

# Global fixed income monthly focus – March 2017

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

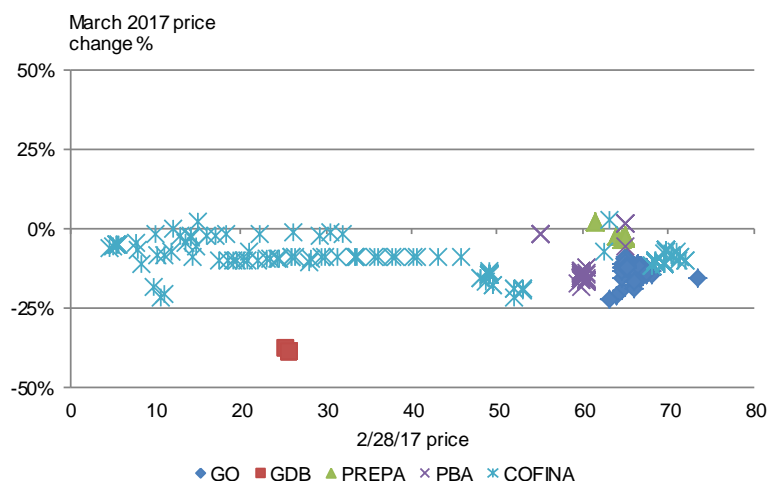
The first quarter has ended with record US investment grade corporate issuance, with SIFMA's data suggesting that \$468.7bn of corporate debt was sold altogether; 17.9% above the first quarter level in 2016. European markets avoided dislocation from the first of several electoral hurdles this year. In the general election in the Netherlands, the far-right fared considerably less well than suggested in pre-election opinion polls and a conventional—if fragmented—coalition is likely to emerge as a result. The formal UK request to leave the EU also was well discounted, and had limited market impact.

Towards the end of March, the upward trend in bond yields reversed, seemingly catalysed by the new US administration's difficulties in rolling back prior US healthcare legislation. This led market participants to re-evaluate the speed and degree of change under the new administration, and some reversal developed in equity markets, alongside an end to the extended upward trend in yield levels. We assess that this is likely to reflect some "profit taking" and "bargain buying", rather than a major directional reversal.

Heading into April, markets face a significant challenge from political instability in South Africa, where the sudden removal of the Finance Minister and an apparent move to pre-electoral populism led to the country losing its international investment grade rating with S&P, alongside a negative outlook. A further downgrade would bring the country's domestic debt into junk categories, which could lead to significant liquidation risk from international investors who hold a large part of the country's domestic government debt and stock market. Italian banking problems also linger on, with more banks following Banca Monte dei Paschi in seeking state rescue, threatening the status of their outstanding bonds.

- While underperforming last year's Q1 return of 3.42%, the Q1 2017 performance for the [Markit iBoxx \\$ Overall Index](#) managed to stay in the black and deliver a 1.02% return in spite of March's rate hike. For the month of March the return for the USD overall index was essentially flat (-0.04%).
- Leveraged loan telecom sector spreads tightened across all rating categories in February, with North America outperforming Europe.
- It was another solid month for sterling-denominated debt, following on from the stellar performance in February. The [Markit iBoxx £ Liquid Investment Grade Index](#) returned 0.22% in March and has now posted a total return of 1.85% year-to-date.
- The yield basis between 10yr and 30yr AAA municipal bonds widened 5bps to end the month at +80bps, which is near its widest basis of +71bps recorded in December. In addition, the course of events in Puerto Rico during the month resulted in a 15.5% decline in the Puerto Rico 8.0% 7/2035 general obligation bond's price in March, as well as sharp declines across various other entities (**Figure 1**)
- Securitized product spreads were modestly tighter in March, with several US consumer ABS sectors tightening to the best levels in over a year despite a surge in the sector's new issuance. On the US consumer ABS side, 1-2yr AAA subprime auto paper tightened 8bps to end the month at EDSF +25bps

**Figure 1: March 2017 price change for the largest Puerto Rico issuers versus February 28, 2017 dollar price**



Source: IHS Markit

## Indices

The USD bond market cooled off in March, which saw an increase in the fed funds rate to 1% by the FOMC. High yield underperformed high grade as unemployment benefits jumped to a three-month high and President Trump failed to pass promised health care reform.

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Along with the rate hike, March saw USD investors switching appetites in favor of the shorter end of the curve, with the 1-5 year maturity bucket performing best, followed by the 5-10Y bucket, then the 10-15Y, with the worst return in the 15Y+ maturities. Returns for the quarter show the opposite trend, which show an investor preference for longer over shorter maturity debt (**Table 1**).

**Table 1: USD Maturity Bucket Indices**

Index	MTD Return	QTD Return
iBoxx \$ Overall 1-5Y	0.09%	0.57%
iBoxx \$ Overall 5-10Y	0.08%	1.33%
iBoxx \$ Overall 10-15Y	-0.13%	1.51%
iBoxx \$ Overall 15Y+	-0.57%	1.87%

Source: IHS Markit

### What’s golden rules

The gold rush finally slowed in March, posting a slightly negative 0.29% return. However, at a 6.27% return, the [Markit iBoxx USD Gold Mining Index](#) still closed Q1 with the highest return of any corporate sector in the USD debt markets. The iBoxx \$ Mining index logged the second best quarterly return of any sector, though at 3.44% was still dwarfed by the performance of gold mining issuers.

### High yield flat lines

Risky assets lost their luster as the [Markit iBoxx \\$ Liquid High Yield Index](#) ended March down 0.27%, though is still up 2.31% for the quarter. The HY index’s quarterly return is still roughly one percent greater than investment grade, for which the [Markit iBoxx \\$ Corporates Index](#) returned 1.36%. Only two sectors within the HY index finished the month in the black – Utilities and Technology (total return of 0.70% and 0.16%, respectively) (**Table 2**).

**Table 2: Markit iBoxx \$ Liquid HY Sector Indices**

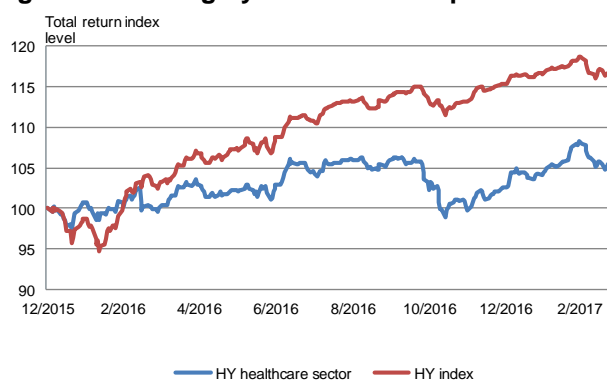
Name	MTD Return	QTD Return
iBoxx USD Liquid High Yield Utilities Index	0.70%	4.00%
iBoxx USD Liquid High Yield Technology Index	0.16%	2.34%
iBoxx USD Liquid High Yield Consumer Goods Index	-0.10%	1.36%
iBoxx USD Liquid High Yield Financials Index	-0.19%	1.62%
iBoxx USD Liquid High Yield Telecommunications Index	-0.20%	2.63%
iBoxx USD Liquid High Yield Basic Materials Index	-0.20%	2.04%
iBoxx USD Liquid High Yield Industrials Index	-0.21%	2.20%
iBoxx USD Liquid High Yield Oil & Gas Index	-0.32%	1.63%
iBoxx USD Liquid High Yield Consumer Services Index	-0.46%	1.78%
iBoxx USD Liquid High Yield Health Care Index	-0.77%	4.28%

Source: IHS Markit

In same month that House speaker Paul Ryan failed to repeal the Affordable Care Act, health care had the worst sector performance within the USD HY market (-0.77%). Health care also happens to be the sector with the highest quarterly return (4.28%), though much of this was bounce back from a relatively poor 2016 performance of 2.52%, which significantly lagged the 15.33% return earned by the iBoxx \$ Liquid High Yield Index. With last year’s return in mind, health care still lags overall HY corporates considerably (Figure 2).

The prior quarter was especially grim for the iBoxx USD Liquid High Yield Health Care Index, which delivered a 3.16% loss while the iBoxx \$ Liquid High Yield Index gained 1.38% in 4Q2016.

**Figure 2: USD high yield healthcare performance**



Source: IHS Markit

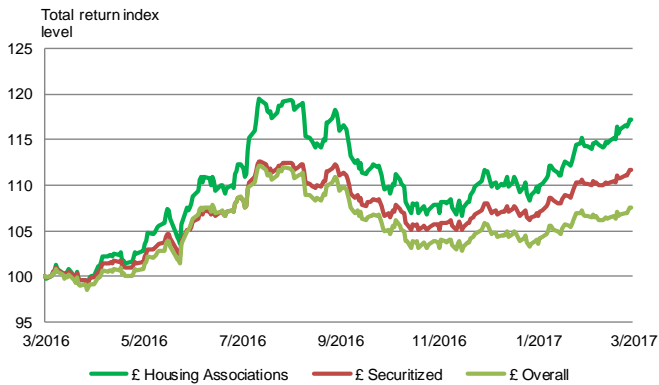
### Markit CDX IG and HY

The [Markit CDX.NA.HY 5Y Excess Return Index](#), which reflects the total return earned from selling the on-the-run 5-year contract on the CDX HY index, including price movements and coupon accruals, closed the quarter with a total return of 1.42%, with 0.22% earned in March. The [Markit CDX.NA.IG 5Y Excess Return Index](#) returned 0.38% in Q1, 0.11% of which came in March.

### Housing Associations Sterling Performance

Coming off another strong monthly performance of 1.82%, the [Markit iBoxx £ Housing Associations Index](#) finished the quarter with a healthy 5.12% return. However, looking at performance YoY, it's clear that the first quarter's "outperformance" is simply a recovery from losses ensued in the aftermath of Brexit. Even so, the Housing Associations index still outperformed the broader [Markit iBoxx £ Securitized Index](#) as well as the [Markit iBoxx £ Overall Index](#) year-over-year (**Figure 3**).

**Figure 3: Markit iBoxx £ Housing Associations Index**



Source: IHS Markit

## Leveraged loans

### Telecommunication loan spreads tighten across all rating categories

Leveraged loan telecom sector spreads tightened across all rating categories in February (**Table 5**), with North America outperforming Europe. The CCC+ cohort was the best performer on the month from a spread perspective, with North American spreads tightening 45bps on the month. We note that every telecom rating category reached their tightest levels over the past 12 months in March (**Figure 4**).

The energy sector was the worst performer during the month, with Europe widening out more than North America, despite the BB+, BB, and B- cohorts all reporting the tightest level in 12 months at one point during March (**Figure 5**). The B cohort was the worst performing cohort, widening 24bps during the month.

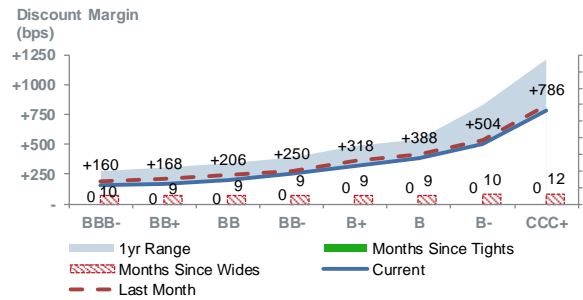
**Figure 6** indicates that the BBB-/BB+ portion of the credit curve (inflection point between IG/HY) had flattened an additional 9bps during the month to end at a +8bps basis versus the one year average of +27bps.

### Consumer goods and service company issues the best performers in Europe

There were seven consumer goods and services issues that made it onto the best performers list for Europe (**Table 4**). The best performer globally was Autobars' 10/14 (GBP) TL issue, which increased over 43% in price to end the month at a 77.3 price. The driver of the price rally was likely the potential deleveraging effect of the acquisition of Autobars' parent Pelican Rouge by Selecta Group BV.

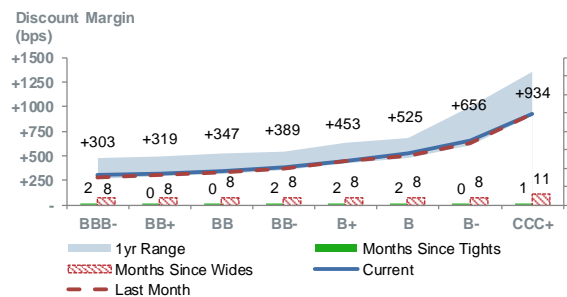
Retailers continue to come under pressure, with the percentage of US retailers rated Caa or Ca by Moody's (13%) reaching levels last seen during the Financial Crisis<sup>1</sup>. On that note, US retailer Rue 21's 10/13 TLB issue was the worst performing loan globally, declining over 33% to end the month at a 19.00 price.

**Figure 4: North American telecommunication services sector spreads to LIBOR**



Source: IHS Markit

**Figure 5: European energy sector spreads to LIBOR**



Source: IHS Markit

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



Source: IHS Markit

<sup>1</sup> Source: SJ Sourcing Journal article, [“Moody’s: Retail Distress Reaching Recession Level”](#) by Caletha Crawford published on March 1, 2017.

**Table 3: March North American loans best and worst price performance<sup>2</sup>**
**North America**

LXID	Loan Name	Sector	Country	Liq score	3/31 price	% change	One year low	Date	One year high	Date	
<b>Best performers</b>											
<b>Par</b>											
1	LX124077	RGIS Inventory 5/12 Add-on TLC	Industrials	USA	2	99.17	+7.1%	83.00	7/19/16	99.25	3/30/17
2	LX128907	Weight Watchers 4/13 Cov-Lite TLB2	Consumer Services	USA	1	92.96	+6.0%	70.17	5/11/16	93.81	3/1/17
3	LX137121	Jason 6/14 Cov-Lite TL	Industrials	USA	3	87.25	+5.5%	82.69	2/28/17	97.25	8/3/16
4	LX130126	CareStream 6/13 2nd Lien Cov-Lite TL	Healthcare	USA	1	88.68	+5.1%	80.05	12/9/16	96.38	8/16/16
5	LX137696	Peak 10 6/14 Cov-Lite 2nd Lien TL	Technology	USA	4	97.75	+3.6%	90.33	8/19/16	98.08	3/30/17
<b>Distressed</b>											
1	LX141448	Education Management 1/15 TLA	Consumer Services	USA	5	49.00	+38.6%	22.10	1/25/17	49.00	3/31/17
2	LX127581	Ameriforge 1/13 TL	Industrials	USA	3	74.17	+14.3%	45.13	4/13/16	74.92	3/23/17
3	LX141750	Essar Steel 11/14 TL	Basic Materials	CAN	3	39.67	+12.0%	10.17	4/27/16	39.67	3/31/17
4	LX130781	Triple Point 7/13 2nd Lien Cov-Lite TL	Technology	USA	3	78.69	+10.3%	60.67	6/17/16	78.69	3/31/17
5	LX135757	Lands' End 3/14 Cov-Lite TLB	Consumer Services	USA	4	80.00	+7.8%	70.00	12/2/16	84.83	5/12/16
<b>Worst performers</b>											
<b>Par</b>											
1	LX136541	Frac Tech International 4/14 Cov-Lite TL	Energy	USA	2	86.77	-9.3%	12.00	4/13/16	95.69	3/1/17
2	LX134289	Walter Investment 12/13 Cov-Lite TL	Financials	USA	1	86.04	-9.2%	79.00	6/27/16	96.30	1/10/17
3	LX157819	EMC (Global Eagle) 1/17 TL	Consumer Services	USA	5	93.31	-6.4%	93.31	3/31/17	99.92	2/7/17
4	LX144231	Acosta 4/15 TLB1	Consumer Services	USA	2	93.50	-4.1%	93.35	3/27/17	99.75	6/6/16
5	LX155570	PetSmart 10/16 TLB	Consumer Services	USA	1	95.38	-3.1%	93.81	3/20/17	100.63	12/19/16
<b>Distressed</b>											
1	LX131817	Rue 21 10/13 TLB	Consumer Services	USA	3	19.00	-33.3%	19.00	3/31/17	79.80	4/19/16
2	LX117989	Gymboree (Cov-Lite 2/11) TL	Consumer Services	USA	1	40.69	-26.6%	40.69	3/31/17	79.85	9/23/16
3	LX148271	Concordia 10/15 (GBP) Cov-Lite TL	Healthcare	CAN	1	67.86	-19.0%	65.00	3/28/17	99.75	6/6/16
4	LX130275	Harvey Gulf 6/13 Cov-Lite TLB	Industrials	USA	4	69.83	-15.1%	52.88	4/4/16	82.75	2/14/17
5	LX150532	SunEdison 12/15 2nd Lien TLA2	Technology	USA	5	27.75	-11.0%	19.75	4/20/16	57.83	9/9/16

Source: IHS Markit

<sup>2</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: March European loans best and worst price performance<sup>2</sup>

## Europe

	LXID	Loan Name	Sector	Country	Liq score	3/31 price	% change	One year low	Date	One year high	Date
<b>Best performers</b>											
<b>Par</b>											
1	LX133515	Saur 10/13 PIK TLB	Utilities	FRA	3	93.88	+7.9%	58.00	7/1/16	93.88	3/31/17
2	LX066305	Fraikin 3/07 (GBP) Holdco TLB 2	Consumer Services	FRA	4	87.00	+5.7%	57.83	4/4/16	94.42	1/6/17
3	LX129907	CSM Bakery Supplies 5/13 2nd Lien Cov-Lite TL	Consumer Goods	NLD	4	86.31	+4.7%	73.50	1/2/17	86.33	3/24/17
4	LX141132	Fat Face 11/14 TL	Consumer Services	GBR	4	85.00	+3.9%	79.38	12/27/16	91.44	6/17/16
5	LX152521	Kuoni Group 5/16 Cov-Lite TLB	Consumer Services	LUX	1	97.68	+1.9%	94.31	1/3/17	98.60	9/28/16
<b>Distressed</b>											
1	LX141735	Autobar 10/14 (GBP) TL	Consumer Services	NLD	3	77.38	+43.3%	47.79	3/13/17	77.59	3/21/17
2	LX062451	HC Starck 11/06 (USD) 2nd Lien TLA	Basic Materials	DEU	5	64.67	+19.8%	31.80	12/20/16	82.40	4/7/16
3	LX130766	SICL TL	Financials	SAU	4	21.17	+9.5%	17.67	7/29/16	21.17	3/31/17
4	LX121462	Jack Wolfskin (8/11) TLb	Consumer Goods	DEU	2	51.00	+7.5%	41.83	1/13/17	80.42	4/27/16
5	LX096332	Cortefiel 5/07 TLB2	Consumer Services	ESP	1	74.35	+5.8%	59.61	11/8/16	75.50	5/6/16
<b>Worst performers</b>											
<b>Par</b>											
1	LX155194	Unilabs Diagnostics 10/16 Cov-Lite TLB	Healthcare	SWE	1	99.15	-2.3%	99.15	3/31/17	101.60	2/21/17
2	LX141605	Orion Cable 1/15 TLA	Consumer Services	DEU	1	99.71	-1.8%	98.83	6/29/16	101.53	2/28/17
3	LX152547	Tackle 6/16 TLB	Industrials	LUX	1	99.94	-1.7%	99.56	6/27/16	101.69	2/2/17
4	LX133987	Intelsat Jackson 11/13 TLB2	Telecom Services	LUX	1	97.81	-1.5%	89.03	6/27/16	99.36	3/1/17
5	LX156207	Telenet 11/16 (EUR) AE Cov-Lite TL	Telecom Services	LUX	1	99.73	-1.4%	99.73	3/31/17	101.13	2/28/17
<b>Distressed</b>											
1	LX137333	Deoleo 6/14 TL	Consumer Goods	ESP	1	73.62	-11.3%	73.62	3/31/17	86.45	10/4/16
2	LX139562	Endemol 8/14 (USD) Cov-Lite 2nd Lien TL	Consumer Services	NLD	3	69.60	-5.6%	63.33	6/27/16	81.50	12/8/16
3	LX125751	Camaieu (7/07) Tranche 3 TLB	Consumer Services	FRA	3	72.35	-3.4%	68.00	11/9/16	85.00	5/25/16
4	LX135963	Petroleum Geo-Services 3/14 Cov-Lite TLB	Energy	NOR	2	82.25	-3.0%	56.17	4/7/16	87.88	1/30/17
5	LX139588	Expro Holdings 8/14 Cov-Lite TL	Energy	LUX	3	78.46	-3.0%	66.89	4/6/16	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	-7	-17	-11	-7	-16	-1	-3	-21
	EU	-1	-12	-5	-1	-10	+5	+1	-14
	Change NA-EU	-5.7	-4.6	-6.0	-5.9	-5.9	-5.9	-4.3	-6.5
<b>Consumer Goods</b>	NA	+4	-5	+0	+4	-4	+11	+8	-9
	EU	+10	-0	+7	+11	+2	+17	+13	-2
	Current NA-EU	-6.2	-5.1	-6.5	-6.3	-6.3	-6.3	-4.7	-6.9
<b>Consumer Services</b>	NA	-3	-13	-7	-3	-12	+3	+1	-17
	EU	+3	-8	-1	+3	-6	+9	+5	-10
	Current NA-EU	-5.9	-4.8	-6.2	-6.0	-6.0	-6.1	-4.5	-6.6
<b>Energy</b>	NA	+12	+2	+8	+12	+3	+18	+16	-2
	EU	+17	+7	+14	+18	+9	+24	+20	+5
	Current NA-EU	-5.8	-4.7	-6.1	-5.9	-5.9	-5.9	-4.3	-6.5
<b>Financials</b>	NA	-2	-11	-6	-2	-11	+4	+2	-16
	EU	+3	-8	-1	+3	-6	+9	+5	-10
	Current NA-EU	-4.6	-3.5	-4.9	-4.7	-4.7	-4.7	-3.2	-5.3
<b>Healthcare</b>	NA	-4	-14	-8	-4	-13	+2	-0	-18
	EU	+2	-9	-2	+2	-7	+8	+4	-11
	Current NA-EU	-6.2	-5.1	-6.5	-6.4	-6.4	-6.4	-4.8	-7.0
<b>Industrials</b>	NA	-8	-17	-11	-8	-16	-1	-3	-21
	EU	-2	-12	-5	-1	-10	+5	+1	-14
	Current NA-EU	-6.0	-4.9	-6.3	-6.1	-6.1	-6.1	-4.6	-6.7
<b>Technology</b>	NA	-11	-21	-15	-11	-20	-5	-7	-25
	EU	-5	-16	-9	-5	-14	+1	-2	-18
	Current NA-EU	-6.3	-5.2	-6.6	-6.4	-6.4	-6.5	-4.9	-7.0
<b>Telecommunication Services</b>	NA	-32	-41	-36	-32	-40	-25	-28	-45
	EU	-27	-37	-31	-27	-36	-20	-24	-40
	Current NA-EU	-4.8	-3.7	-5.1	-4.9	-4.9	-4.9	-3.4	-5.5
<b>Utilities</b>	NA	+1	-8	-3	+1	-8	+7	+5	-13
	EU	+5	-5	+2	+6	-3	+12	+8	-7
	Current NA-EU	-4.5	-3.4	-4.8	-4.6	-4.6	-4.6	-3.0	-5.2

Source: IHS Markit

## Credit default swaps

In the CDS market, the month of March is dominated by one event – the semi-annual roll. Single names now roll in tandem with indices (they used to roll quarterly), a structural change that may be paying off in terms of increased liquidity.

The roll results in longer contracts and new constituents for on-the-run-indices. This particular instance was relatively uneventful, but the makeup of the new [Markit iTraxx Crossover](#) is worth highlighting.

### Liberty Global dominates Crossover

No fewer than seven of the names making up the index are part of the Liberty Global group. The US telecom firm is highly acquisitive, most recently taking control of Cable & Wireless – one of the Liberty names in the index - in 2015. Liberty’s M&A spree has left it with a complex capital structure and considerable leverage. Despite this debt burden, however, the parent entity Liberty Global doesn’t trade in the CDS market as it depends on distributions from its subsidiaries, where the debt resides.

Companies such as Liberty Global are a reminder that CDS market participants often get their edge through accurate reference data and high quality corporate structure research, as well the more obvious fundamental and technical factors.

The roll obscures the performance of the CDS market, as there is usually a spike in spreads post default (due to the longer on-the-run contract). But taking into account the roll effect and the fact that the new series of the [Markit iTraxx Europe](#) closed the month at 73.6bps – just over 0.5bps wider than where the old index started the month – we can see that the market was slightly tighter over this period.

### Car rental firms struggle with falling prices

The indices don’t always tell the whole story, however, and a look at our tables ([Table 6](#) & [Table 7](#)) of best and worst performing single names shows that there was credit deterioration focused in particular sectors. The US car rental industry is under increasing pressure from falling used vehicle prices. The likes of Avis, which saw its CDS spreads widen 28.8% in March, are exposed to resale prices, and indications that they are dropping at a faster rate than expected may have a balance sheet impact on Avis and its peers. Avis is now trading with an implied rating of CCC compared to B1/BB- with Moody’s and S&P.

Elsewhere, the European basic materials sector underperformed, giving back some of its considerable gains from previous months. SABMiller, which is being bought by AB InBev, saw its spreads widen as it converged on its acquirer’s levels.

### CDS AAA through B global sector spread curve flattens in Q1

CDS sector curve data indicates that the investment grade credit curve for the North American flattened the most in Q1 versus Japan and Europe (**Figure 7**). In the case of high yield, the BB and B portion of the credit curve ended the quarter modestly flatter, while CCC steepened across all three regions.

**Figure 7: Q1 2017 financials CDS sector spread changes by rating and region**

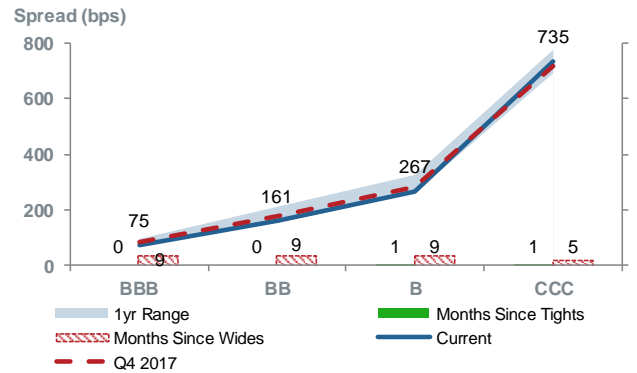
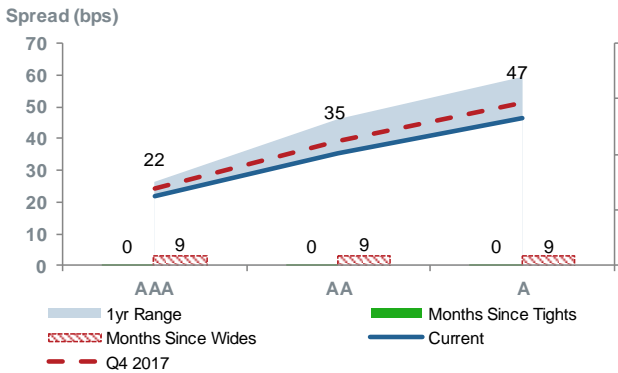


Source: IHS Markit

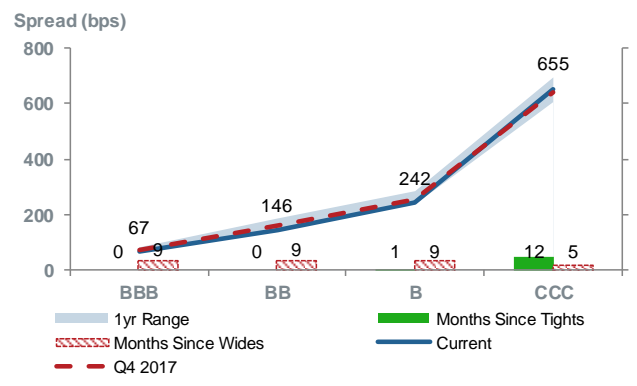
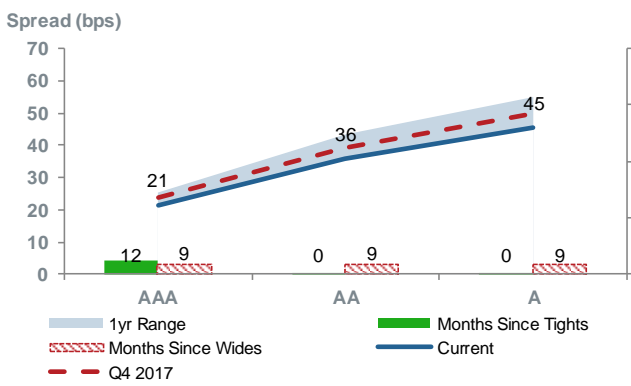


**Figure 8: Q1 regional CDS sector spread summary**

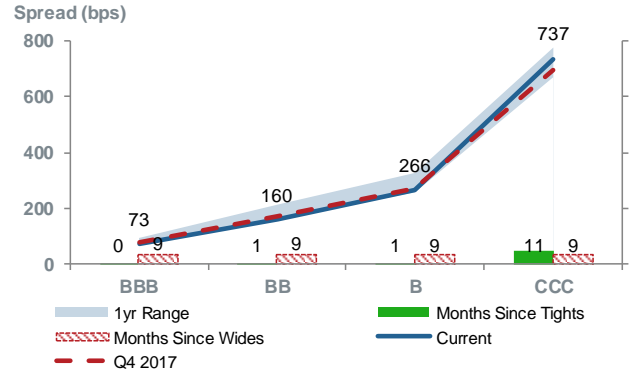
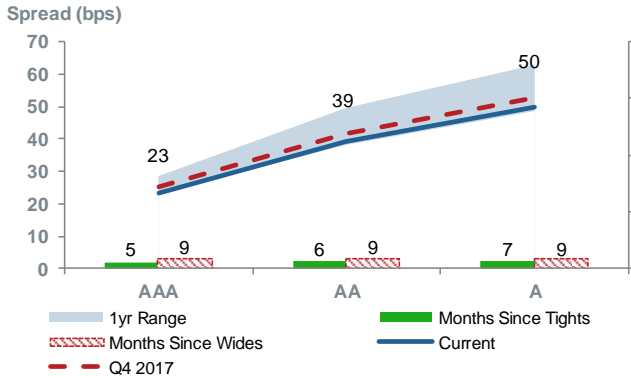
**Global**



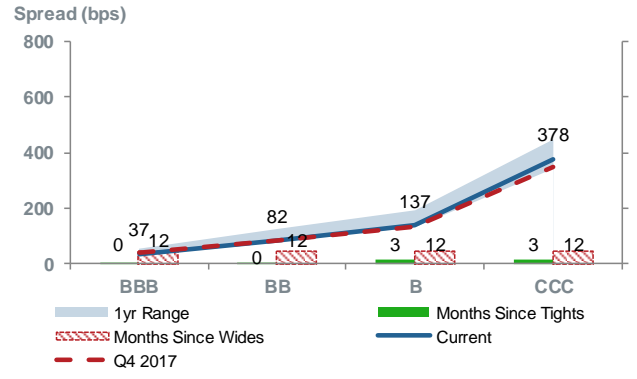
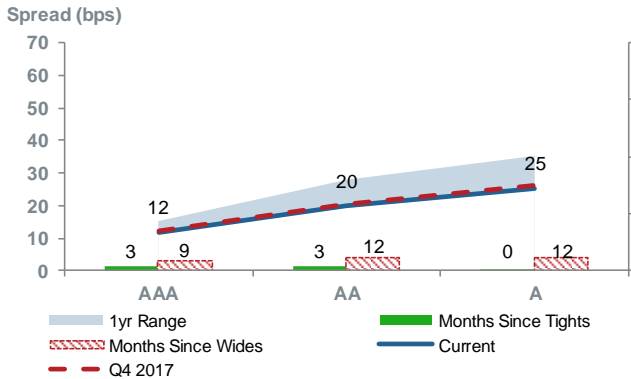
**North America**



**Europe**



**Japan**



Source: IHS Markit

Table 6: March liquid 5yr corporate CDS best spread performance<sup>3</sup>

## Best performers

	Ticker	Company	Sector	Country	Liq score	3/31 spread	Change	% change	One year tight	Date	One year wide	Date
<b>Americas</b>												
1	COP	Conocophillips	Energy	USA	1	69	-11	-14.0%	69	3/31/17	242	4/7/16
2	MDT	Medtronic Inc	Healthcare	USA	2	36	-6	-13.7%	36	3/31/17	47	11/24/16
3	WFT	Weatherford Intl Ltd	Energy	BMU	1	350	-43	-10.9%	350	3/31/17	1152	5/9/16
4	CVX	Chevron Corp	Energy	USA	2	64	-7	-10.2%	64	3/31/17	104	4/4/16
5	VLOC	Valero Energy Corp	Energy	USA	1	88	-10	-9.9%	88	3/31/17	189	8/2/16
<b>EMEA</b>												
1	LADBCOR	Ladbrokes Coral Group Plc	Consumer Services	GBR	1	327	-66	-16.8%	309	1/3/17	396	2/27/17
2	PRUFIN	Prudential Plc	Financials	GBR	2	84	-17	-16.8%	81	3/28/17	131	7/11/16
3	PREMFOO	Premier Foods Fin Plc	Consumer Goods	GBR	1	381	-67	-14.9%	134	4/12/16	459	2/10/17
4	NOVOBAN	Novo Bco Sa	Financials	PRT	2	908	-155	-14.6%	904	3/30/17	2541	9/19/16
5	ASTL	Astaldi S Per Azioni	Industrials	ITA	1	737	-125	-14.5%	685	3/16/17	1515	8/30/16
<b>APAC</b>												
1	MITHI	Mitsubishi Heavy Inds Ltd	Industrials	JPN	2	31	-7	-17.4%	23	9/16/16	50	4/7/16
2	BCHINL	Bk Of China Ltd	Financials	CHN	2	99	-8	-7.7%	94	3/17/17	158	4/8/16
3	KAWHI	Kawasaki Heavy Inds Ltd	Industrials	JPN	2	32	-3	-7.4%	32	3/17/17	70	4/11/16
4	CNOOC	Cnooc Ltd	Energy	HKG	2	96	-7	-6.7%	92	3/17/17	143	6/27/16
5	ORIX	Orix Corp	Financials	JPN	2	38	-2	-4.3%	36	3/17/17	76	4/11/16

Source: IHS Markit

<sup>3</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: March liquid 5yr corporate CDS worst spread performance<sup>3</sup>

## Worst performers

	Ticker	Company	Sector	Country	Liq score	3/31 spread	Change	% change	One year tight	Date	One year wide	Date
<b>Americas</b>												
1	CSC	Computer Sciences Corp	Technology	USA	1	94	+25	+36.2%	65	9/7/16	108	5/6/16
2	DNY	R R Donnelley & Sons Co	Industrials	USA	1	545	+123	+29.3%	304	9/8/16	547	3/27/17
3	AVBDGT	Avis Budget Group Inc	Consumer Services	USA	1	423	+95	+28.8%	306	3/2/17	552	5/13/16
4	X	Utd Sts Stl Corp	Basic Materials	USA	1	463	+102	+28.3%	345	3/1/17	1363	5/13/16
5	CD-AvisBdgt	Avis Budget Car Rent Llc	Consumer Services	USA	2	421	+88	+26.5%	306	3/3/17	549	5/13/16
<b>EMEA</b>												
1	SABMLIM	Sabmiller Ltd	Consumer Goods	GBR	2	59	+21	+55.1%	32	12/26/16	61	3/20/17
2	MATTETE	Matterhorn Telecom Hldg Sa	Telecom Services	LUX	2	317	+75	+30.7%	230	3/2/17	453	6/27/16
3	AAUK	Anglo Amern Plc	Basic Materials	GBR	1	199	+42	+26.7%	145	3/6/17	730	4/7/16
4	AKZO	Akzo Nobel Nv	Basic Materials	NLD	2	66	+11	+19.9%	46	9/8/16	75	4/1/16
5	ARMLL	Arcelormittal	Basic Materials	LUX	1	240	+39	+19.6%	184	3/3/17	621	4/7/16
<b>APAC</b>												
1	OJIHOL	Oji Hldgs Corp	Basic Materials	JPN	2	34	+4	+15.1%	21	12/15/16	47	4/11/16
2	NPG-NPI	Nippon Paper Inds Coltd	Basic Materials	JPN	1	54	+7	+14.4%	34	9/9/16	74	6/24/16
3	RIOLN-Ltd	Rio Tinto Ltd	Basic Materials	AUS	1	88	+10	+13.3%	76	3/3/17	200	5/24/16
4	BHP	Bhp Billiton Ltd	Basic Materials	AUS	1	77	+9	+13.2%	67	3/3/17	179	5/16/16
5	CITOH	Itochu Corp	Industrials	JPN	1	39	+4	+12.2%	30	12/16/16	62	5/10/16

Source: IHS Markit

## Global corporate bonds

### UK gilts continue to outperform

It was another solid month for sterling-denominated debt, following on from the stellar performance in February.

The increase in returns over March was relatively modest, but they added to the strong showing from GBP debt this year. The [Markit iBoxx £ Liquid Investment Grade Index](#) returned 0.22% in March and has now posted a total return of 1.85% year-to-date. AAA debt again led the way, returning 0.47% - more than any other investment grade rating bucket. Only high yield (0.69%) returned more out of the aggregate indices.

It was a different picture in euro debt, where negative returns were the order of the day. The [Markit iBoxx € Liquid Investment Grade Index](#) returned a negative 0.33% and its year-to-date return of 0.25% compares unfavourably with its sterling counterpart. This underperformance can be seen across all sectors, with insurance the only sub-index to post positive returns (0.76%) in March.

Negative returns were also common in USD debt. The [Markit iBoxx \\$ Liquid Investment Grade Index](#) posted a negative 0.11%, with just financials managing to achieve modest positive returns.

### CoCos return to popularity

It's worth noting that contingent convertible bonds outperformed yet again, and the euro CoCo index has now returned 4.75% this year. Just over a year ago, this type of instrument was attracting all the wrong headlines amid speculation that many investors did not understand their risks. A Deutsche Bank CoCo was thought to be close to triggering a coupon deferral, and CoCo prices were dropping sharply.

That period of negative sentiment has passed, and investors now appear more comfortable holding this high yielding asset.

### Influx of global banking sector issuance

Banking sector supply has been prominent, in both the debt and equity markets. Following Unicredit's highly successful €13bn jumbo share sale, Deutsche Bank is in the process of raising €8bn in additional capital through a rights issue. Banks also have been busy issuing senior debt with global significantly important banks looking to raise new instruments that qualify as Total Loss Absorbing Capital to meet Basel Committee requirements: other banks in Europe have also been seeking similar instruments to meet EU guidelines.

Markets have also remained receptive to emerging markets risk, with highlights including Kuwait's heavily oversubscribed \$8bn issue, alongside multiple other emerging market issuers. Other issues included Bolivia, Brazil, perpetual debt from Qatar Reinsurance, Turkish bank and Russian corporate supply. There have been multiple Latin American corporate deals, continuing supply from Argentina—which returned to the Swiss franc markets after nearly a 20-year gap—and sizeable Chinese banking and corporate sector debt sales.

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

	Total Return						Yield			Duration					
	Month			YTD			Current			Month					
	\$	€	£	\$	€	£	\$	€	£	\$	€	£			
Corporates	-0.11%	-0.33%	+0.22%	+1.36%	+0.25%	+1.85%	3.92%	1.20%	2.81%	+0.07%	+0.09%	+0.00%	6.7	5.3	8.4
Corporates AAA	-0.17%	-0.75%	+0.47%	+0.96%	-0.31%	+1.88%	3.68%	1.03%	1.95%	+0.06%	+0.10%	-0.02%	9.8	7.9	14.8
Corporates AA	-0.11%	-0.60%	+0.11%	+1.01%	-0.06%	+1.62%	3.38%	0.73%	2.19%	+0.06%	+0.12%	+0.01%	6.0	5.4	9.1
Corporates A	-0.11%	-0.40%	+0.16%	+1.16%	+0.04%	+1.71%	3.65%	0.99%	2.73%	+0.06%	+0.10%	+0.01%	6.4	5.2	9.2
Corporates BBB	-0.12%	-0.19%	+0.28%	+1.64%	+0.51%	+2.03%	4.29%	1.50%	3.07%	+0.08%	+0.07%	-0.00%	7.0	5.3	7.6
Banks	+0.08%	-0.11%	-0.08%	+1.25%	+0.38%	+2.10%	3.62%	1.03%	2.81%	+0.05%	+0.06%	+0.04%	4.9	4.4	6.4
Basic Materials	-0.20%	-0.83%	+0.08%	+2.77%	+0.21%	+2.83%	4.23%	1.00%	2.44%	+0.08%	+0.17%	+0.02%	7.1	5.4	7.7
Consumer Goods	-0.19%	-0.65%	+0.10%	+1.19%	-0.00%	+0.85%	3.74%	1.09%	2.10%	+0.08%	+0.14%	-0.01%	6.3	5.5	5.8
Consumer Services	-0.11%	-0.64%	+0.13%	+1.23%	+0.02%	+1.79%	4.12%	1.10%	2.56%	+0.06%	+0.13%	+0.01%	8.3	5.5	9.9
Financials	+0.05%	-0.05%	+0.10%	+1.38%	+0.57%	+2.45%	3.68%	1.28%	2.99%	+0.05%	+0.05%	+0.02%	5.2	4.8	6.9
Health Care	-0.12%	-0.55%	-0.10%	+1.37%	+0.08%	+0.82%	3.85%	1.16%	2.55%	+0.06%	+0.11%	+0.03%	7.6	6.1	12.2
Industrials	-0.30%	-0.56%	+0.18%	+1.22%	-0.02%	+1.62%	3.78%	0.96%	2.51%	+0.09%	+0.13%	+0.00%	7.6	5.4	9.2
Insurance	+0.05%	+0.76%	+0.40%	+2.19%	+2.09%	+3.69%	4.18%	2.57%	3.91%	+0.05%	-0.08%	-0.01%	7.4	6.0	6.9
Non-Financials	-0.21%	-0.52%	+0.29%	+1.35%	+0.02%	+1.49%	4.02%	1.15%	2.72%	+0.08%	+0.12%	-0.01%	7.5	5.6	9.4
Oil & Gas	-0.38%	-0.50%	+0.10%	+1.54%	+0.20%	+1.51%	4.23%	1.23%	2.29%	+0.10%	+0.11%	-0.01%	7.2	5.8	7.5
Technology	-0.08%	-0.86%	N/A	+1.24%	-0.18%	N/A	3.69%	0.80%	N/A	+0.05%	+0.14%	N/A	7.3	6.4	N/A
Telecommunications	-0.09%	-0.43%	+0.24%	+0.56%	-0.12%	+1.19%	4.61%	1.35%	3.23%	+0.09%	+0.08%	+0.01%	8.7	5.9	10.0
Utilities	-0.38%	-0.23%	+0.53%	+1.52%	+0.04%	+1.64%	4.13%	1.29%	2.85%	+0.09%	+0.08%	-0.02%	8.5	5.6	10.2
High Yield Liquid High Yield	-0.27%	-0.12%	+0.69%	+2.31%	+1.36%	+2.27%	5.80%	3.30%	4.82%	+0.18%	+0.13%	-0.16%	3.6	3.1	2.9
Contingent Convertible	+0.70%	+1.04%	+1.29%	+4.51%	+4.75%	+2.76%	6.38%	5.26%	7.62%	-0.02%	-0.16%	-0.13%	4.0	3.5	5.6

Source: IHS Markit

Table 9: March global corporate bond best price performance

## Best performers

Ticker	Issue	Sector	Country	CCY	Liq score	3/31 price	Change	% change	One year low	Date	One year high	Date
<b>Americas</b>												
1	ODEBDRI	Odebrecht Drilling Norbe VIII/lx Ltd. 6.35 6/2021	Energy	BRA	USD	1	55.13	+6.93	+14.4%	20.00	5/2/16	55.13 3/31/17
2	RJSPOW	Rjs Power Holdings Llc 4.625 7/2019	Utilities	USA	USD	1	102.12	+4.63	+4.7%	85.75	4/7/16	102.12 3/31/17
3	CUMUMED	Cumulus Media Holdings Inc. 7.75 5/2019	Consumer Services	USA	USD	2	34.50	+1.50	+4.5%	33.00	2/28/17	44.00 11/10/16
4	SIXSNET	Sixsigma Networks Mexico, S.A. De C.V. 8.25 11/2021	Technology	MEX	USD	1	98.61	+4.02	+4.3%	90.38	1/23/17	100.92 9/1/16
5	CRIMMER	Crimson Merger Sub, Inc. 6.625 5/2022	Healthcare	USA	USD	1	92.25	+2.86	+3.2%	75.11	4/5/16	93.00 3/30/17
<b>EMEA</b>												
1	ALDEFIN	Aldesa Financial Services S.A. 7.25 4/2021	Industrials	ESP	EUR	2	79.25	+10.97	+16.1%	63.39	8/5/16	82.85 4/26/16
2	FRIGFIN	Frigoglass Finance B.V. 8.25 5/2018	Industrials	GRC	EUR	1	61.00	+8.35	+15.9%	49.51	2/23/17	64.47 12/21/16
3	NAVMH	Navios Maritime Holdings Inc. 7.375 1/2022	Industrials	GRC	USD	1	85.25	+9.77	+12.9%	34.50	4/1/16	85.25 3/31/17
4	OHLSA	Obrascon Huarte Lain Sa 7.625 3/2020	Industrials	ESP	EUR	1	98.88	+5.84	+6.3%	68.41	8/5/16	102.70 4/26/16
5	PACIDRI	Pacific Drilling S.A 5.375 6/2020	Energy	LUX	USD	1	48.24	+2.43	+5.3%	25.68	8/22/16	51.38 2/1/17
<b>APAC</b>												
1	GALLVEN	Gallant Venture Ltd. 7 4/2018	Consumer Services	SGP	SGD	3	92.50	+4.50	+5.1%	88.00	3/6/17	100.46 6/21/16
2	JUROSHI	Jurong Shipyard Pte Ltd 3.85 9/2029	Industrials	SGP	SGD	3	89.26	+3.96	+4.6%	78.45	11/24/16	94.10 4/19/16
3	INDIGAN	Delhi International Airport Private Limited 6.125 10/2026	Industrials	IND	USD	2	107.65	+3.85	+3.7%	100.35	11/14/16	107.65 3/31/17
4	CITYDL	City Developments Limited 3.48 6/2026	Consumer Services	SGP	SGD	3	101.30	+3.53	+3.6%	97.27	2/14/17	102.36 8/16/16
5	COSCPAC	Cosco Pacific Finance (2013) Company Limited 4.375 1/2023	Industrials	CHN	USD	1	102.12	+2.77	+2.8%	96.86	12/15/16	102.94 9/26/16

Source: IHS Markit

Table 10: March global corporate bond worst price performance

## Worst performers

Ticker	Issue	Sector	Country	CCY	Liq score	3/31 price	Change	% change	One year low	Date	One year high	Date
<b>Americas</b>												
1 CONCHEA	Concordia Healthcare Corp. 9.5 10/2022	Healthcare	BRB	USD	1	22.75	-20.52	-47.4%	19.25	3/28/17	101.75	4/25/16
2 WALTINV	Walter Investment Management Corp. 7.875 12/2021	Financials	USA	USD	1	58.25	-21.75	-27.2%	44.50	8/3/16	84.00	1/9/17
3 ODBR-FIN	Odebrecht Finance Ltd. 5.25 6/2029	Industrials	BRA	USD	2	34.14	-9.16	-21.2%	24.37	5/5/16	62.00	12/2/16
4 QGOGCON	Qgog Constellation S.A. 6.25 11/2019	Energy	BRA	USD	2	61.61	-14.26	-18.8%	41.50	8/23/16	78.50	2/14/17
5 CLST	Claire's Stores, Inc. 9 3/2019	Consumer Services	USA	USD	1	39.43	-6.40	-14.0%	39.36	3/29/17	73.31	4/25/16
<b>EMEA</b>												
1 AGROK	Agrokor D.D. 9.875 5/2019	Consumer Goods	HRV	EUR	2	38.60	-31.96	-45.3%	37.56	3/30/17	105.80	7/11/16
2 SILVII	Silver li Borrower S.C.A. 7.75 12/2020	Financials	LUX	USD	1	83.87	-4.13	-4.7%	73.79	11/17/16	90.50	3/6/17
3 BRFGMB	Brf Gmbh 4.35 9/2026	Consumer Goods	AUT	USD	2	91.10	-4.17	-4.4%	87.00	3/20/17	98.11	10/12/16
4 MANUTFA	Manutcoop Facility Management Societa Per Azioni 8.5 8/2020	Industrials	ITA	EUR	1	100.15	-3.72	-3.6%	73.64	4/7/16	103.97	2/17/17
5 MATTETE	Matterhorn Telecom Holding S.A. 4.875 5/2023	Telecommunications Services	CHE	EUR	1	99.65	-3.60	-3.5%	86.75	4/7/16	103.51	3/2/17
<b>APAC</b>												
1 EZRAHOL	Ezra Holdings Limited 4.875 4/2018	Energy	SGP	SGD	3	5.00	-20.00	-80.0%	5.00	3/31/17	83.50	6/3/16
2 NAMCHE	Nam Cheong Limited 5.05 8/2019	Industrials	MYS	SGD	3	20.00	-5.00	-20.0%	20.00	3/31/17	80.64	8/2/16
3 MIEHOL	Mie Holdings Corporation 7.5 4/2019	Energy	CHN	USD	1	66.67	-7.10	-9.6%	44.46	4/6/16	75.65	2/3/17
4 CHINHON	China Hongqiao Group Limited 7.625 6/2017	Basic Materials	CHN	USD	1	94.55	-6.60	-6.5%	94.55	3/31/17	103.30	7/12/16
5 ANTOOIL	Anton Oilfield Services Group 7.5 11/2018	Energy	CHN	USD	1	90.65	-3.13	-3.3%	46.08	4/1/16	94.11	2/14/17

Source: IHS Markit

## Sovereigns

### Western European names bounce back after difficult start to the year

We noted last month that there was a clear dichotomy between developing and developed markets in the sovereign CDS market in terms of performance. This was also the case in March, but this time the pattern was reversed. All but one of the improving names were from developed markets, with China the sole exception.

Political risk has driven spread direction this year, and the swathe of elections this year will no doubt contribute to further volatility in the months ahead. In this instance it was the Dutch election that affected sentiment, with the French vote bubbling in the background.

Fears that Geert Wilders and his far-right Party for Freedom (PVV) would triumph in the March 15 general election have weighed on markets in recent months. Wilders declared that he wants to take the Netherlands out of the EU, and was regularly out in front in opinion polls. This led to Netherlands sovereign CDS spreads widening from 25bps to 31bps, a relatively wide level for this strong AAA credit.

But spreads had already started to recover before the election as Wilders lost ground in the polls, and the election resulted in him coming a clear second to the incumbent centre right Prime Minister Mark Rutte and his Christian Democrats party. By the end of March Netherlands spreads were trading back at 25bps.

Rutte's victory helped spreads bounce back across western Europe, though upcoming elections in France, the UK, Germany and possibly Italy mean political risk is still very much on the agenda.

### Venezuela suffers from political instability

It is certainly still a risk in Venezuela, where spreads have ballooned higher in response to increasing political instability (**Table 12**). Venezuela's CDS closed the month at 58 points upfront, or nearly 4,000bps in spread format, while its 8/2018 bond dropped over 5 points to trade at 83.5%.

IHS Markit Country Risk analysts have highlighted how the executive is grabbing more power at the expense of the National Assembly, which is controlled by the opposition. This is triggering civil unrest and puts the government at loggerheads with the assembly. Venezuela has significant debt redemptions this year and dwindling foreign exchange reserves, so it is not hard to see why it is regarded as very high risk by both the market and independent experts.

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

			3/31 10yr bond yield	CDS change	3/31 CDS	% change	One year tight	Date	One year wide	Date
1	DBR	Germany	0.33%	-4.0	18.0	-18.3%	16.3	9/6/16	30.8	12/5/16
2	ITALY	Italy	2.13%	-16.0	169.6	-8.6%	124.9	4/28/16	195.4	2/22/17
3	FRTR	France	0.96%	-4.5	52.0	-8.0%	26.8	9/16/16	68.2	2/22/17
4	USGB	United States	2.40%	-1.5	22.3	-6.4%	18.1	4/13/16	28.8	11/11/16
5	UKIN	United Kingdom	1.13%	-0.7	29.0	-2.4%	27.1	1/31/17	50.6	6/24/16
6	CAN	Canada	1.63%	-0.3	30.6	-0.9%	25.5	6/23/16	36.0	1/12/17
7	JAPAN	Japan	0.06%	+0.7	24.7	+2.8%	22.4	3/16/17	46.6	4/1/16

Source: IHS Markit



Table 12: March liquid sovereign 5yr CDS best and worst spread performance<sup>3</sup>

			Liq Score	Change	3/31 spread	% change	One year tight	Date	One year wide	Date
<b>Best performers</b>										
1	IRELND	Ireland	2	-13	54	-19.7%	51	3/28/17	92	6/27/16
2	DBR	Germany	1	-4	18	-18.3%	16	9/6/16	31	12/5/16
3	BELG	Belgium	2	-6	28	-17.7%	27	10/24/16	68	6/27/16
4	NETHRS	Netherlands	2	-5	25	-17.3%	24	3/27/17	35	6/28/16
5	AUST	Austria	1	-4	23	-14.4%	23	3/31/17	38	6/27/16
6	PORTUG	Portugal	2	-40	248	-14.0%	237	3/28/17	349	6/27/16
7	NORWAY	Norway	2	-2	16	-13.3%	16	3/31/17	30	6/27/16
8	DENK	Denmark	2	-3	18	-13.0%	18	3/30/17	27	6/24/16
9	CHINA	China	1	-9	83	-9.8%	79	3/17/17	130	5/4/16
10	ITALY	Italy	2	-16	170	-8.6%	125	4/28/16	195	2/22/17
<b>Worst performers</b>										
1	VENZ	Venezuela	1	+540	3961	+15.8%	2997	10/4/16	6842	4/7/16
2	MALAYS	Malaysia	1	+12	106	+13.3%	93	2/28/17	171	6/16/16
3	SOAF	South Africa	1	+25	216	+13.2%	179	3/17/17	319	5/19/16
4	KOREA	South Korea	1	+5	51	+11.5%	39	9/22/16	67	4/8/16
5	PHILIP	Philippines	1	+5	82	+6.1%	77	2/28/17	130	11/18/16
6	CZECH	Czech Republic	2	+1	41	+3.4%	38	9/8/16	46	6/27/16
7	JAPAN	Japan	2	+1	25	+2.8%	22	3/16/17	47	4/1/16
8	ARGENT	Argentina	1	+6	368	+1.8%	337	3/17/17	3694	4/25/16
9	AUSTLA	Australia	1	+0	26	+1.7%	20	9/8/16	40	5/12/16
10	PANAMA	Panama	1	+2	119	+1.7%	112	3/6/17	185	6/27/16

Source: IHS Markit

Table 13: March sovereign bond best price performance

## Best performers

Ticker	Issue	CCY	Liq score	3/31 price	Change	% change	3/31 yield	One year low	Date	One year high	Date	
<b>Americas</b>												
1	GUATEM	Republic of Guatemala 5.75 6/2022	USD	1	109.75	+0.67	+0.6%	3.83%	102.59	12/5/16	113.77	7/15/16
2	REPUOFAI	Republic of Paraguay 4.625 1/2023	USD	1	103.83	+0.55	+0.5%	3.99%	98.75	11/25/16	106.82	8/17/16
3	REPUOFBC	Republic of Suriname 9.25 10/2026	USD	2	99.98	+0.48	+0.5%	9.33%	97.20	12/19/16	105.13	10/26/16
4	COSTAR	Republic of Costa Rica 4.25 1/2023	USD	1	96.57	+0.45	+0.5%	5.02%	90.00	5/19/16	99.39	8/29/16
5	ELSALV	Republic of El Salvador 6.375 1/2027	USD	2	89.50	+0.23	+0.3%	7.96%	83.25	5/23/16	103.45	9/8/16
<b>EMEA</b>												
1	ICELND	Republic of Iceland 5.875 5/2022	USD	1	114.81	+1.79	+1.6%	3.14%	110.88	1/2/17	117.58	7/11/16
2	CMRN	Republic of Cameroon 9.5 11/2025	USD	2	112.81	+1.69	+1.5%	4.00%	93.25	4/5/16	114.15	3/21/17
3	ANGOLA	Republic of Angola 9.5 11/2025	USD	1	102.74	+1.54	+1.5%	9.29%	86.65	11/14/16	104.06	3/21/17
4	FEDEDEM	Federal Democratic Republic of Ethiopia 6.625 12/2024	USD	2	95.88	+1.39	+1.5%	7.57%	86.59	12/2/16	99.88	9/22/16
5	GREECE	Hellenic Republic 3 2/2023	EUR	1	83.21	+0.82	+1.0%	7.21%	69.08	4/14/16	85.03	12/2/16
<b>APAC</b>												
1	REPUOFBA	Republic of Armenia 6 9/2020	USD	1	104.77	+0.78	+0.7%	4.77%	97.93	5/25/16	104.77	3/31/17
2	MONGAA	Mongolia 4.125 1/2018	USD	1	99.63	+0.47	+0.5%	5.15%	90.93	4/7/16	99.64	3/24/17
3	KAZAKS	Republic of Kazakhstan 5.125 7/2025	USD	1	108.60	+0.40	+0.4%	3.96%	103.10	4/5/16	113.27	9/8/16
4	AUSTLA	Commonwealth of Australia 5.75 7/2022	AUD	1	117.34	-0.24	-0.2%	2.26%	116.31	3/10/17	123.64	8/2/16
5	SIGB	Republic of Singapore 4 9/2018	SGD	2	104.04	-0.29	-0.3%	1.08%	104.04	3/31/17	107.43	4/1/16

Source: IHS Markit

Table 14: March sovereign bond worst price performance

## Worst performers

Ticker	Issue	CCY	Liq score	3/31 price	Change	% change	3/31 yield	One year low	Date	One year high	Date	
<b>Americas</b>												
1	VENZ	Bolivarian Republic of Venezuela 13.625 8/2018	USD	1	83.50	-5.63	-6.3%	22.82%	62.52	6/22/16	90.21	3/6/17
2	ECUA	Republic of Ecuador 10.5 3/2020	USD	1	106.13	-3.73	-3.4%	6.87%	87.44	4/18/16	110.78	2/2/17
3	BOLV	Plurinational State of Bolivia 4.875 10/2022	USD	1	106.65	-3.68	-3.3%	2.88%	106.08	4/1/16	111.50	8/22/16
4	TRITOB	Republic of Trinidad And Tobago 4.375 1/2024	USD	1	99.79	-1.36	-1.3%	4.18%	97.70	12/2/16	105.55	9/8/16
5	JAMAN	Jamaica 7.875 7/2045	USD	2	114.27	-0.21	-0.2%	6.28%	102.00	4/1/16	118.42	9/8/16
<b>EMEA</b>												
1	IVYCST	Republic of Cote D'Ivoire 5.375 7/2024	USD	2	95.03	-1.43	-1.5%	5.97%	91.11	6/7/16	101.62	10/25/16
2	ZAMBIA	Republic of Zambia 8.97 7/2027	USD	2	103.90	-0.98	-0.9%	8.19%	79.12	5/10/16	106.42	3/21/17
3	REPUOFAC	Republic of Namibia 5.5 11/2021	USD	1	106.19	-0.60	-0.6%	3.89%	103.26	12/2/16	108.79	9/8/16
4	IRELND	Ireland 5.5 10/2017	EUR	1	103.25	-0.56	-0.5%	-0.51%	103.25	3/31/17	108.99	4/4/16
5	SWISS	Swiss Confederation 3 5/2019	CHF	2	108.29	-0.57	-0.5%	-0.97%	108.29	3/31/17	112.64	4/6/16
<b>APAC</b>												
1	REPUOFAD	Republic of Azerbaijan 4.75 3/2024	USD	1	100.57	-0.99	-1.0%	4.49%	94.13	4/5/16	104.50	8/16/16
2	PAKIS	Islamic Republic of Pakistan 6.875 6/2017	USD	1	100.48	-0.42	-0.4%	3.14%	100.42	3/22/17	104.08	4/6/16
3	MALAYS	Malaysia 3.493 10/2023	MYR	3	96.58	-0.13	-0.1%	4.06%	93.99	11/22/16	100.00	6/6/16
4	VIETNM	Socialist Republic of Vietnam 6.75 1/2020	USD	1	109.25	-0.12	-0.1%	3.34%	108.01	12/2/16	112.63	8/16/16
5	JAPAN	Japan 0.2 6/2036	JPY	1	92.71	+0.05	+0.1%	0.60%	91.10	2/7/17	103.40	7/6/16

Source: IHS Markit

## Municipal bonds

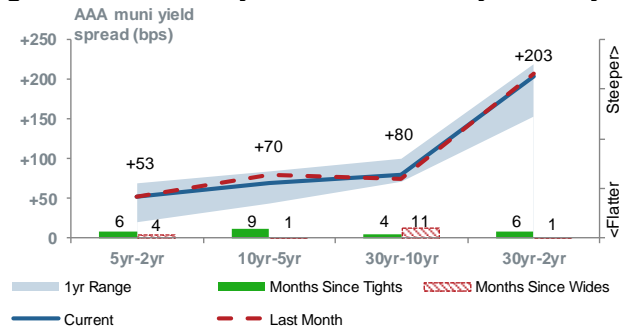
March's municipal bond issuance was the highest so far this year, but relatively light versus the same time last year (**Figure 11**). General obligations issuance totalled \$14.9bn and revenue \$15.5bn, which was 24% and 27%, respectively, lower than last March's total. YTD issuance is approximately 26% lower than the same time period last year, but current positive environment for municipal bonds could drive an uptick in issuance over the next few months. Municipal bond demand has been increasing as evidenced by increased inflows into the sector. The combination of the expectation of a slower rate of Fed increases based on the tone of the FOMC's March statement and volatility out of Europe driven by election uncertainty are favorable for the sector. In addition, the new administration's inability to repeal the Affordable Care Act makes a major US tax overhaul seem less likely this year.

### Long end of the municipal bond curve approaching flattest point in 12 months

The yield basis between 10yr and 30yr AAA municipal bonds widened 5bps to end the month at +80bps, which is near its widest basis of +71bps recorded in December (**Figure 9**). The 5yr and 10yr basis ended the month 10bps tighter at +70bps after reaching its widest level in a year last month. The overall curve, as represented by the basis between 2yr and 30yr bond yields, flattened 5bps on the month to +203bps.

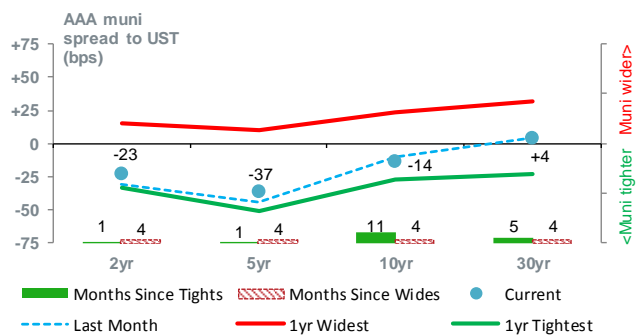
5yr AAA municipal bonds hit their tightest level in 12 months of treasuries -51bps on March 9, but widened out post-FOMC to end the month at treasuries -37bps (**Figure 10**). 2yr municipal bonds widened 7bps to a spread of Treasuries -23bps, which is 10bps wider than the tightest level reported in January 2016.

**Figure 9: AAA muni yield curve basis by maturity<sup>4</sup>**



Source: IHS Markit

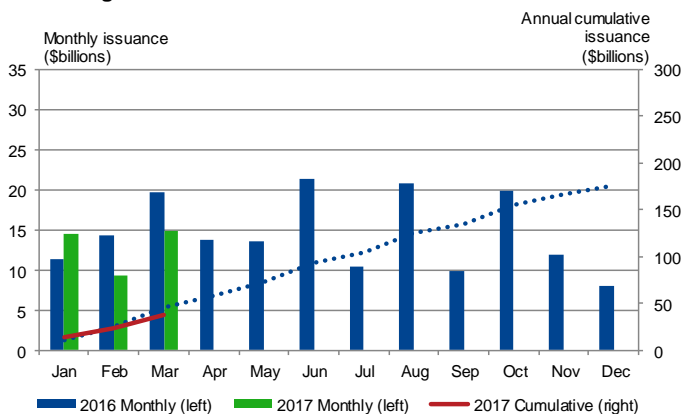
**Figure 10: AAA muni yield curve basis by maturity<sup>4</sup>**



Source: IHS Markit

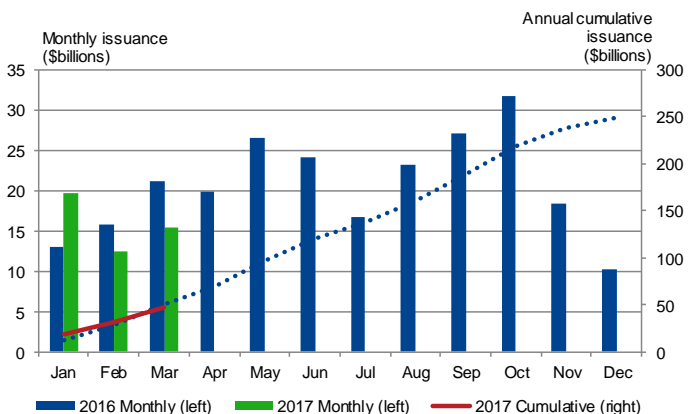
**Figure 11: Municipal bond issuance**

### General obligation



Source: SIFMA

### Revenue



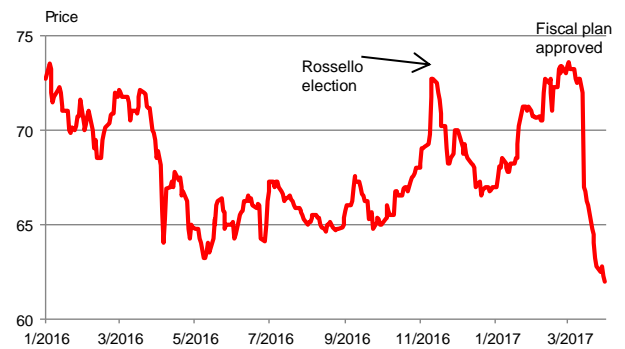
<sup>4</sup> '10yr' municipal bond category includes bonds that are expected to be called in 10 years.

### Puerto Rico bond prices drop sharply in March

In early-March, Governor Rossello submitted his budget proposal to the oversight board, which was promptly rejected as it included what the board believed were overly optimistic growth assumptions. The budget was promptly revised with more conservative assumptions and resubmitted to and approved by the board on March 13. Bond insurers and investors with exposure to Puerto Rico municipal bonds have already submitted a request for clarification on several aspects of the budget, including a list of the services classified as “essential” and access to the actual models used to create the budget.

The course of events during the month resulted in a 15.5% decline in the Puerto Rico 8.0% 7/2035 general obligation bond’s price in March (**Figure 12**), as well as sharp declines across various other entities.

**Figure 12: Puerto Rico GO 8.0% 7/2035 bond prices declined sharply in March**



Source: IHS Markit

**Table 15: March municipal revenue bond best price performance****Best performers**

	Issuer	Issue	Liq score	3/31 price	Change	% change	One year low	Date	One year high	Date
1	Harrison Cnty Tex Health Facs Dev Corp Rev	Hospital Revenue - Good Shepherd Health System 2010 5.25 07/2028	2	103.08	+1.90	+1.9%	100.87	3/2/17	109.85	5/11/16
2	Davie Fla Edl Facs Rev	Educational Faciliti - Nova Southeastern University Project 2013 6 04/2042	2	115.19	+1.99	+1.8%	111.77	12/5/16	124.58	8/24/16
3	Milwaukee Wis Redev Auth Redev Rev	Redevelopment Revenue - Summerfest Project 2010 5 08/2030	2	108.09	+1.75	+1.6%	105.99	3/3/17	111.79	7/6/16
4	Riverside-Quindaro Bend Levee Dist Mo Levee Dist Impt Rev	Levee District Improvement Refunding - L-385 Project 2017 5 03/2029	2	108.95	+1.75	+1.6%	105.99	2/15/17	109.19	3/29/17
5	Salt Verde Finl Corp Sr Gas Rev Ariz	Senior Gas Revenue - 2007 5 12/2037	1	115.16	+1.28	+1.1%	107.37	12/2/16	129.20	7/6/16
6	Lower Ala Gas Dist Gas Proj Rev	Gas Project Revenue - 2016-A 5 09/2046	1	116.45	+1.11	+1.0%	104.12	12/2/16	140.24	7/6/16
7	Knox Cnty Tenn Health Edl & Hsg Facs Brd Rev	Revenue - University Health System Inc 2017 5 04/2028	3	113.03	+1.06	+0.9%	109.72	1/26/17	113.30	3/29/17
8	Chesapeake Bay Brdg & Tunl Dist Va Rev	First Tier General Resolution Revenue - 2016 5 07/2046	2	109.34	+0.73	+0.7%	105.44	12/2/16	110.18	11/15/16
9	Liberty N Y Dev Corp Rev	Revenue - Goldman Sachs Headquarters Issue 2005 5.25 10/2035	1	119.13	+0.12	+0.1%	115.30	12/1/16	136.93	7/11/16
10	Long Beach Calif Bd Fin Auth Nat Gas Pur Rev	Natural Gas Purpose Revenue - 2007-A 5.5 11/2037	2	118.33	+0.06	+0.1%	115.08	11/30/16	139.00	7/6/16

Source: IHS Markit

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

	Issuer	Issue	Liq score	3/31 price	Change	% change	One year low	Date	One year high	Date
1	Puerto Rico Sales Tax Fing Corp Sales Tax Rev	Sales Tax Revenue - First Subordinate 2009-A 6 08/2042	1	40.73	-11.30	-21.7%	39.04	5/10/16	54.39	10/5/16
2	Puerto Rico Pub Bldgs Auth Rev Gtd	Government Facilities Revenue - 2007 M-1 6.25 07/2023	2	50.60	-9.80	-16.2%	50.45	3/28/17	63.00	11/11/16
3	New Jersey Bldg Auth St Bldg Rev	State Building Revenue Refunding - 2016-A 5 06/2026	2	105.52	-7.04	-6.3%	104.97	3/21/17	122.76	7/6/16
4	New Jersey St Transn Tr Fd Auth	Transportation System - 2011-A 6 06/2035	1	107.37	-4.48	-4.0%	107.37	3/31/17	118.75	8/25/16
5	Colorado Health Facs Auth Rev	Revenue - Catholic Health Initiatives 2011-A 5.25 02/2033	2	105.16	-3.54	-3.3%	104.91	3/14/17	113.83	7/6/16
6	Connecticut St Health & Edl Facs Auth Rev	Revenue - Fairfield University Issue 2016 Q-1 5 07/2046	1	109.20	-3.62	-3.2%	108.86	2/16/17	122.17	7/7/16
7	Vernon Calif Elec Sys Rev	Electric System Revenue - 2009-A 5.125 08/2021	2	104.76	-3.10	-2.9%	104.58	3/20/17	111.58	8/26/16
8	Puerto Rico Elec Pwr Auth Pwr Rev	Power Revenue - 2007-Tt 5 07/2037	1	63.05	-1.85	-2.9%	54.37	5/10/16	67.75	11/11/16
9	California Statewide Cmnty Dev Auth Rev	Revenue Refunding - Episcopal Communities & Services 2012 5 05/2042	2	103.84	-3.04	-2.8%	103.20	3/14/17	113.89	7/6/16
10	Indiana Bd Bk Spl Program Gas Rev	Fixed Rate Special Program Gas Revenue - 2007-A 5.25 10/2020	2	110.31	-3.13	-2.8%	100.42	2/22/17	115.29	4/7/16

Source: IHS Markit

## Securitized products

Securitized products spreads were modestly tighter in March, with several US consumer ABS sectors tightening to the best levels in over a year despite a surge in the sector's new issuance. On the US consumer ABS side, 1-2yr AAA subprime auto paper tightened 8bps to end the month at EDSF +25bps (**Table 18**). 2-3yr AAA floating-rate US credit card spreads ended the month at their tightest levels of the past year of L+24bps.

IHS Markit's [Securitized Products Pricing](#) group wrote an article on April 19 entitled "[Game of Phones: The Emergence of Smartphone-Backed Securities](#)", which discusses the nascent cell phone lease securitization market. Since 2016, the sector has seen approximately \$3.9bn in issuance between three deals. The report includes cell phone data from IHS Markit's [Technology, Media, and Telecom](#) division.

### CMBS credit curve continues to flatten

CMBS spreads were tighter across the capital structure again in March, with BBB- rated paper tightening 47bps to end the month at Swaps +435bps, which is the best level in over a year (**Figure 14**). AAA and A rated paper also reach their best levels in a year, ending the month at Swaps +89bps and +177bps, respectively.

### Loan balance pay-ups were mixed this month

Fannie Mae and Freddie Mac 4.5% <125 LTV stories were their best performer in March, increasing 12 ticks to a 1-11 pay-up (**Table 17**). Ginnie Mae Puerto Rico stories declined across most coupons, with the 3.5% cohort declining 7 ticks to an 18 tick pay-up and making it the worst performer on the month.

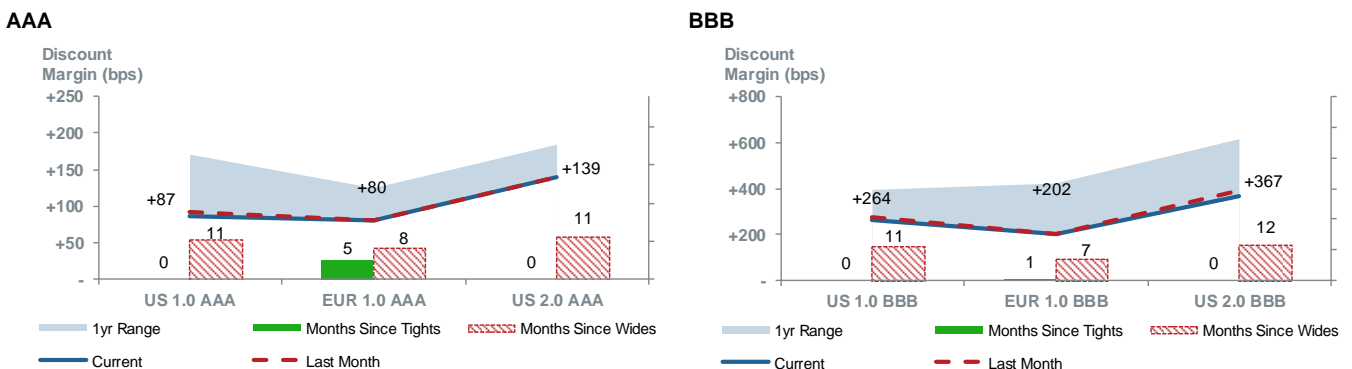
### European 1.0 CLOs spreads generally flat

CLO spreads were close to unchanged for both European 1.0 AAAs and BBBs, ending the month at L+80bps and L+202bps, respectively (**Figure 13**). US 2.0 BBBs tightened the most this month, ending the month 22bps tighter to a spread of L+367bps. We note that all of the US AAA and BBB categories reached their tightest levels of the year during the month. Collateral credit concerns have shifted from energy to retail given the negative news from Sears, Neiman Marcus, Rue 21 and J. Crew.

### Most non-agency spreads tighter on the month

Most legacy non-agency MBS spreads were tighter during the month, with prime fixed tightening the most to end the month at Swaps +185bps. Rising rates and the added pressure of the looming unwind of the Fed mortgage and Treasury portfolio will continue to put pressure on home affordability, which could weigh negatively on prepayments and severity in the short term until overall economic growth picks up.

**Figure 13: US and European CLO AAA/BBB spread summary**



Source: IHS Markit



**Table 17: March 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	0-24	1-12	1-21	2-05
MLB (110K)	0-14	0-22	1-02	1-15	1-24
HLB (150K)	0-11	0-14	0-27	1-08	1-07
New Prod	0-01	0-03	0-05	0-08	N/A
MHA <90	0-03	0-07	0-10	0-13	0-17
MHA <95	0-04	0-07	0-10	0-20	0-26
MHA <100	0-04	0-06	0-12	0-15	0-19
MHA <105	0-14	0-11	0-11	0-23	1-11
<125 LTV	0-09	0-03	0-26	1-11	2-03
125+ LTV	-0-06	0-07	0-18	1-10	2-08

Source: IHS Markit

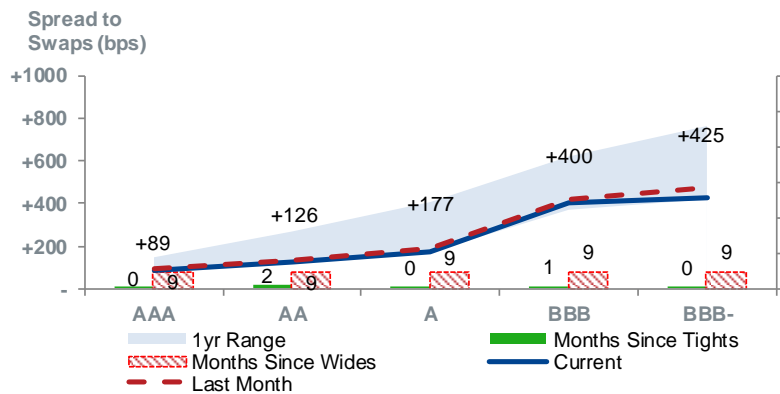
MoM Change				
3	3.5	4	4.5	5
0-00	-0-03	+0-03	-0-01	0-00
0-00	-0-02	-0-03	0-00	+0-01
+0-01	-0-02	+0-04	+0-03	+0-01
-0-02	-0-01	-0-01	-0-01	N/A
0-00	+0-02	+0-03	-0-01	-0-01
-0-05	-0-03	-0-01	+0-03	+0-01
+0-01	+0-01	+0-01	-0-01	-0-03
0-00	-0-01	-0-04	-0-01	-0-05
+0-02	-0-01	-0-04	+0-12	0-00
+0-03	-0-02	-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)	0-11	1-01	1-22	2-04	1-01
LLB <sub>2</sub> (110K)	0-11	0-24	1-12	1-26	2-30
MLB (125K)	0-07	0-20	0-30	1-25	1-16
HLB <sub>1</sub> (150K)	0-08	0-21	0-31	1-11	1-26
HLB <sub>2</sub> (175K)	0-10	0-19	0-21	0-23	0-28
New Prod	0-00	0-05	0-12	0-11	0-13
PR Geo	0-13	0-18	1-08	1-31	2-12

Source: IHS Markit

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

**Figure 14: 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	+17	-3	+17	3/30/17	+58	3/11/16
4-5yr AAA US Swaps	+27	-6	+27	3/28/17	+71	4/18/16
<b>US Credit Card - Floating-Rate</b>						
2-3yr AAA US LIBOR DM	+24	-2	+24	3/31/17	+40	3/16/16
4-5yr AAA US LIBOR DM	+37	-2	+35	3/30/17	+96	5/16/16
<b>US Prime Auto - Fixed-Rate</b>						
0-2yr AAA EDSF	+10	-1	+10	3/29/17	+45	3/29/16
2+yr AAA US Swaps	+16	-4	+15	3/29/17	+60	3/29/16
<b>European Prime Auto Loan - Floating-Rate</b>						
AAA EUR LIBOR DM	+31	-3	+21	12/5/16	+51	4/1/16
<b>US Subprime Auto - Fixed-Rate</b>						
1-2-yr AAA EDSF	+25	-8	+25	3/29/17	+84	5/12/16
2+yr AAA US Swaps	+34	-2	+32	3/13/17	+96	3/22/16
<b>US Equipment - Fixed-Rate</b>						
2+yr AAA US Swaps	+19	-8	+19	3/30/17	+85	6/14/16
<b>European Equipment - Floating-Rate</b>						
A EUR LIBOR DM	+61	-26	+60	3/27/17	+137	4/28/16
<b>US FFELP Student Loans - Floating-Rate</b>						
2-4yr AAA 3mo US LIBOR DM	+74	-6	+68	7/29/16	+151	3/25/16
10+yr AAA 3mo US LIBOR DM	+107	-10	+107	3/27/17	+191	3/21/16

Source: IHS Markit

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