



Market Commentary

THE ECONOMY

- US economic data continued to be uninspiring in May. While the unemployment rate came in lower at 5.4%, wage growth remained elusive. Retail sales disappointed for the 3rd month in a row, leaving many to question whether you can really blame the weather once you get into April. First Quarter GDP was revised down to -0.7%. With a June hike off the table, the conversation shifted to whether the Fed can be reasonably confident in inflation trending toward 2% when September rolls around. Otherwise, the first rate hike may be a 2016 event.
- The People's Bank of China continued to loosen policy in an effort to improve municipal funding through lower interbank lending rates and a debt exchange program. In Europe, the discussion of QE took a back seat to the drama over Greece, where brinkmanship may threaten the continued membership of Greece in the EU.

STRUCTURED MARKETS

- Investment-grade ABS remained well-bid and spreads continued to trade in a narrow corridor. Second quarter performance thus far has been driven primarily by coupon income as risk premiums have remained relatively stable.
- One of the larger themes to take shape in 2015 has been the decrease in new issue credit card paper, which is being driven by the lack of participation from players such as Citibank and American Express. This comes as no surprise given the recent announcement that American Express will terminate its relationship with Costco. That said, spreads on longer average life credit card issues (particularly retailer cards) remain attractive.

CORPORATE CREDIT MARKET

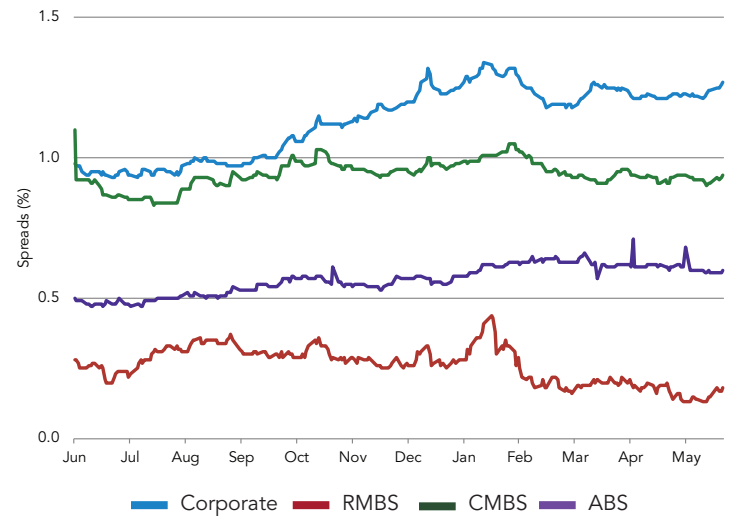
- In the face of another month of outsized supply (new record of \$153B, surpassing September 2013 total of \$147B), corporate spreads pushed 5 basis points (bps) wider in May. Industrial and utility sectors were hardest hit, moving 6 and 9 bps wider, respectively. Industrial weakness was most pronounced in media/telecom, largely due to concern that Time Warner (TWC) would lose its investment-grade (IG) ratings in a Charter Communications merger. That deal was announced late in May and its proposed structure would maintain TWC's IG ratings, offsetting some of that spread weakness.
- Utilities accounted for a meaningful portion of the corporate supply, repricing long-dated paper across the space due to large new-issue concessions. As summer approaches, we expect corporate issuance to slow, but lower liquidity throughout the market likely offsets the technical benefit of a quiet primary market.

GOVERNMENT MARKET

- Treasury rates rose in the first week of May, and were generally range-bound for much of the month. All points on the curve fell in the final week, ending the period only modestly higher. The 30-yr rose 14 bps in May, while shorter rates rose 10 bps or less.

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SPREADS TO TREASURIES



BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Gov/Credit	0.08%
Int. Gov/Credit	0.01%
Aggregate	-0.24%
1-3 Yr US Treasury	0.07%
3-5 Yr US Treasury	0.11%
5-10 Yr US Treasury	-0.05%
10-20 Yr US Treasury	-0.36%
20+ Yr US Treasury	-1.78%

SECTOR DATA FROM BARCLAYS AGGREGATE

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	-0.65%	-0.35%	3.08%
Financials	-0.21%	-0.07%	2.71%
Industrials	-0.78%	-0.43%	3.24%
Utilities	-1.56%	-0.97%	3.39%
RMBS	-0.02%	0.02%	2.52%
CMBS	0.04%	0.02%	2.23%
ABS	0.15%	0.09%	1.35%
Agencies	0.01%	0.06%	1.71%

*Month-to-date performance of spread bearing bonds versus duration-matched Treasuries