

FIXED INCOME MARKET UPDATE

May 2017

The yield curve continued to flatten with short rates up slightly and longer rates falling.

Treasury returns were all positive with long maturities continuing to do very well. TIPS lagged as inflation expectations fell.

Investment grade spreads were mixed as they grind along at relatively tight levels.

TREASURY YIELDS (%)¹

	Monthly Change	5/31/17	4/30/17	3/31/17	2/28/17
90-Day T-Bills	0.18	0.97	0.79	0.75	0.60
2-year Treasury	0.02	1.29	1.26	1.26	1.26
5-year Treasury	-0.06	1.75	1.82	1.92	1.93
10-year Treasury	-0.08	2.20	2.28	2.39	2.39
30-year Treasury	-0.09	2.86	2.95	3.01	3.00

TREASURY RETURNS (%)¹

	Duration (years)	May Return	YTD
90-Day T-Bills	0.25	0.05	0.46
2-year Treasury	1.97	0.09	0.30
5-year Treasury	4.80	0.43	-0.38
10-year Treasury	8.94	0.87	-1.73
30-year Treasury	20.48	2.05	-2.90
TIPS	6.23	-0.04	2.41

INTEREST RATE SPREADS (basis points)¹

	Monthly Change	5/31/17	4/30/17	3/31/17	2/28/17
5-year Swap Spread	-4	8	12	13	13
10-year Swap Spread	-3	-6	-3	0	0
5-year Baa2 Industrial Spread	2	95	92	91	84
10-year Baa2 Industrial Spread	2	128	126	126	118
30-year Baa2 Industrial Spread	-1	138	139	146	134
MBS Current Coupon Spread	0	73	74	75	75

Index returns were all positive with rates falling and credit securities performing well.

BROAD MARKET RETURNS (%)¹

	Duration (years)	May Return	Duration adj. vs. Treasuries	YTD Return	Duration adj. vs. Treasuries
U.S. Universal	5.74	0.77	0.17	2.72	0.73
Aggregate	5.95	0.77	0.15	2.38	0.33
Government/Credit	6.57	0.83	0.15	2.63	0.46

Sector returns were positive with strong support from buyers looking for income. TIPS were the only exception as inflation fears faded.

INVESTMENT-GRADE SECTOR RETURNS (%)²

	Duration (years)	May Return	Duration adj. vs. Treasuries	YTD Return	Duration adj. vs. Treasuries
Treasuries	6.21	0.65	--	2.04	--
U.S. Treasury TIPS	6.23	-0.04	--	1.82	--
Agencies	3.89	0.43	0.07	1.71	0.41
Mortgage-Backed Securities	4.53	0.62	0.14	1.76	--
Asset-Backed Securities	2.32	0.35	0.19	1.21	0.52
Investment-Grade Corporates	7.48	1.15	0.37	3.48	0.99
Intermediate Corporates	4.51	0.70	0.26	2.71	1.04
Long Corporates	14.11	2.16	0.61	5.23	0.89

Credit sectors did very well with lower quality outpacing higher quality.

INVESTMENT-GRADE CREDIT QUALITY RETURNS (%)²

	Duration (years)	May Return	Duration adj. vs. Treasuries	YTD Return	Duration adj. vs. Treasuries
Aaa	5.40	0.64	0.07	1.93	0.04
Aa	6.18	0.76	0.14	2.49	0.46
A	7.53	1.11	0.32	3.17	0.65
Baa	7.54	1.21	0.42	4.10	1.57

After two months of underperformance, CCCs were the star performer in May, beating both the BB and B sectors.

HIGH-YIELD SECTOR RETURNS (%)²

	Duration (years)	May Return	Duration adj. vs. Treasuries	YTD Return	Duration adj. vs. Treasuries
High-Yield Corporates	3.85	0.87	0.48	4.79	3.29
Ba	4.37	0.83	0.39	4.30	2.65
B	3.59	0.70	0.33	4.41	2.97
CCC	3.04	1.64	1.34	7.08	5.88

High-Yield spreads continued to tighten in May and down in quality outperformed as CCCs tightened more than BBs and Bs.

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

	Monthly Change	5/31/17	4/30/17	3/31/17	2/28/17
High-Yield Option-Adjusted Spread	-8	363	371	383	363
BB Option-Adjusted Spread	-1	236	237	252	249
B Option-Adjusted Spread	-10	351	361	375	346
CCC Option-Adjusted Spread	-29	662	691	692	669

The High-Yield default rate continued its improvement in May driven by fewer commodity issuers in default.

HIGH-YIELD DEFAULT RATES (basis points)³

	Monthly Change	5/31/17	4/30/17	3/31/17	2/28/17
Number of Issuers in Default	-8	48	56	61	66
Issuer Default Rate	-0.71%	4.53%	5.24%	5.67%	6.11%
Number of Issuers in Default (ex-commodities)	0	23	23	23	23
Issuer Default Rate (ex-commodities)	0.00%	2.94%	2.94%	2.94%	2.90%

Other sectors all posted positive returns in May, with the top performer being the Global Treasury (unhedged) sector.

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

	Duration (years)	May Return	Duration adj. vs. Treasuries	YTD Return	Duration adj. vs. Treasuries
Emerging Markets	5.00	0.54	0.02	6.49	4.67
Global Treasuries (Unhedged)	7.93	1.58	0.77	4.90	2.42
S&P Leveraged Loan Index	--	0.39	--	1.98	--
Wells Fargo Hybrid & Pref. Securities Aggregate Index	--	0.99	--	8.38	--
U.S. Convertibles	--	0.91	--	8.30	--

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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