

Global fixed income monthly focus – January 2017

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

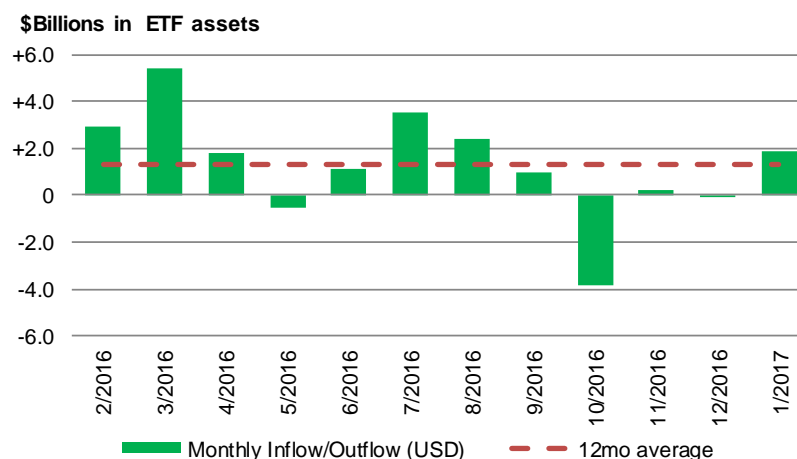
At first glance, markets looked in better than expected shape in January, with multiple positive signs throughout the month. Emerging market spreads were tighter over the month despite the new US administration taking office and prior fears of EM capital flight. Major financings for Petrobras and Argentina along with multiple other sovereigns were accompanied by a healthy and growing range of Latin American corporate borrowers together with Chinese corporate supply. European supply saw heavy oversubscription for sovereign benchmark deals for Spain, Belgium and Italy throughout the month. Markets also absorbed the start of what is expected to be very sizeable banking sector supply to meet TLAC and MREL requirements for instruments which can be bailed in, without financial sector spreads showing signs of significant adjustment.

On the negative side, the latest data available shows that foreign holdings of US Treasury bonds have declined from \$6.28trn at end-June 2016 to \$5.94trn as of end-November 2016. Italian 10-year bond yields had surged to a recent high yield of 2.24% on January 26, following the partial blockage of its new electoral law, which potentially increases risks of political instability, and a lack of stable government. Mozambique has defaulted on its already restructured international debt, with little indication it will be able to make payment until it reached a deal with the IMF. Mexico faces growing issues in its relations with the US: dislocations to NAFTA would be likely to hurt its economy and could lead to significant underperformance in its debt.

Beginning this month we will be including a section dedicated to analyzing trends across the [Markit iBoxx](#) family of indices. **Figure 1** shows that from February 2016 to January 2017 almost \$16bn in new ETF assets was benchmarked to Markit indices.

- In the leveraged loans sector, European telecom spreads tightened the most across the entire credit curve in January after being the worst performer the prior month. There were 12 consumer goods or services companies globally, across the par and distressed categories, which were among the worst performers during the month.
- The Markit iTraxx Europe started the year at 72bps and quickly rallied to 67bps. Since then the index has gradually given up the gains and traded around 70bps for most of January.
- The negative impact of the selloff in European rates and uncertainty pertaining to upcoming elections became very apparent in the credit markets in January, as most euro and sterling corporate bond sectors ended the month lower on a total return basis
- The combination of concerns over the Italian banking system and uncertainty of the upcoming French elections resulted in the two countries taking the top spot on the month's sovereign CDS worst performers list. On a percentage basis, France underperformed Italy slightly, with their CDS spreads ending the month 8.4% (+3bps) and 8.2% (+13bps) wider, respectively.
- The yield basis between 10yr and 30yr AAA municipal bonds ended the month at 76bps, which is only 5bps from the tightest basis of 71bps reported on November 29

Figure 1: One year monthly funds flows for ETFs benchmarked to Markit indices



Source: IHS Markit

Indices

A new US presidential administration lifted all asset classes in January. Trump took office with promises to lower corporate tax rates and roll back Dodd Frank and environmental regulations, causing investors to rush into riskier assets positioned to do well under a strong economy.

Equities and riskier debt led the charge, with the S&P 500 Index returning 1.8% versus 1.07% for the [Markit iBoxx \\$ Liquid High Yield Index](#) and 0.35% for the [Markit iBoxx Corporates Index](#) (which is IG-only).

Over \$128bn in new issuance entered the [Markit iBoxx \\$ Overall Index](#) in January. The largest share came from non-financial corporates, which accounted for over 43% of new issuance. Financials and treasuries together comprised another 40% of new issuance, each roughly the same amount.

This is considerably less than the previous January, where \$206.2bn in new issuance entered the \$ Overall index. However \$114bn, or 55.3%, came from four new Treasury bonds entering the universe.

All that is gold glitters

With a 3.44% January return, the [Markit iBoxx USD Gold Mining Index](#) registered the best return by far within the iBoxx USD index family, beating [Markit iBoxx \\$ Overall Index](#) by over three percent (**Table 1**). The [Markit iBoxx \\$ Overall Index](#), which includes sovereigns, quasi-sovs and corporate bonds, returned only 0.33% for the month. Price gains in precious metals led the rally, with gold having the largest monthly return since Brexit at 5.17% after falling 1.77% the month before (source: SDR Gold Shares (GLD) mid-price).

Barrick Gold bonds had the best performance in the index, returning nearly 5% for the month. However, Barrick's equity performance still doubled this result with a 15% return.

Table 1: Markit iBoxx USD Gold Mining Index January 2017 returns

Ticker	Issuer	% weight (12/31)	Return Contribution	Issuer Return
ABXCN	Barrick Gold	38.21%	1.88%	4.93%
YRICN	Yamana Gold	3.48%	0.11%	3.06%
NEM	Newmont Mining	29.83%	0.87%	2.92%
NCMAU	Newcrest Mining	14.11%	0.29%	2.09%
GCN	Goldcorp	14.38%	0.28%	1.94%
Total		100.00%	3.44%	n.a.

Source: IHS Markit

Table 2: Markit iBoxx \$ Telecommunications Index January 2017 returns

Ticker	Issuer	% weight (12/31)	Return Contribution	Issuer Return
VZ	Verizon Communications Inc	46.16%	-1.29%	-2.80%
T	AT&T Inc	36.08%	-0.87%	-2.42%
VOD	Vodafone Group Plc	3.55%	-0.01%	-0.23%
AMXLMM	America Movil SAB de CV	5.06%	0.00%	-0.07%
RCICN	Rogers Communications Inc	2.60%	0.00%	0.10%
ORAFP	Orange SA	2.22%	0.01%	0.64%
DT	Deutsche Telekom International Finance BV	0.85%	0.01%	1.28%
TELEFO	Telefonica Emisiones SAU	2.56%	0.04%	1.37%
CTL	Qwest Corp	0.90%	0.02%	2.50%

Source: IHS Markit

Telecom woes

Telecommunication corporate bonds struggled in January, with the [Markit iBoxx \\$ Telecommunications Index](#) returning -0.57% (**Table 2**). In fact, the worst performing index in the iBoxx USD index family was the [Markit iBoxx \\$ Domestic Telecommunications 15Y+ Index](#), which returned -2.09% as investors sought to unload their long duration exposure to the sector.

Negative performance in the 15Y+ index was driven by the -2.80% and -2.42% returns from long-dated Verizon and AT&T bonds, respectively, which together began the month with a combined 82.24% weight in the index.

Verizon fell following the release of their fourth quarter performance, where YoY operating revenues and net income fell by 5.6% and 16.6%, respectively. Both Verizon and AT&T have suffered from increased competition from smaller market players like T-Mobile, which has been adding subscribers to its customer base at a faster rate. Both firms are looking to hedge their exposure by entering new businesses, with Verizon merging with Time Warner Inc. and Verizon bidding on Yahoo's core businesses.

Return of risk

January saw an increased appetite for risk, with the [Markit iBoxx \\$ Liquid High Yield Index](#) returning 1.07%, considerably more than the 0.35% earned from the iBoxx \$ Corporates Index, which only includes investment grade names.

Within the HY market, stepping an additional rung down the credit spectrum paid off, with the greatest return pick up seen going from the B to the CCC-rated index (**Table 3**). Spreads tightened across all risk tranches.

Table 3: Markit iBoxx \$ Liquid High Yield Index

Name	Month-to-Date	OAS (1/31)	OAS
	Return		Change MoM
iBoxx USD Liquid High Yield CC Index	3.21%	1477	-1231
iBoxx USD Liquid High Yield CCC Index	2.29%	892	-56
iBoxx USD Liquid High Yield B Index	1.09%	398	-14
iBoxx USD Liquid High Yield BB Index	0.81%	269	-5

Source: IHS Markit

Energy comeback

Trump's outspokenness on planned energy deregulation bore significant impact in the high yield market. The [Markit iBoxx USD Liquid High Yield Utilities](#) and [Markit iBoxx USD Liquid High Yield Oil & Gas](#) indices had the greatest performances of any of the HY sector indices, returning 2.68% and 2.05%, respectively.

The firms that comprise the Utilities index are heavily regulated and subject to rate-regulation. Besides lower regulatory costs, less regulation could increase these firms' pricing power in markets where they have natural monopolies.

Despite an S&P ratings downgrade to CCC- from CCC on January 10, GenOn Energy had the best return in the Utilities index, with their parent company NRG Energy Inc., posting the second highest return. GenOn and NRG had been struggling under mounting financial pressure and rallied following the rise in the price of oil and the anticipated loosening in regulations.

Despite GenOn and NRG starting the month with just a 19.83% weight, together they accounted for 1% of the index's 2.68% return. GenOn, having started the index with just shy of a 3% weight, contributed roughly a quarter of that, though on an absolute basis returned 8.16% versus NRG's 4.44%.

Leveraged loans

Every North American telecom rating cohort reaches its best level in 12 months

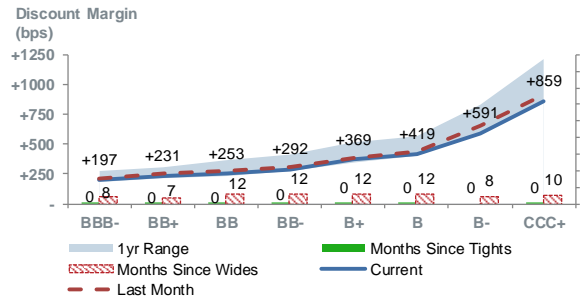
European telecom sector spreads tightened the most across the entire credit curve in January (Table 6) after being the worst performer the prior month. Similar to the other sectors, the B- cohort was the best performer on the curve, tightening 66bps on the month. We note that every rating category in the sector's North American equivalent reached its tightest spread level over the past 12 months during the month (Figure 2).

The North American healthcare sector was the worst performer during the month, despite the BB, B-, and CCC+ cohorts reaching their tightest level in 12 months in January (Figure 3). The BBB- and B+ cohorts widened 4bps and 5bps, respectively. Figure 4 compares North American telecom to healthcare spreads and highlights how the latter has only recovered modestly since the sector came under pressure at the end of last summer.

Consumer goods and services companies make up 60% of the names on the worst performers list

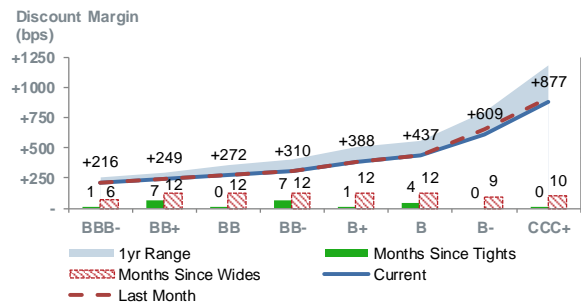
There were 12 consumer goods or services companies globally, across the par and distressed categories, which were among the worst performers during the month. Croatian retailer and food manufacturer Agrokor's 5/14 PIK Toggle (PIK 10.50%) TL issue was the worst performing loan in January, declining 36% to end the month at a 49.36 price (Table 5). During the month, Moody's downgraded the company's corporate debt to B3 from B2 on January 9 and the company cancelled its syndication of a three year term loan in mid-January.

Figure 2: North American telecom sector spreads to LIBOR



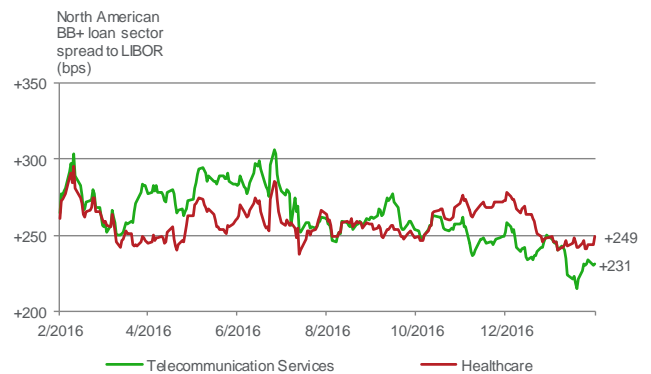
Source: IHS Markit

Figure 3: North American healthcare sector spreads to LIBOR



Source: IHS Markit

Figure 4: BB+ North American telecom and healthcare sector spreads to LIBOR



Source: IHS Markit

Table 4: January North American loans best and worst price performance¹
North America

LXID	Loan Name	Sector	Country	Liq score	1/31 price	% change	One year low	Date	One year high	Date	
Best performers											
Par											
1	LX136541	Frac Tech International 4/14 Cov-Lite TL	Energy	USA	1	90.63	+11.4%	10.20	2/19/16	92.58	1/24/17
2	LX136314	Aricent 4/14 2nd Lien TL	Technology	USA	2	92.81	+9.4%	76.17	9/12/16	94.00	2/17/16
3	LX128907	Weight Watchers 4/13 Cov-Lite TLB2	Consumer Services	USA	1	88.82	+7.7%	63.22	2/26/16	88.82	1/31/17
4	LX136113	TNT Logistics 3/14 (USD) Canadian Cov-Lite TL	Industrials	CAN	2	87.09	+7.0%	75.88	3/10/16	87.44	5/2/16
5	LX138064	Wencor 6/14 Cov-Lite 2nd Lien TL	Industrials	USA	3	87.58	+5.3%	68.75	5/2/16	88.75	1/24/17
Distressed											
1	LX141448	Education Management 1/15 TLA	Consumer Services	USA	4	39.63	+70.9%	22.10	1/25/17	39.63	1/31/17
2	LX135814	Nine West 4/14 Cov-Lite Unsecured Guaranteed TL	Consumer Goods	USA	4	25.92	+17.4%	14.00	10/6/16	29.17	3/2/16
3	LX137138	UTEX Industries 5/14 2nd Lien TL	Industrials	USA	2	81.35	+16.5%	38.00	3/3/16	81.81	1/30/17
4	LX129507	Charlotte Russe 5/13 Cov-Lite TL	Consumer Services	USA	4	65.00	+11.5%	33.67	7/8/16	65.00	1/31/17
5	LX135620	Nine West 4/14 Cov-Lite TL	Consumer Goods	USA	3	67.60	+9.9%	49.10	9/21/16	67.80	1/30/17
Worst performers											
Par											
1	LX135929	Talbots 3/14 Cov-Lite TL	Consumer Services	USA	3	90.17	-7.1%	90.08	1/30/17	97.56	9/23/16
2	LX146680	Ascena Retail 7/15 Cov-Lite TLB	Consumer Services	USA	2	90.96	-6.6%	89.63	1/23/17	98.35	10/24/16
3	LX144914	Academy Sports 6/15 TLB	Consumer Services	USA	1	87.17	-5.6%	87.17	1/31/17	98.81	4/26/16
4	LX152400	McGraw-Hill 5/16 Cov-Lite TLB	Consumer Services	USA	1	94.71	-5.3%	94.71	1/31/17	100.66	9/12/16
5	LX152766	Thomson Learning 6/16 TLB	Industrials	USA	1	92.88	-4.4%	92.88	1/31/17	99.96	10/14/16
Distressed											
1	LX131817	Rue 21 10/13 TLB	Consumer Services	USA	4	26.50	-31.0%	26.50	1/31/17	85.50	3/28/16
2	LX135660	Payless ShoeSource 3/14 2nd Lien TL	Consumer Services	USA	3	11.00	-24.1%	11.00	1/31/17	32.50	2/9/16
3	LX127583	Ameriforge 1/13 2nd Lien TL	Industrials	USA	4	12.17	-14.1%	12.17	1/31/17	19.22	4/22/16
4	LX154148	SunEdison 7/16 W/O Rights A3 2nd Lien TL	Technology	USA	4	35.50	-12.0%	35.50	1/31/17	54.83	9/9/16
5	LX140824	Exgen Texas 9/14 Cov-Lite TL	Utilities	USA	4	68.75	-9.2%	61.00	2/16/16	81.50	9/29/16

Source: IHS 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 5: January European loans best and worst price performance¹

Europe

	LXID	Loan Name	Sector	Country	Liq score	1/31 price	% change	One year low	Date	One year high	Date
Best performers											
Par											
1	LX152168	HC Starck 3/16 (EUR) TLE	Basic Materials	DEU	2	93.20	+11.0%	82.50	10/14/16	93.20	1/31/17
2	LX135963	Petroleum Geo-Services 3/14 Cov-Lite TLB	Energy	NOR	1	87.80	+9.3%	52.00	2/16/16	87.88	1/30/17
3	LX155035	Yell 9/16 (USD) PIK TLB2	Financials	GBR	3	196.25	+8.1%	115.00	9/12/16	196.25	1/31/17
4	LX137173	KCA 5/14 TLB	Energy	GBR	2	95.25	+7.7%	51.50	3/4/16	95.25	1/31/17
5	LX136123	TNT Logistics 3/14 (USD) Dutch BV Cov-Lite TL	Industrials	NLD	2	87.09	+7.0%	75.88	3/10/16	87.44	5/2/16
Distressed											
1	LX110984	HC Starck 11/06 (EUR) 2nd Lien TLB	Basic Materials	DEU	5	49.33	+48.6%	31.80	12/20/16	82.75	3/31/16
2	LX129817	Pacific Drilling 5/13 TL	Energy	LUX	1	50.00	+42.5%	19.19	2/29/16	50.39	1/30/17
3	LX126785	Cortefiel 9/12 Extended PIK TLB2	Consumer Services	ESP	2	72.50	+11.3%	55.50	7/1/16	83.31	2/2/16
4	LX133515	Saur 10/13 PIK TLB	Utilities	FRA	4	82.30	+9.7%	55.00	2/9/16	82.33	1/24/17
5	LX141989	Vivarte 10/14 Reinstated TL (ORA/Pref + Equity Stapled) TL	Consumer Goods	FRA	3	16.30	+8.4%	10.31	11/4/16	72.70	3/14/16
Worst performers											
Par											
1	LX138207	Serbia Broadband (Telemach) 6/14 PIK TL	Consumer Services	NLD	1	100.83	-2.7%	96.46	3/1/16	104.03	6/9/16
2	LX139558	Endemol 8/14 (USD) Cov-Lite TL	Consumer Services	NLD	1	90.46	-1.6%	79.63	5/19/16	94.45	12/8/16
3	LX138629	FCC 6/14 (EUR) PIK TLB	Industrials	ESP	5	90.52	-1.4%	83.83	6/23/16	91.94	12/29/16
4	LX152173	Samsonite International 4/16 TLB	Consumer Goods	LUX	1	100.63	-0.9%	100.08	1/24/17	101.54	1/3/17
5	LX145129	Endo Pharmaceuticals 6/15 TLB	Healthcare	LUX	1	99.67	-0.8%	97.41	11/7/16	100.59	12/19/16
Distressed											
1	LX137596	Agrokor 5/14 PIK Toggle (PIK 10.50%) TL	Consumer Goods	HRV	3	49.36	-36.3%	45.50	1/25/17	97.95	6/28/16
2	LX059053	Fraikin 2/07 (EUR) Holdco TL	Consumer Services	FRA	2	66.42	-29.7%	52.50	2/4/16	94.42	1/6/17
3	LX121462	Jack Wolfskin (8/11) TLb	Consumer Goods	DEU	1	46.59	-4.2%	41.83	1/13/17	80.42	4/27/16
4	LX136503	SkillSoft 4/14 Cov-Lite 2nd Lien TL	Technology	LUX	1	72.33	-2.8%	42.00	3/2/16	75.50	12/14/16
5	LX137914	PagesJaunes 6/14 (EUR) A7 TL	Technology	FRA	3	60.25	-2.6%	49.40	3/11/16	62.40	12/21/16

Source: IHS Markit

Table 6: 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	-5	-8	-12	-11	-3	-10	-52	-46
	EU	-8	-11	-14	-14	-6	-14	-55	-48
	Change NA-EU	+3.2	+3.4	+2.5	+3.0	+3.1	+3.0	+3.2	+2.6
Consumer Goods	NA	+1	-3	-7	-6	+2	-5	-47	-40
	EU	-2	-6	-9	-9	-1	-8	-49	-43
	Current NA-EU	+2.8	+3.0	+2.2	+2.6	+2.7	+2.7	+2.8	+2.2
Consumer Services	NA	+1	-3	-7	-6	+2	-5	-47	-41
	EU	-2	-6	-9	-9	-1	-8	-50	-43
	Current NA-EU	+3.0	+3.2	+2.3	+2.8	+2.9	+2.8	+3.0	+2.4
Energy	NA	-9	-12	-16	-16	-8	-15	-56	-50
	EU	-12	-16	-19	-19	-11	-18	-59	-53
	Current NA-EU	+3.3	+3.6	+2.7	+3.2	+3.2	+3.2	+3.3	+2.7
Financials	NA	-12	-16	-20	-19	-11	-18	-60	-54
	EU	-16	-20	-23	-23	-15	-22	-63	-56
	Current NA-EU	+3.5	+3.8	+2.9	+3.4	+3.4	+3.4	+3.5	+2.9
Healthcare	NA	+4	+1	-3	-3	+5	-2	-43	-37
	EU	+2	-2	-5	-5	+3	-4	-46	-39
	Current NA-EU	+2.4	+2.7	+1.8	+2.3	+2.3	+2.3	+2.4	+1.9
Industrials	NA	-6	-9	-13	-13	-5	-12	-53	-47
	EU	-9	-12	-16	-16	-8	-15	-56	-49
	Current NA-EU	+2.9	+3.2	+2.3	+2.7	+2.8	+2.8	+2.9	+2.3
Technology	NA	-0	-4	-8	-7	+1	-6	-48	-41
	EU	-3	-7	-10	-10	-2	-9	-50	-44
	Current NA-EU	+2.8	+3.0	+2.1	+2.6	+2.7	+2.6	+2.8	+2.2
Telecommunication Services	NA	-15	-18	-22	-22	-14	-21	-62	-56
	EU	-19	-22	-25	-25	-17	-24	-66	-59
	Current NA-EU	+3.4	+3.7	+2.8	+3.3	+3.3	+3.3	+3.4	+2.8
Utilities	NA	-9	-12	-16	-16	-8	-15	-56	-50
	EU	-12	-16	-19	-19	-11	-18	-60	-53
	Current NA-EU	+3.4	+3.6	+2.7	+3.2	+3.3	+3.2	+3.4	+2.8

Source: IHS Markit

Credit default swaps

Uncertainty can often trigger wild oscillations in credit markets, particularly when liquidity is thin.

But it can also cause stasis in spreads; investors are reluctant to take directional views prior to major events. At the moment it appears that the latter scenario is dominant in 2017. The major credit indices are range bound, with large daily moves few and far between.

The [Markit iTraxx Europe](#) started the year at 72bps and quickly rallied to 67bps. Since then the index has gradually given up the gains and traded around 70bps for most of January. The rally at the beginning of the month outpaced single names and led to the skew rising to 4bps, but this was eliminated by the start of February. In North America, the skew is larger and stayed at 5bps for most of the month, with a brief jump to 8bps during the first week rally.

Credit market relatively calm

On a macro level, then, the credit markets were relatively docile. But the month was not without incident, and there were some notable moves in the single name universe. Mining firms in North America and Asia were among the best performing credits. Canadian miners Barrick Gold and Teck Resources tightened by 23% and 22% respectively, with the latter continuing its strong showing from 2016 ([Table 7](#)). Anglo Australian names BHP Billiton and Rio Tinto also both hit their tightest levels since mid-2015.

Petrobras best performer in the Americas

But the leading name in the Americas was an oil and gas firm that is not normally associated with credit strength. Brazil's Petrobras was in deep trouble this time last year, with 5-year CDS trading in excess of 1,000bps amid a corruption scandal. Since then, it has embarked on a clean-up effort, including a massive divestment programme aimed at reducing debt. This strategy has helped its spreads reach their tightest levels in more than three years.

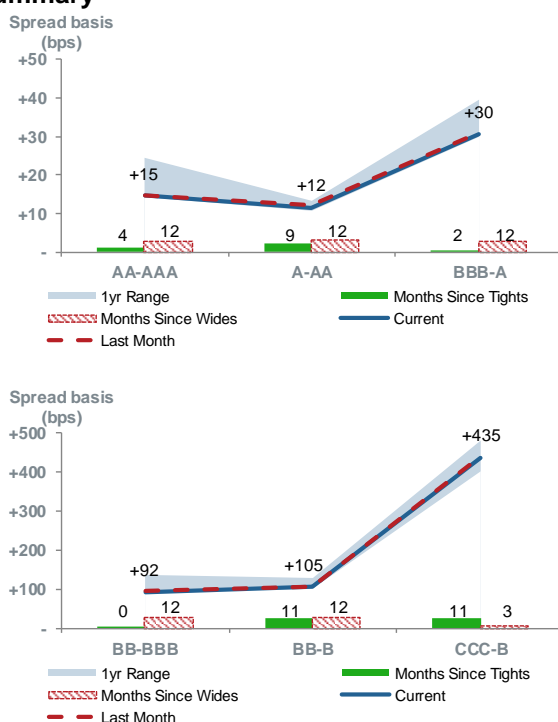
No energy companies were among the top five performing names in Europe. Financials were well represented, with two Nordic banks tightening significantly. Banks in the region, including Danske Bank and Handelsbanken, but by no means restricted to these institutions, have some of the strongest balance sheets of any bank globally, and this means that they trade tighter than the vast majority of their peers.

Publishing firm Pearson was the second worst performing European name on a percentage basis, reflecting its ongoing struggles and a profit warning in January ([Table 8](#)).

BBB-BB CDS sector curve flattest in 12 months

The BBB/BB CDS sector spread basis was at its tightest level in 12 months of 91bps on January 27, while ending the month at 2bps tighter at 92bps ([Figure 5](#)). The basis for A/BBB and B/CCC tightened 1bp and 3bps, respectively, while the remaining cohorts remained unchanged.

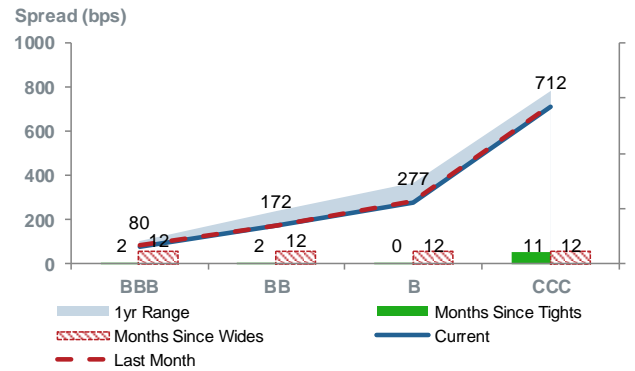
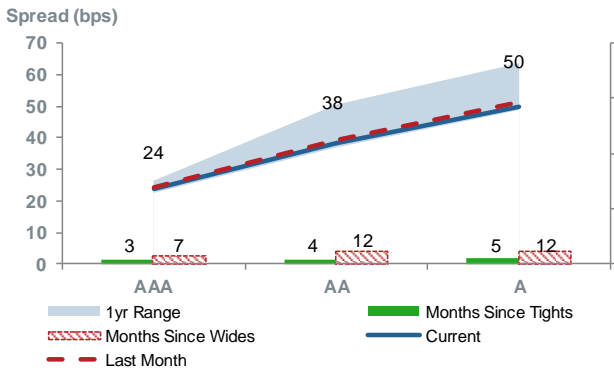
Figure 5: Global CDS sector ratings spread basis summary



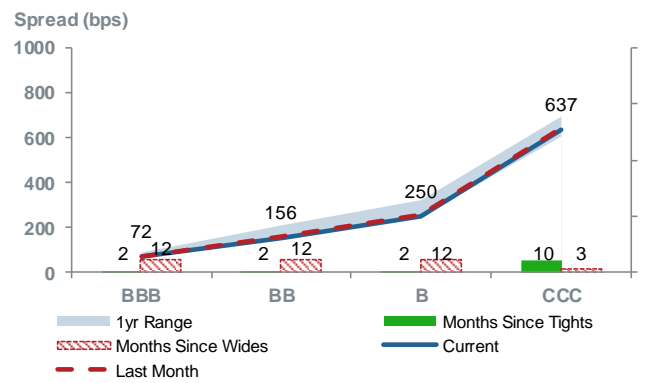
Source: IHS Markit

Figure 6: January regional CDS sector spread summary

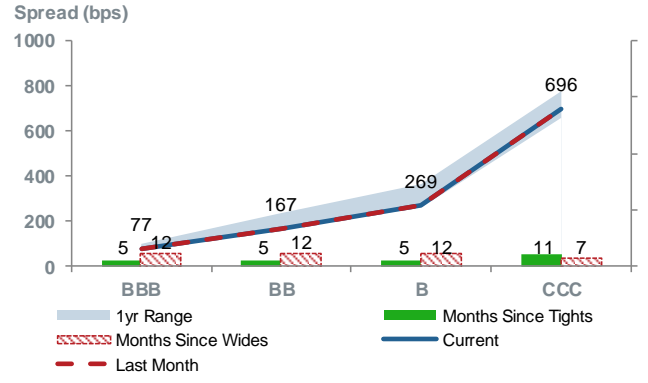
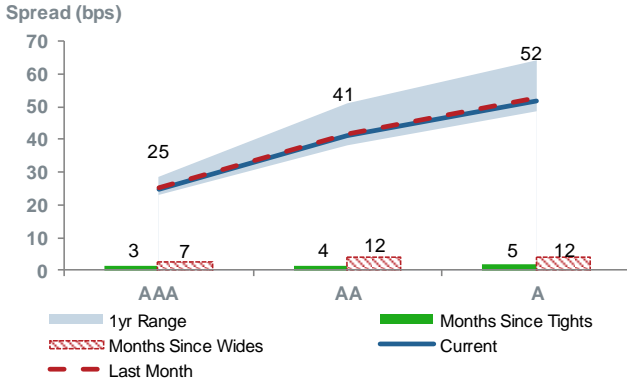
Global



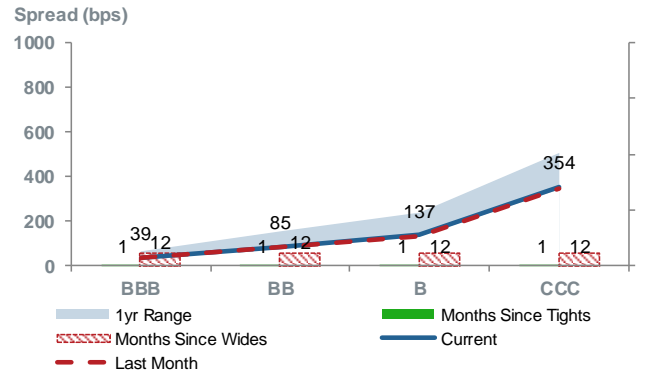
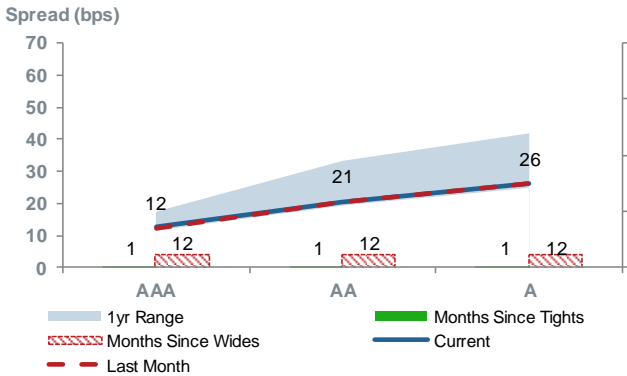
North America



Europe



Japan



Source: IHS Markit

Table 7: January liquid 5yr corporate CDS best spread performance²

Best performers

Ticker	Company	Sector	Country	Liq score	1/31 spread	Change	% change	One year tight	Date	One year wide	Date	
Americas												
1	PETBRA	Petroleo Brasileiro Sa Petrobras	Energy	BRA	2	356	-116	-24.5%	355	1/27/17	1174	2/15/16
2	ABX	Barrick Gold Corp	Basic Materials	CAN	1	125	-38	-23.1%	112	8/16/16	331	2/2/16
3	TECKRS	Teck Res Ltd	Energy	CAN	2	206	-59	-22.3%	205	1/26/17	1654	2/11/16
4	DHI	D R Horton Inc	Consumer Goods	USA	2	100	-28	-22.0%	95	9/5/16	201	2/11/16
5	THC	Tenet Healthcare Corp	Healthcare	USA	2	587	-164	-21.9%	471	4/20/16	779	11/10/16
EMEA												
1	AYLL	Safeway Ltd	Consumer Services	GBR	1	61	-42	-40.5%	61	1/27/17	167	2/11/16
2	RCL	Royal Caribbean Cruises Ltd	Consumer Services	LBR	1	114	-36	-24.0%	114	1/31/17	267	2/12/16
3	STAN-Bank	Std Chartered Bk	Financials	GBR	1	93	-23	-19.9%	92	1/26/17	228	2/11/16
4	DANBNK	Danske Bk A S	Financials	DNK	2	48	-11	-18.4%	47	1/30/17	100	2/11/16
5	SVSKHB	Svenska Handelsbanken Ab	Financials	SWE	2	47	-10	-17.7%	47	1/31/17	94	2/11/16
APAC												
1	BHP	Bhp Billiton Ltd	Basic Materials	AUS	1	90	-21	-18.6%	90	1/31/17	252	2/10/16
2	KAWHI	Kawasaki Heavy Inds Ltd	Industrials	JPN	2	34	-8	-18.3%	33	1/30/17	120	2/17/16
3	RIOLN-Ltd	Rio Tinto Ltd	Basic Materials	AUS	2	99	-22	-18.1%	97	1/26/17	279	2/10/16
4	JFEHLD	Jfe Hldgs Inc	Basic Materials	JPN	2	41	-8	-16.3%	41	1/31/17	171	2/15/16
5	WSTP	Westpac Bkg Corp	Financials	AUS	2	59	-11	-15.6%	59	1/31/17	140	2/25/16

Source: IHS 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 8: January liquid 5yr corporate CDS worst spread performance²

Worst performers

	Ticker	Company	Sector	Country	Liq score	1/31 spread	Change	% change	One year tight	Date	One year wide	Date
Americas												
1	TGT	Target Corp	Consumer Services	USA	1	60	+20	+49.0%	22	3/18/16	60	1/31/17
2	KSS	Kohls Corp	Consumer Services	USA	1	243	+71	+41.1%	125	12/8/16	274	5/19/16
3	AZO	Autozone Inc	Consumer Services	USA	1	47	+13	+37.4%	28	3/14/16	47	1/31/17
4	DELHIZ	Delhaize America Llc	Consumer Services	USA	2	56	+15	+36.4%	38	8/5/16	56	1/31/17
5	IHEAINC	IHeartcommunications Inc	Consumer Services	USA	2	14728	+3802	+34.8%	3249	8/1/16	34697	12/23/16
EMEA												
1	NEWLOOAC	New Look Sr Issuer Plc	Consumer Services	GBR	1	970	+238	+32.6%	372	3/18/16	970	1/31/17
2	PSON	Pearson Plc	Consumer Services	GBR	1	142	+33	+29.8%	81	8/8/16	142	1/31/17
3	PREMFOO	Premier Foods Fin Plc	Consumer Goods	GBR	1	440	+99	+29.1%	134	4/12/16	585	2/11/16
4	ASTL	Astaldi S Per Azioni	Industrials	ITA	1	917	+173	+23.3%	723	1/4/17	1515	8/30/16
5	ORANAA	Orange	Telecommunications Services	FRA	1	69	+11	+19.0%	49	3/14/16	75	2/11/16
APAC												
1	TOYOTA	Toyota Mtr Corp	Consumer Goods	JPN	2	21	+6	+39.5%	15	12/30/16	46	2/17/16
2	HNDA	Honda Mtr Co Ltd	Consumer Goods	JPN	2	29	+7	+33.0%	21	12/22/16	71	4/11/16
3	NSANY	Nissan Mtr Co Ltd	Consumer Goods	JPN	2	29	+6	+27.2%	22	12/21/16	78	2/12/16
4	MITHI	Mitsubishi Heavy Inds Ltd	Industrials	JPN	2	29	+6	+24.3%	23	9/16/16	75	2/12/16
5	OJIHOL	Oji Hldgs Corp	Basic Materials	JPN	2	27	+5	+23.3%	21	12/15/16	73	2/12/16

Source: IHS Markit

Global corporate bonds

High yield posts gains across all three currencies

The negative impact of the selloff in European rates and uncertainty pertaining to upcoming elections became very apparent in the credit markets in January, as most euro and sterling corporate bond sectors ended the month lower on a total return basis (**Table 9**). High yield was the clear winner across all three currencies, with the [Markit iBoxx \\$ Liquid High Yield Index](#) the best performer in the sector with a 1.07% total return during the month.

The [Markit iBoxx £ Liquid Investment Grade Index](#) returned -0.95% in January, followed by [Markit iBoxx € Liquid Investment Grade Index](#) at -0.62% on the month. [Markit iBoxx \\$ Liquid Investment Grade Index](#) returned 0.35% during the month, while the dollar-denominated AAA index closed -0.39%.

AAA corporate bonds ended the month lower across all the three currencies, with the sterling AAA index reporting the lowest return of -2.59% across all the sectors and currencies. In addition, consumer services and telecommunications sectors ended the month lower across all three currencies.

Energy issues dominated the best performing corporate bonds

A third of the best performing corporate bonds in January were from the energy sector, as higher oil prices continue to drive positive momentum in that space. In fact, the best performer globally was energy company Pacific Drilling S.A's 5.375 6/2020 issue, which increased almost 42% to end the month at a 50.50 price. The bond price was at its lowest point of 19.00 on March 1, 2016.

Intesa SanPaolo issues \$1.25bn subordinate bond

Despite the widespread concerns regarding the Italian banking system, Intesa SanPaolo was able to raise Additional Tier One capital successfully during the month. On January 5, it printed a €1.25bn deeply-subordinated perpetual deal callable after 10 years, with a 7.9% coupon for the initial 10 year period, versus guidance of 8-8.125%. The deal was four times subscribed, sold 90% to non-Italian institutions, and was not offered to retail investors.

Table 9: January corporate bond US and European iBoxx indices performance

	Total Return						Yield						Duration		
	Month			YTD			Current			Month			\$	€	£
	\$	€	£	\$	€	£	\$	€	£	\$	€	£			
Corporates	+0.35%	-0.62%	-0.95%	+0.35%	-0.62%	-0.95%	3.97%	1.31%	3.09%	-0.01%	+0.14%	+0.15%	6.6	5.3	8.4
Corporates AAA	-0.39%	-1.34%	-2.59%	-0.39%	-1.34%	-2.59%	3.74%	1.13%	2.24%	+0.07%	+0.17%	+0.19%	9.6	8.1	14.6
Corporates AA	+0.23%	-0.69%	-1.15%	+0.23%	-0.69%	-1.15%	3.42%	0.82%	2.45%	+0.01%	+0.14%	+0.15%	6.0	5.4	9.1
Corporates A	+0.26%	-0.72%	-1.22%	+0.26%	-0.72%	-1.22%	3.70%	1.10%	3.01%	+0.01%	+0.15%	+0.16%	6.4	5.2	9.2
Corporates BBB	+0.50%	-0.52%	-0.66%	+0.50%	-0.52%	-0.66%	4.34%	1.63%	3.37%	-0.02%	+0.13%	+0.13%	6.9	5.2	7.5
Banks	+0.29%	-0.47%	-0.45%	+0.29%	-0.47%	-0.45%	3.67%	1.14%	3.14%	+0.01%	+0.13%	+0.11%	4.8	4.4	6.4
Basic Materials	+1.25%	-0.42%	+0.02%	+1.25%	-0.42%	+0.02%	4.33%	1.10%	2.79%	-0.11%	+0.09%	+0.04%	7.2	5.5	7.6
Consumer Goods	+0.31%	-0.67%	-0.96%	+0.31%	-0.67%	-0.96%	3.79%	1.18%	2.37%	+0.01%	+0.14%	+0.19%	6.3	5.5	5.9
Consumer Services	-0.04%	-0.72%	-1.27%	-0.04%	-0.72%	-1.27%	4.19%	1.19%	2.83%	+0.04%	+0.16%	+0.16%	8.2	5.5	9.8
Financials	+0.37%	-0.45%	-0.28%	+0.37%	-0.45%	-0.28%	3.74%	1.42%	3.31%	-0.01%	+0.12%	+0.09%	5.2	4.7	6.9
Health Care	+0.28%	-0.83%	-2.39%	+0.28%	-0.83%	-2.39%	3.91%	1.27%	2.78%	-0.00%	+0.17%	+0.22%	7.6	6.1	12.3
Industrials	+0.38%	-0.71%	-1.31%	+0.38%	-0.71%	-1.31%	3.79%	1.04%	2.79%	-0.01%	+0.16%	+0.17%	7.5	5.3	9.1
Insurance	+0.78%	-0.14%	+0.64%	+0.78%	-0.14%	+0.64%	4.27%	2.84%	4.25%	-0.07%	+0.05%	-0.03%	7.4	6.0	6.9
Non-Financials	+0.34%	-0.75%	-1.37%	+0.34%	-0.75%	-1.37%	4.06%	1.25%	2.98%	-0.00%	+0.15%	+0.17%	7.5	5.6	9.3
Oil & Gas	+0.86%	-0.68%	-0.75%	+0.86%	-0.68%	-0.75%	4.21%	1.33%	2.56%	-0.06%	+0.14%	+0.16%	7.2	5.8	7.5
Technology	+0.01%	-0.96%	N/A	+0.01%	-0.96%	N/A	3.78%	0.90%	N/A	+0.03%	+0.16%	N/A	7.2	6.5	N/A
Telecommunications	-0.57%	-0.98%	-1.56%	-0.57%	-0.98%	-1.56%	4.62%	1.46%	3.45%	+0.11%	+0.18%	+0.20%	8.3	5.8	9.6
Utilities	+0.72%	-0.78%	-1.48%	+0.72%	-0.78%	-1.48%	4.15%	1.38%	3.11%	-0.04%	+0.16%	+0.17%	8.6	5.5	10.1
Liquid High Yield	+1.07%	+0.66%	+0.37%	+1.07%	+0.66%	+0.37%	5.88%	3.40%	5.26%	-0.21%	-0.15%	+0.04%	3.7	3.1	2.9
Contingent Convertible	+1.68%	+1.57%	+1.29%	+1.68%	+1.62%	+2.76%	6.80%	5.72%	7.62%	-0.28%	-0.34%	-0.13%	4.1	3.5	5.6

Source: IHS Markit

Table 10: January global corporate bond best price performance

Best performers

Ticker	Issue	Sector	Country	CCY	Liq score	1/31 price	Change	% change	One year low	Date	One year high	Date	
Americas													
1	VANGNAT	Vanguard Natural Resources, Llc 7.875 4/2020	Financials	USA	USD	2	75.94	+18.19	+31.5%	10.00	3/8/16	80.00	1/24/17
2	CALA	C.A. La Electricidad De Caracas 8.5 4/2018	Utilities	VEN	USD	1	79.00	+17.75	+29.0%	23.00	2/15/16	79.00	1/31/17
3	ODEBOFF	Odebrecht Offshore Drilling Finance Limited 6.625 10/2022	Energy	BRA	USD	1	33.87	+7.37	+27.8%	10.61	8/12/16	33.87	1/31/17
4	PRODRG	Production Resource Group, L.L.C. 8.875 5/2019	Consumer Services	USA	USD	2	74.83	+15.33	+25.8%	59.00	9/9/16	76.50	1/30/17
5	CONCHEA	Concordia Healthcare Corp. 7 4/2023	Healthcare	BRB	USD	2	36.97	+6.34	+20.7%	30.28	12/15/16	94.75	4/25/16
EMEA													
1	PACIDRI	Pacific Drilling S.A 5.375 6/2020	Energy	LUX	USD	1	50.50	+14.87	+41.8%	19.00	3/1/16	51.25	1/27/17
2	PACIFDR	Pacific Drilling V Limited 7.25 12/2017	Energy	LUX	USD	1	58.25	+11.89	+25.7%	26.00	3/1/16	58.25	1/31/17
3	NORSSKO	Norske Skog Holding As 8 2/2021	Basic Materials	NOR	EUR	2	58.61	+9.11	+18.4%	23.00	2/17/16	59.75	1/23/17
4	NAVMH	Navios Maritime Holdings Inc. 7.375 1/2022	Industrials	GRC	USD	1	70.00	+10.08	+16.8%	32.06	2/29/16	70.00	1/31/17
5	MONTE	Banca Monte Dei Paschi Di Siena S.P.A. 5 4/2020	Financials	ITA	EUR	2	51.50	+6.75	+15.1%	44.75	12/30/16	93.35	6/9/16
APAC													
1	YINGDGA	Yingde Gases Investment Limited 8.125 4/2018	Basic Materials	CHN	USD	2	97.75	+18.75	+23.7%	69.41	3/28/16	101.19	11/18/16
2	BTAB	Joint Stock Company "Bta Bank" 5.5 12/2022	Financials	KAZ	USD	2	86.91	+10.53	+13.8%	61.75	2/23/16	86.91	1/31/17
3	OTTAHOL	Ottawa Holdings Pte. Ltd. 5.875 5/2018	Financials	IDN	USD	1	75.50	+5.37	+7.7%	46.00	2/11/16	75.50	1/31/17
4	MIEHOL	Mie Holdings Corporation 7.5 4/2019	Energy	CHN	USD	1	75.04	+5.00	+7.1%	29.14	2/24/16	75.07	1/27/17
5	INDOE	Indo Energy Finance li B.V. 6.375 1/2023	Energy	IDN	USD	1	76.83	+4.71	+6.5%	32.11	2/15/16	79.50	11/10/16

Source: IHS Markit

Table 11: January global corporate bond worst price performance

Worst performers

Ticker	Issue	Sector	Country	CCY	Liq score	1/31 price	Change	% change	One year low	Date	One year high	Date
Americas												
1 AV	Avaya Inc. 10.5 3/2021	Technology	USA	USD	2	27.50	-15.50	-36.0%	14.00	1/18/17	48.50	12/5/16
2 ODBR-FIN	Odebrecht Finance Ltd. 5.25 6/2029	Industrials	BRA	USD	2	41.25	-15.18	-26.9%	24.37	5/5/16	62.00	12/2/16
3 TRUTAJ	Tru Taj Llc 12 8/2021	Financials	USA	USD	1	86.81	-11.56	-11.8%	86.81	1/31/17	104.55	10/25/16
4 MALLINT	Mallinckrodt International Finance S.A. 4.75 4/2023	Healthcare	USA	USD	1	81.44	-5.69	-6.5%	79.00	5/30/16	93.37	8/24/16
5 KSS	Kohl'S Corporation 4.25 7/2025	Consumer Services	USA	USD	1	94.08	-6.36	-6.3%	93.75	5/24/16	104.06	10/25/16
EMEA												
1 BANCPODI	Banca Popolare Di Vicenza Societa Per Azioni. 9.5 9/2025	Financials	ITA	EUR	2	43.00	-10.37	-19.4%	37.42	12/20/16	94.45	5/2/16
2 AGROK	Agrokor D.D. 9.125 2/2020	Consumer Goods	HRV	EUR	1	87.25	-16.64	-16.0%	86.69	1/24/17	107.22	6/8/16
3 WESTEPO	Western Power Distribution (East Midlands) Plc 6.25 12/2040	Utilities	GBR	GBP	2	152.86	-13.01	-7.8%	127.23	2/15/16	175.85	8/11/16
4 COOPWH-Bank	The Co-Operative Bank P.L.C. 5.125 9/2017	Financials	GBR	GBP	1	87.99	-5.54	-5.9%	85.18	1/30/17	97.67	2/3/16
5 BATSLN-BATIntF	B.A.T. International Finance P.L.C. 4 11/2055	Consumer Goods	GBR	GBP	1	112.01	-7.01	-5.9%	95.61	2/17/16	147.43	8/11/16
APAC												
1 GALLVEN	Gallant Venture Ltd. 7 4/2018	Consumer Services	SGP	SGD	3	88.00	-10.50	-10.7%	88.00	1/31/17	100.46	6/21/16
2 HSINCHO	Hsin Chong Construction Group Ltd. 8.75 5/2018	Industrials	CHN	USD	1	77.20	-4.34	-5.3%	63.67	10/18/16	100.12	8/10/16
3 GLOBLOG	Global Logistic Properties Limited 3.875 6/2025	Financials	CHN	USD	1	92.88	-4.51	-4.6%	91.79	1/19/17	104.30	9/7/16
4 IDHFIN	Idh Finance Plc 6.25 8/2022	Healthcare	KAZ	GBP	1	92.94	-3.72	-3.9%	92.82	11/15/16	100.22	8/5/16
5 QCOM	Qualcomm Incorporated 4.8 5/2045	Technology	CHN	USD	1	102.56	-4.01	-3.8%	86.51	2/3/16	113.85	9/1/16

Source: IHS Markit

Sovereigns

Italian and French sovereign CDS spreads widen the most in January

The combination of concerns over the Italian banking system and uncertainty of the upcoming French elections (**Table 13**) resulted in the two countries taking the top spot on the month's sovereign CDS worst performers list. On a percentage basis, France underperformed Italy slightly, with their CDS spreads ending the month 8.4% and 8.2% wider, respectively.

On the contrary, UK sovereign CDS were the best performer globally, tightening 17.7% to end the month at spread of 27bps – the tightest level during the past year. The tightening in their CDS spreads happened simultaneously with the 41bp surge in 10-year gilt yields that ended the month at a 1.51% yield after being as low as 0.50% in mid-August.

Hungary and Russia reach their tightest spreads in a year

Russia and Hungary were the only countries in January to reach their tightest CDS spread levels in 12 months (**Table 13**), albeit the latter was the eighth worst performing sovereign CDS during the month. Russia hit its tightest CDS spread of 168bps on January 6, largely driven by increases in oil prices.

Hungary reached its best CDS spread of 113bps on January 18. According to IHS Markit's Global Economics team, preliminary economic data released in early-January showed a modest improvement in the country's economic performance in November 2016, with merchandise exports moving back into positive territory, at +5.8% YoY in nominal euro terms.³

Venezuela issue best performing sovereign bond globally

Venezuela's 7.0% 12/2018 issue was the best performing sovereign bond during the month, increasing 15.6% to end the month at a 74.00 price. We note that the bond's all time low price of 31.57 was recorded last February 15.

January a solid month for emerging market new issues

There have been some notable emerging market successes, including the \$4bn package for Egypt, twice what the country initially sought. Major financings for Petrobras and Argentina along with multiple other sovereigns have been accompanied by a healthy and growing range of Latin American corporate borrowers together with Chinese corporate supply. In general, emerging market spreads were tighter over the month despite the new US administration taking office and prior fears of emerging market capital flight.

Russian bond supply is also expected to grow soon, and even a Ukrainian borrower has managed to raise debt successfully (although the company, Kernel Holdings, earns 95% of its revenues outside Ukraine).

Table 12: January G7 industrialised countries ranked by percent change in CDS spreads

			1/31 10yr bond yield	CDS change	1/31 CDS	% change	One year tight	Date	One year wide	Date
1	UKIN	United Kingdom	1.51%	-5.8	27.1	-17.7%	27.1	1/31/17	50.6	6/24/16
2	USGB	United States	2.44%	-3.2	23.7	-11.9%	17.6	3/18/16	28.8	11/11/16
3	DBR	Germany	0.44%	-1.5	20.2	-6.8%	13.8	2/1/16	30.8	12/5/16
4	CAN	Canada	1.76%	-2.1	31.1	-6.3%	25.5	6/23/16	36.0	1/12/17
5	JAPAN	Japan	0.09%	-1.4	28.1	-4.9%	27.3	1/30/17	56.1	2/12/16
6	ITALY	Italy	2.25%	+13.0	171.4	+8.2%	112.1	3/14/16	183.4	11/28/16
7	FRTR	France	1.05%	+3.2	41.0	+8.4%	26.8	9/16/16	50.6	6/24/16

Source: IHS Markit

³ Source: IHS Connect, "Modest uptick in November 2016 bodes well for Hungary's full-year performance as outlook remains mixed" by Dragana Ignjatovic published on January 12, 2017.

Table 13: January liquid sovereign 5yr CDS best and worst spread performance²

			Liq Score	Change	1/31 spread	% change	One year tight	Date	One year wide	Date
Best performers										
1	UKIN	United Kingdom	2	-6	27	-17.7%	27	1/31/17	51	6/24/16
2	NETHRS	Netherlands	2	-4	25	-14.9%	17	2/1/16	35	6/28/16
3	VENZ	Venezuela	1	-585	3556	-14.1%	2997	10/4/16	10686	2/15/16
4	POLAND	Poland	2	-9	71	-10.9%	71	9/22/16	107	6/27/16
5	HUNGAA	Hungary	2	-13	114	-10.6%	113	1/18/17	187	6/27/16
6	SWED	Sweden	2	-2	21	-10.3%	15	2/3/16	31	6/24/16
7	BRAZIL	Brazil	1	-28	247	-10.2%	240	9/7/16	496	2/11/16
8	PHILIP	Philippines	1	-11	99	-9.7%	84	9/8/16	136	2/11/16
9	FINL	Finland	2	-2	23	-7.4%	18	5/27/16	30	6/24/16
10	BELG	Belgium	2	-3	32	-7.4%	27	10/24/16	68	6/27/16
Worst performers										
1	FRTR	France	1	+3	41	+8.4%	27	9/16/16	51	6/24/16
2	ITALY	Italy	1	+13	171	+8.2%	112	3/14/16	183	11/28/16
3	KOREA	Korea	1	+3	48	+7.4%	39	9/22/16	79	2/11/16
4	MEX	Mexico	1	+11	166	+7.1%	129	9/7/16	231	2/11/16
5	PERU	Peru	1	+3	110	+2.8%	95	9/7/16	230	2/11/16
6	PORTUG	Portugal	2	+6	286	+2.2%	225	2/1/16	355	2/12/16
7	IRELND	Ireland	2	+1	64	+1.3%	44	2/1/16	92	6/27/16
8	RUSSIA	Russia	1	+2	182	+1.2%	168	1/6/17	368	2/11/16
9	PANAMA	Panama	1	+1	128	+1.0%	122	9/7/16	225	2/11/16
10	SAUDI	Saudi Arabia	1	-0	113	-	107	1/6/17	190	2/2/16

Source: IHS Markit

Table 14: January sovereign bond best price performance

Best performers

Ticker	Issue	CCY	Liq score	1/31 price	Change	% change	1/31 yield	One year low	Date	One year high	Date	
Americas												
1	VENZ	Bolivarian Republic of Venezuela 7 12/2018	USD	1	74.00	+10.00	+15.6%	34.17%	31.57	2/15/16	74.25	1/26/17
2	BLZE	Belize 5 2/2038	USD	2	45.46	+4.46	+10.9%	16.88%	34.88	11/18/16	64.62	2/2/16
3	BRAZIL	Federative Republic of Brazil 5.625 2/2047	USD	2	92.82	+4.81	+5.5%	6.54%	83.66	12/2/16	103.49	8/18/16
4	COSTAR	Republic of Costa Rica 5.625 4/2043	USD	2	82.58	+4.09	+5.2%	7.51%	70.84	2/15/16	94.52	8/30/16
5	COLOM	Republic of Colombia 9.85 6/2027	USD	2	121.97	+5.58	+4.8%	7.52%	108.73	3/3/16	126.61	9/28/16
EMEA												
1	LEBAN	Lebanese Republic 6.4 5/2023	USD	2	98.75	+3.00	+3.1%	7.24%	94.00	11/24/16	99.74	8/23/16
2	RUSSIA	Russian Federation 6.9 2/2036	RUB	3	87.00	+2.50	+3.0%	8.59%	72.25	2/17/16	88.00	9/12/16
3	MOROC	Kingdom of Morocco 5.5 12/2042	USD	2	104.66	+2.96	+2.9%	5.38%	95.45	2/1/16	118.06	8/25/16
4	TURKEY	Republic of Turkey 8 3/2025	TRY	1	85.38	+1.89	+2.3%	11.12%	81.43	1/11/17	94.76	7/15/16
5	QATAR	State of Qatar 6.4 1/2040	USD	2	127.29	+2.68	+2.2%	4.65%	123.50	2/1/16	138.81	9/22/16
APAC												
1	PHILIP	Republic of The Philippines 3.5 9/2026	PHP	4	93.35	+3.37	+3.7%	4.80%	89.96	1/4/17	93.35	1/31/17
2	THAI	Kingdom of Thailand 4.85 6/2061	THB	4	128.00	+4.34	+3.5%	3.75%	121.08	12/28/16	148.75	7/4/16
3	INDON	Republic of Indonesia 7.75 1/2038	USD	1	132.38	+3.94	+3.1%	5.46%	117.09	2/12/16	146.25	8/15/16
4	BHREIN	Kingdom of Bahrain 6 9/2044	USD	2	83.83	+2.14	+2.6%	7.59%	73.25	2/2/16	87.16	9/7/16
5	IGB	Republic of India 7.06 10/2046	INR	3	99.72	+2.44	+2.5%	7.28%	97.28	12/29/16	101.80	1/4/17

Source: IHS Markit

Table 15: January sovereign bond worst price performance

Worst performers

Ticker	Issue	CCY	Liq score	1/31 price	Change	% change	1/31 yield	One year low	Date	One year high	Date
Americas											
1 ELSALV	Republic of El Salvador 8.25 4/2032	USD	2	95.75	-5.58	-5.5%	8.09%	84.48	2/10/16	114.14	9/8/16
2 MEX	United Mexican States 5.625 3/2114	GBP	2	93.61	-3.89	-4.0%	5.77%	86.98	2/19/16	115.70	8/23/16
3 BRAZIL	Federative Republic of Brazil 10 1/2019	BRL	3	1003.33	-37.34	-3.6%		890.47	2/5/16	1040.67	1/2/17
4 CAN	Canada 2.75 12/2064	CAD	1	110.31	-2.92	-2.6%	2.29%	108.96	1/25/17	142.01	7/8/16
5 ARGENT	Argentine Republic 6.625 7/2028	USD	2	95.97	-1.96	-2.0%	6.89%	91.32	12/2/16	107.26	9/7/16
EMEA											
1 FRTR	French Republic 1.75 5/2066	EUR	1	84.68	-12.12	-12.5%	1.85%	82.32	1/26/17	121.05	7/29/16
2 AUST	Republic of Austria 1.5 11/2086	EUR	3	82.24	-10.55	-11.4%	1.68%	80.10	1/26/17	99.90	11/9/16
3 SLOVEN	Republic of Slovenia 3.125 8/2045	EUR	1	111.98	-14.06	-11.2%	1.93%	106.10	3/2/16	130.61	10/14/16
4 BELG	Kingdom of Belgium 2.15 6/2066	EUR	1	96.40	-11.74	-10.9%	1.89%	91.33	5/12/16	130.42	7/29/16
5 IRELAND	Ireland 2 2/2045	EUR	1	95.67	-11.48	-10.7%	1.68%	94.50	1/26/17	122.03	8/10/16
APAC											
1 JAPAN	Japan .4 3/2056	JPY	1	83.57	-3.45	-4.0%	0.79%	83.18	1/27/17	113.12	7/6/16
2 SIGB	Republic of Singapore 2.75 3/2046	SGD	2	99.27	-2.52	-2.5%	2.66%	97.51	12/13/16	114.61	9/9/16
3 MALAYS	Malaysia 4.736 3/2046	MYR	2	99.30	-2.36	-2.3%	4.63%	95.45	12/1/16	104.96	8/26/16
4 KOREA	Republic of Korea 1 6/2026	KRW	3	99.06	-1.52	-1.5%		95.55	9/1/16	100.58	10/13/16
5 INDON	Republic of Indonesia 9.75 5/2037	IDR	4	113.32	-1.36	-1.2%	8.25%	106.90	2/1/16	125.36	8/5/16

Source: IHS Markit

Municipal bonds

This month's total issuance came in 35% higher than last January on the heels of still very low interest rates and uncertainty over tax reform and various other major policy changes coming out of the new administration (**Figure 9**). General obligations issuance totalled \$14.4bn and revenue \$18.7bn, which was 26% and 44%, respectively, more than last January's total

Yield basis between AAA 10yr and 30yr municipal bonds near tightest level in 12 months

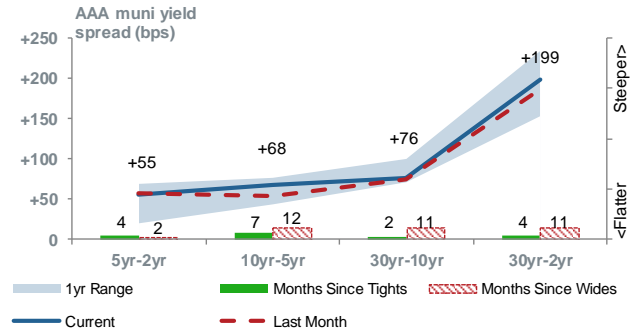
The yield basis between 10yr and 30yr AAA municipal bonds ended the month at 76bps, which is only 5bps away from the tightest basis of 71bps reported on November 29 (**Figure 7**). The biggest change occurred with 5yr and 10yr bonds widening 14bps to end the month at 68bps. The overall curve, as represented by the basis between 2yr and 30yr bond yields, steepened 11bps on the month to 199bps.

When looking at AAA municipal bond spread to treasuries, 5yr bonds tightened the most (13bps) to end the month at a spread of treasuries -29bps (**Figure 8**). However, 10yr bonds at treasuries -15bps are the closest to the treasuries -27bps tightest spread reported last May 18. It's worth noting that the widest spread across all four tenors during the most recent 12 months was reported on December 2.

Puerto Rico tax revenue bond best performer this month

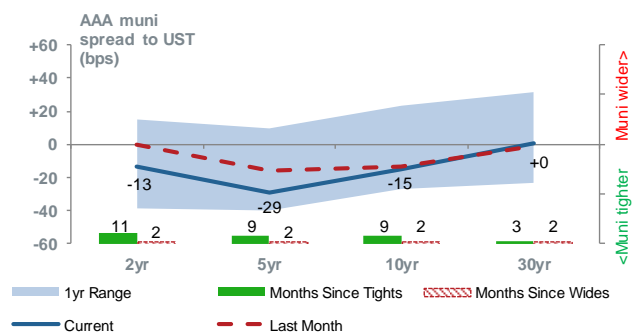
Puerto Rico Sales Tax Financing First Subordinated Series 2009-A 6.0% 8/2042 was the best performer on the month, increasing 10.7% in price to end the month at a 50.60 price. We note that the issue's price was as low as 39.04 on May 10 and reached a 12 month high of 54.39 on October 5 (**Table 16**).

Figure 7: AAA muni yield curve basis by maturity⁴



Source: IHS Markit

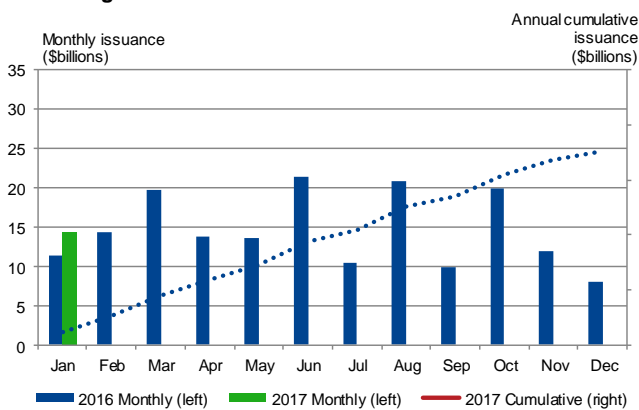
Figure 8: AAA muni spreads to US treasuries⁴



Source: IHS Markit

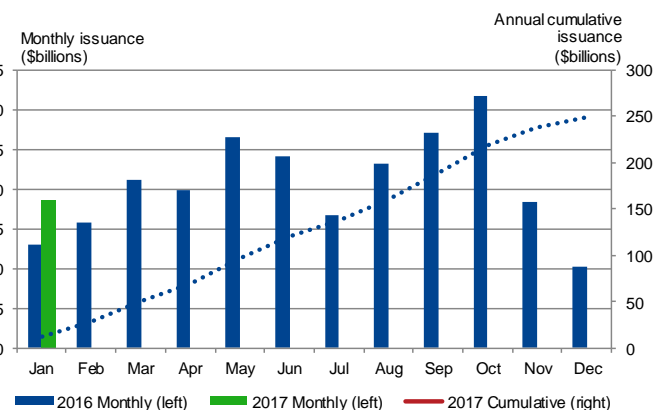
Figure 9: Municipal bond issuance

General obligation



Source: SIFMA

Revenue



⁴ '10yr' municipal bond category includes bonds that are expected to be called in 10 years.

Table 16: January municipal revenue bond best price performance**Best performers**

	Issuer	Issue	Liq score	1/31 price	Change	% change	One year low	Date	One year high	Date
1	Puerto Rico Sales Tax Fing Corp Sales Tax Rev	Sales Tax Revenue - First Subordinate 2009-A 6 8/2042	2	50.60	+4.90	+10.7%	39.04	5/10/16	54.39	10/5/16
2	Golden St Tob Securization Corp Calif Tob Settlement Rev	Tobacco Settlement Asset-Backed Senior Current Interest - 2007 A 5 6/2033	1	96.88	+7.52	+8.4%	87.00	12/1/16	101.25	7/20/16
3	Buckeye Ohio Tob Settlement Fing Auth	Tobacco Settlement Asset Backed Senior (Cib) Turbo Term - 2007 A 6.5 6/2047	1	98.15	+5.57	+6.0%	88.38	12/5/16	102.75	8/30/16
4	California Mun Fin Auth Charter Sch Rev	Charter School Revenue - Palmdale Aerospace Academy Project 2016 5 7/2046	2	99.84	+3.09	+3.2%	95.81	12/20/16	107.72	7/6/16
5	Puerto Rico Comwth Aqueduct & Swr Auth Rev	Revenue (Senior Lien) - 2008-A 6 7/2044	2	77.70	+2.20	+2.9%	63.25	5/11/16	77.81	11/11/16
6	Yamhill Cnty Ore Hosp Auth Rev	Revenue And Refunding - Friendsview Retirement Community 2016-A 5 11/2051	2	98.05	+1.88	+2.0%	94.19	12/15/16	109.99	10/3/16
7	Lower Ala Gas Dist Gas Proj Rev	Gas Project Revenue - 2016-A 5 9/2034	2	113.04	+0.94	+0.8%	98.88	3/4/16	131.02	7/6/16
8	Dekalb Cnty Ga Hosp Auth Rev Antic Cfts	Revenue Anticipation Cert - Dekalb Medical Center Inc Project 20 6.125 9/2040	2	104.67	+0.76	+0.7%	103.36	12/5/16	113.83	7/6/16
9	Detroit Mich Sew Disp Rev	Sewage Disposal System Second Lien Revenue - 2001-B 5.5 7/2029	2	117.75	+0.82	+0.7%	115.16	12/16/16	128.82	8/30/16
10	Chino Basin Calif Desalter Auth Rev	Desalter Revenue Refunding - 2016-A 5 6/2027	2	119.81	+0.75	+0.6%	116.03	12/2/16	130.77	8/26/16

Source: IHS Markit

Table 17: January municipal revenue bond worst price performance**Worst performers**

	Issuer	Issue	Liq score	1/31 price	Change	% change	One year low	Date	One year high	Date
1	Virgin Islands Pub Fin Auth Rev	Subordinat - Virgin Islands Matching Fund Loan Note - Diago 2009 6.625 10/2029	1	77.56	-19.69	-20.2%	77.56	1/31/17	113.32	6/27/16
2	Virgin Islands Pub Fin Auth Rev	Revenue (Virgin Islands Matc - Senior Lien/ Working Capital 2010 5 10/2029	1	75.14	-9.69	-11.4%	72.39	1/20/17	110.68	2/11/16
3	Allegheny Cnty Pa Higher Ed Bldg Auth Univ Rev	University Revenue - Robert Morris University 2016 5 10/2025	2	108.55	-4.63	-4.1%	108.21	1/26/17	118.97	10/10/16
4	Westchester Cnty N Y Health Care Corp Rev	Hospital Revenue Senior Lien - 2014-A 5 11/2044	2	105.12	-4.14	-3.8%	104.86	1/26/17	113.52	7/6/16
5	Nassau Cnty N Y Loc Economic Assistance Corp Rev	Revenue - Winthrop-University Hospital Association Project 2012 5 7/2042	2	105.52	-3.95	-3.6%	105.32	1/26/17	113.47	8/24/16
6	Fort Bend Cnty Tex Indl Dev Corp Indl Dev Rev	Industrial Development Revenue - Nrg Energy Inc Project 2012-B 4.75 11/2042	2	99.67	-3.54	-3.4%	97.76	2/23/16	111.21	7/6/16
7	Marysville Calif Rev	Health Revenue - The Fremont - Rideout Health Group 2011 5.25 1/2042	2	95.32	-3.17	-3.2%	93.25	11/30/16	111.40	4/20/16
8	River Islands Pub Fing Auth Calif Spl Tax	Special Tax Ref - Community Facilities District No 2003-1 2015 A 5.375 9/2031	2	105.43	-2.74	-2.5%	105.22	1/26/17	110.95	7/6/16
9	Puerto Rico Elec Pwr Auth Pwr Rev	Power Revenue - 2010-Xx 5.25 7/2040	1	64.85	-0.85	-1.3%	54.37	5/10/16	67.87	11/9/16
10	Guam Govt Business Privilege Tax Rev	Business Privilege Tax Refunding - 2015-D 5 11/2027	2	109.93	-0.79	-0.7%	102.53	1/20/17	123.02	7/6/16

Source: IHS Markit

Securitised products

Securitised products spreads were generally tighter to varying degrees in January, with relatively low issuance benefiting the secondary markets. Similar to the other fixed income sectors, the credit curve was generally flatter during the month. On the consumer ABS side, 2+yr AAA subprime auto paper was the best performer, tightening 17bps to end the month at Swaps +34bps (**Table 19**).

CMBS spreads tightest in 12 months across the credit curve

CMBS spreads were significantly tighter again across the entire credit curve this month again this month, with a significant flattening of the credit curve (**Figure 11**). BBB and BBB- spreads were the best performers, with both tightening 66bps to end the month at Swaps +431bps and Swaps +482bps, respectively. Every rating cohort reached its tightest levels of the past year during the month.

Loan balance pay-ups generally higher after recent rout

LLB loan balance stories were generally higher across most of the Fannie Mae, Freddie Mac, and Ginnie Mae cohorts in January (**Table 18**), as the range-bound 10yr Treasury bond yields brought an uptick in demand for certain types of call protection. Ginnie Mae 3.5% and 4.0% coupon 85K balance pools were the best performers, increasing 8 and 9 ticks, respectively, versus last month's levels.

1.0 EUR BBB CLOs best performers on the month

CLO spreads were tighter across the credit curve and both regions in January, with the exception of US 2.0 AAA, which remained unchanged at L+153bps (**Figure 10**). EUR 1.0 BBB tightened the most, ending the month 32bps tighter to a spread of L+232bps. January was a very quiet month of issuance, as less than \$1bn in new supply entered the market. However, CLO equity yields did improve towards the end of the month; this appeared to be driving some of the improvements in February issuance. The potential repeal or restructuring of the Affordable Care Act by the new administration is casting a shadow on deals with higher exposure to the healthcare sector. The CLO Pricing team recently published a piece on February 22 entitled "[A Valeant Effort: Pharma Giant's Struggles Continue to Linger in CLO Market](#)" discussing CLO exposure to certain healthcare companies.

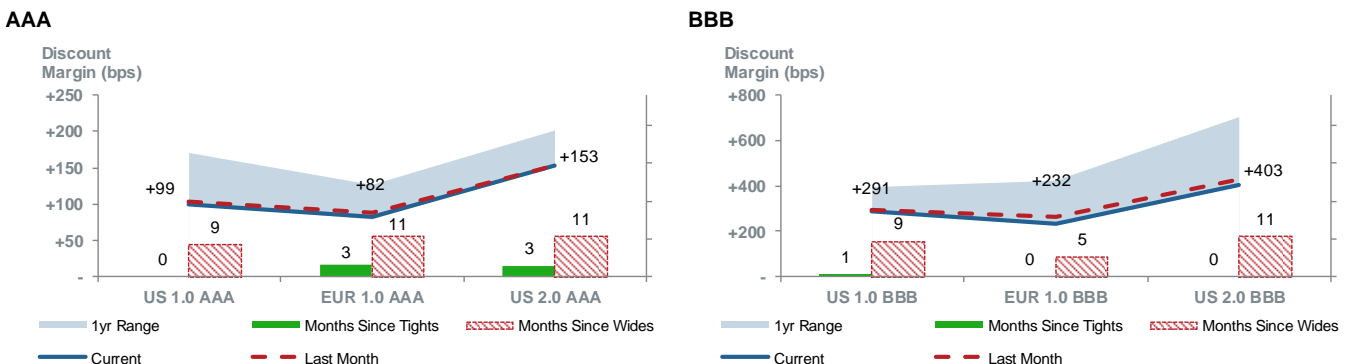
Uptick in activity in the Trust Preferred CDO market

After an extended lull in the Trust Preferred CDO (TruPS) market, activity in the first half of February has picked up at a feverish pace. The TruPS Pricing team published a report on February 14 entitled "[TruPS Towers](#)", which highlights the increased secondary market activity in the sector.

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

Legacy non-agency MBS spreads were relatively flat during the month. Mortgage rates, combined with the slow growth of Alt-A and subprime mortgage originations, are leaving the outlook for home prices in flux and keeping both buyers and sellers on the side-line. On a positive note, CRT credit spreads ended the month tighter, with CRT M2s tightening 23bps to L+205bps and Bs tightened 50bps to L+645bps.

Figure 10: US and European CLO AAA/BBB spread summary



Source: IHS Markit

Table 18: January 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)	0-16	0-26	1-08	1-22	2-00
MLB (110K)	0-11	0-22	1-02	1-13	1-18
HLB (150K)	0-09	0-17	0-27	0-32	1-03
New Prod	0-02	0-04	0-05	0-09	N/A
MHA <90	0-05	0-04	0-05	0-11	0-16
MHA <95	0-07	0-06	0-13	0-20	0-21
MHA <100	0-02	0-06	0-10	0-18	0-19
MHA <105	0-13	0-14	0-17	0-25	1-29
<125 LTV	0-09	0-05	1-08	1-04	2-03
125+ LTV	0-13	0-13	0-20	1-10	2-08

Source: IHS Markit

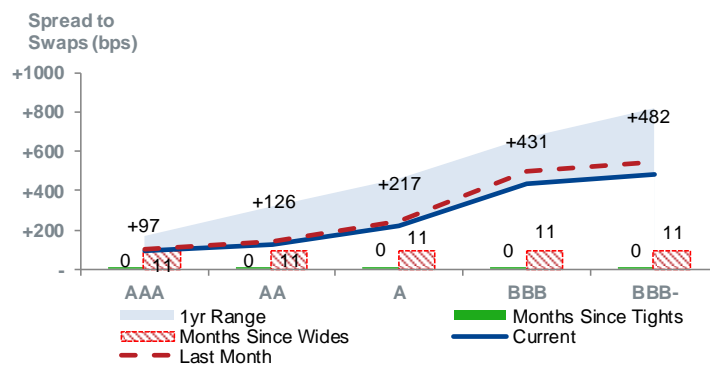
MoM Change					
	3	3.5	4	4.5	5
0-00		+0-05	+0-03	+0-03	+0-03
-0-01		+0-04	+0-02	+0-01	-0-01
+0-02		+0-03	+0-02	-0-01	-0-04
+0-02		+0-02	+0-01	+0-01	N/A
-0-01		-0-02	-0-05	-0-01	-0-01
0-00		-0-01	+0-01	+0-05	0-00
0-00		-0-02	+0-01	-0-04	0-00
0-00		+0-02	-0-01	-0-02	0-00
+0-02		-0-02	-0-04	-0-09	+0-01
+0-06		+0-01	-0-03	+0-02	0-00

GNMA 30Y Specified Pools Pay-ups					
Coupon	3	3.5	4	4.5	5
LLB ₁ (85K)	0-12	1-01	1-25	2-05	1-01
LLB ₂ (110K)	0-11	0-30	1-14	1-21	2-19
MLB (125K)	0-07	0-20	0-30	1-16	1-17
HLB ₁ (150K)	0-06	0-20	0-31	1-08	1-21
HLB ₂ (175K)	0-10	0-17	0-19	0-30	0-23
New Prod	0-03	0-04	0-13	0-09	0-13
PR Geo	0-13	0-25	1-09	1-31	2-12

Source: IHS Markit

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

Figure 11: CMBS credit curve spread to swaps (10-year)



Source: Trepp

Table 19: 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	+25	+1	+24	1/4/17	+58	3/11/16
4-5yr AAA US Swaps	+35	-	+32	9/6/16	+71	4/18/16
US Credit Card - Floating-Rate						
2-3yr AAA US LIBOR DM	+29	+2	+26	10/12/16	+40	3/16/16
4-5yr AAA US LIBOR DM	+39	-4	+36	1/20/17	+96	5/16/16
US Prime Auto - Fixed-Rate						
0-2yr AAA EDSF	+11	-1	+11	1/31/17	+45	3/29/16
2+yr AAA US Swaps	+23	+	+21	9/8/16	+60	3/29/16
European Prime Auto Loan - Floating-Rate						
AAA EUR LIBOR DM	+36	+6	+21	12/5/16	+54	2/5/16
US Subprime Auto - Fixed-Rate						
1-2-yr AAA EDSF	+34	-5	+34	1/31/17	+84	5/12/16
2+yr AAA US Swaps	+34	-17	+34	1/31/17	+96	3/22/16
US Equipment - Fixed-Rate						
2+yr AAA US Swaps	+27	-3	+27	1/30/17	+85	6/14/16
European Equipment - Floating-Rate						
A EUR LIBOR DM	+115	+11	+83	11/8/16	+160	2/29/16
US FFELP Student Loans - Floating-Rate						
2-4yr AAA 3mo US LIBOR DM	+85	-15	+68	7/29/16	+151	3/25/16
10+yr AAA 3mo US LIBOR DM	+128	-4	+125	1/11/17	+191	3/21/16

Source: IHS Markit

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