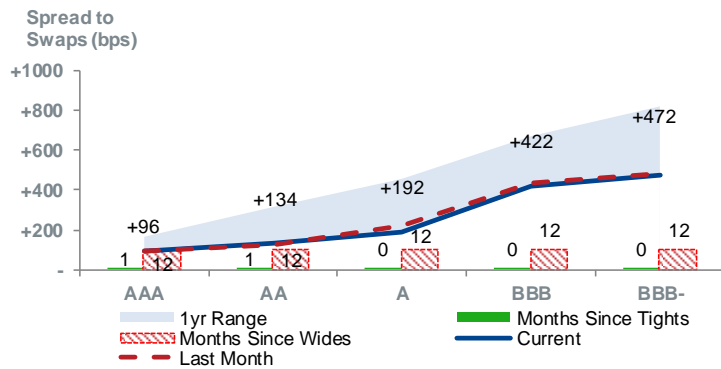
FNM/FHL 30Y Specified Pools Pay-ups					
Coupon	3	3.5	4	4.5	5
LLB (85K)	0-19	0-27	1-09	1-22	2-05
MLB (110K)	0-14	0-23	1-04	1-15	1-23
HLB (150K)	0-10	0-16	0-23	1-05	1-06
New Prod	0-03	0-04	0-06	0-09	N/A
MHA <90	0-03	0-05	0-07	0-14	0-18
MHA <95	0-09	0-09	0-10	0-17	0-25
MHA <100	0-03	0-05	0-11	0-16	0-22
MHA <105	0-14	0-11	0-14	0-24	1-16
<125 LTV	0-07	0-04	0-29	0-31	2-03
125+ LTV	-0-09	0-08	0-19	1-11	2-08

MoM Change				
3	3.5	4	4.5	5
+0-03	+0-01	+0-02	-0-01	+0-05
+0-03	+0-02	+0-03	+0-02	+0-06
+0-01	-0-01	-0-04	+0-06	+0-03
+0-01	0-00	+0-01	0-00	N/A
-0-02	+0-01	+0-03	+0-03	+0-02
+0-02	+0-04	-0-03	-0-03	+0-04
+0-01	-0-01	+0-02	-0-02	+0-03
+0-02	-0-03	-0-03	-0-01	-0-13
-0-02	-0-01	-0-11	-0-05	0-00
-0-21	-0-05	-0-01	+0-01	0-00

GNMA 30Y Specified Pools Pay-ups					
Coupon	3	3.5	4	4.5	5
LLB <sub>1</sub> (85K)	0-12	1-02	1-26	2-05	1-01
LLB <sub>2</sub> (110K)	0-11	0-23	1-13	1-27	2-30
MLB (125K)	0-07	0-19	0-30	1-25	1-16
HLB <sub>1</sub> (150K)	0-10	0-20	0-31	1-11	1-26
HLB <sub>2</sub> (175K)	0-11	0-20	0-21	0-27	0-23
New Prod	0-03	0-04	0-13	0-09	0-13
PR Geo	0-13	0-25	1-11	2-00	2-13

MoM Change				
3	3.5	4	4.5	5
0-00	+0-01	+0-01	0-00	0-00
0-00	-0-07	-0-01	+0-06	+0-11
0-00	-0-01	0-00	+0-09	-0-01
+0-04	0-00	0-00	+0-03	+0-05
+0-01	+0-03	+0-02	-0-03	0-00
0-00	0-00	0-00	0-00	0-00
0-00	0-00	+0-02	+0-01	+0-01

**Figure 13: CMBS credit curve spread to swaps (10-year)**



Source: Trepp



Table 18: Global consumer ABS spread summary

	Current (bps)	MoM change (bps)	1yr tight	Date	1yr wide	Date
<b>US Credit Cards - Fixed-Rate</b>						
2-3yr AAA US Swaps	+20	-5	+20	2/27/17	+58	3/11/16
4-5yr AAA US Swaps	+33	-3	+32	9/6/16	+71	4/18/16
<b>US Credit Card - Floating-Rate</b>						
2-3yr AAA US LIBOR DM	+26	-2	+26	10/12/16	+40	3/16/16
4-5yr AAA US LIBOR DM	+39	-	+36	1/20/17	+96	5/16/16
<b>US Prime Auto - Fixed-Rate</b>						
0-2yr AAA EDSF	+12	+	+11	2/3/17	+45	3/29/16
2+yr AAA US Swaps	+20	-3	+18	2/7/17	+60	3/29/16
<b>European Prime Auto Loan - Floating-Rate</b>						
AAA EUR LIBOR DM	+33	-3	+21	12/5/16	+54	2/5/16
<b>US Subprime Auto - Fixed-Rate</b>						
1-2-yr AAA EDSF	+33	-1	+33	2/28/17	+84	5/12/16
2+yr AAA US Swaps	+36	+2	+34	1/31/17	+96	3/22/16
<b>US Equipment - Fixed-Rate</b>						
2+yr AAA US Swaps	+26	-1	+26	2/24/17	+85	6/14/16
<b>European Equipment - Floating-Rate</b>						
A EUR LIBOR DM	+87	-28	+83	11/8/16	+159	3/10/16
<b>US FFELP Student Loans - Floating-Rate</b>						
2-4yr AAA 3mo US LIBOR DM	+80	-5	+68	7/29/16	+151	3/25/16
10+yr AAA 3mo US LIBOR DM	+117	-11	+117	2/27/17	+191	3/21/16

Source: IHS Markit

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