

FIXED INCOME MARKET UPDATE

November 2017

The Treasury curve “bear flattened” in November with rates up to 5 years bearing the brunt of increases of 10-20 basis points.

Long Treasuries held in well at unchanged to slightly lower rates.

Treasury returns were negative this month, except for the 10+ year bucket. TIPS performed well again in November.

Investment grade spreads were modestly wider in November as the market took a breather after a strong run.

TREASURY YIELDS (%)¹

	Monthly Change	11/30/17	10/31/17	9/30/17	8/31/17
90-Day T-Bills	0.13	1.26	1.13	1.05	0.99
2-year Treasury	0.18	1.78	1.60	1.48	1.33
5-year Treasury	0.12	2.14	2.02	1.93	1.70
10-year Treasury	0.03	2.41	2.38	2.33	2.12
30-year Treasury	-0.05	2.83	2.88	2.86	2.73

TREASURY RETURNS (%)¹

	Duration (years)	November Return	YTD
90-Day T-Bills	0.25	0.09	0.76
2-year Treasury	1.96	-0.22	0.28
5-year Treasury	4.67	-0.42	0.73
10-year Treasury	8.92	-0.27	1.88
30-year Treasury	20.67	1.07	6.95
TIPS	6.00	0.13	2.07

INTEREST RATE SPREADS (basis points)¹

	Monthly Change	11/30/17	10/31/17	9/30/17	8/31/17
5-year Swap Spread	-1	6	7	7	6
10-year Swap Spread	2	0	-3	-3	-5
5-year Baa2 Industrial Spread	1	77	76	82	91
10-year Baa2 Industrial Spread	6	120	114	118	124
30-year Baa2 Industrial Spread	6	130	124	131	135
MBS Current Coupon Spread	2	64	62	62	71

Index returns were slightly negative this month except for very long maturity corporates and Treasuries.

BROAD MARKET RETURNS (%)¹

	Duration (years)	November Return	Duration adj. vs. Treasuries	YTD Return	Duration adj. vs. Treasuries
U.S. Universal	5.79	-0.15	0.02	3.63	1.69
Aggregate	6.00	-0.13	0.02	3.07	1.03
Government/Credit	6.62	-0.12	0.02	3.46	1.30

Sector returns were very close to zero this month given modest spread widening which offset the income advantage of spread sectors.

INVESTMENT-GRADE SECTOR RETURNS (%)²

	Duration (years)	November Return	Duration adj. vs. Treasuries	YTD Return	Duration adj. vs. Treasuries
Treasuries	6.20	-0.14	--	2.00	--
U.S. Treasury TIPS	6.00	0.13	--	2.07	--
Agencies	3.90	-0.15	0.04	1.93	0.70
Mortgage-Backed Securities	4.57	-0.14	0.04	2.14	0.36
Asset-Backed Securities	2.19	-0.09	0.11	1.53	0.92
Investment-Grade Corporates	7.53	-0.15	-0.03	5.46	2.93
Intermediate Corporates	4.42	-0.35	-0.02	3.61	2.31
Long Corporates	14.16	0.29	-0.05	9.65	4.36

Excess returns were very similar across the Investment Grade quality spectrum.

INVESTMENT-GRADE CREDIT QUALITY RETURNS (%)²

	Duration (years)	November Return	Duration adj. vs. Treasuries	YTD Return	Duration adj. vs. Treasuries
Aaa	5.44	-0.15	0.02	2.09	0.23
Aa	5.95	-0.13	--	3.72	1.67
A	7.52	-0.10	0.01	5.08	2.50
Baa	7.68	-0.06	0.07	6.50	3.95

High-Yield took a breather in November posting a negative 0.26% total return. The negative performance was largely driven by a few industries such as Telecommunications (down 2.87%), Cable/Satellite (down 0.82%) and Healthcare (down 0.72%).

High-Yield spreads widened 7bps during November with the exception of the CCC sector. High-Yield started the month weak, widening 41bps by mid-month before recovering most of this movement by month-end.

The High-Yield default rate ticked down in October on a total issuer basis but when excluding the commodity sectors it remained flat.

Fixed income generally had a quiet month with no standout sectors. Equities led the way with a 3+% return on the S&P 500.

HIGH-YIELD SECTOR RETURNS (%)²

	Duration (years)	November Return	Duration adj. vs. Treasuries	YTD Return	Duration adj. vs. Treasuries
High-Yield Corporates	3.84	-0.26	-0.02	7.18	5.85
Ba	4.36	-0.08	0.17	7.21	5.75
B	3.59	-0.46	-0.24	6.13	4.83
Caa	3.11	-0.13	0.10	9.51	8.46

HIGH-YIELD OPTION-ADJUSTED SPREADS (basis points)²

	Monthly Change	11/30/17	10/31/17	9/30/17	8/31/17
High-Yield Option-Adjusted Spread	7	344	338	347	378
BB Option-Adjusted Spread	0	202	202	206	232
B Option-Adjusted Spread	20	348	328	340	370
CCC Option-Adjusted Spread	-19	618	637	647	699

HIGH-YIELD DEFAULT RATES (1 month lag, basis points)³

	Monthly Change	10/31/17	9/30/17	8/31/17	7/31/17
Number of Issuers in Default	-3	30	33	42	48
Issuer Default Rate	-0.34%	3.33%	3.67%	4.00%	4.56%
Number of Issuers in Default (ex-commodities)	0	21	21	24	29
Issuer Default Rate (ex-commodities)	-0.02%	3.16%	3.18%	3.08%	3.73%

OTHER SECTOR RETURNS (%)^{1,2}

	Duration (years)	November Return	Duration adj. vs. Treasuries	YTD Return	Duration adj. vs. Treasuries
Emerging Markets	5.12	-0.58	-0.32	8.82	7.30
Global Treasuries (Unhedged)	7.95	1.54	1.63	7.18	4.66
S&P Leveraged Loan Index	--	0.12	--	3.72	--
Wells Fargo Hybrid & Pref. Securities Aggregate Index	--	0.07	--	10.95	--
U.S. Convertibles	--	-0.04	--	16.53	--

This update provides an overview of certain broad based Fixed Income benchmarks and does not include performance of the Denver Investments' Fixed Income styles. We have obtained this information from third parties that we consider to be reliable. Past performance does not guarantee future results.

¹Source: Bloomberg.

²Source: Barclays.

³Source: Bank of America Merrill Lynch.

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