

FIXED INCOME MARKET UPDATE

April 2017

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

TREASURY YIELDS (%)¹

	Monthly Change	4/30/17	3/31/17	2/28/17	1/31/17
90-Day T-Bills	0.04	0.79	0.75	0.60	0.52
2-year Treasury	0.01	1.26	1.26	1.26	1.21
5-year Treasury	-0.11	1.82	1.92	1.93	1.91
10-year Treasury	-0.11	2.28	2.39	2.39	2.45
30-year Treasury	-0.06	2.95	3.01	3.00	3.06

Treasury returns were all positive with long maturities continuing to do very well.

TREASURY RETURNS (%)¹

	Duration (years)	April Return	YTD
90-Day T-Bills	0.26	0.07	0.41
2-year Treasury	1.89	0.11	0.19
5-year Treasury	4.79	0.68	-1.12
10-year Treasury	8.82	1.18	-2.67
30-year Treasury	20.23	1.53	-4.10
TIPS	5.94	0.59	1.73

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

INTEREST RATE SPREADS (basis points)¹

	Monthly Change	4/30/17	3/31/17	2/28/17	1/31/17
5-year Swap Spread	-1	12	13	13	7
10-year Swap Spread	-2	-3	0	0	-9
5-year Baa2 Industrial Spread	2	92	91	84	90
10-year Baa2 Industrial Spread	0	126	126	118	121
30-year Baa2 Industrial Spread	-7	139	146	134	141
MBS Current Coupon Spread	-1	74	75	75	73

Index returns were all positive with rates remaining within the very tight post-election range.

BROAD MARKET RETURNS (%)¹

	Duration (years)	April Return	Duration adj. vs. Treasuries	YTD Return	Duration adj. vs. Treasuries
U.S. Universal	5.75	0.83	0.14	1.93	0.55
Aggregate	5.96	0.77	0.07	1.59	0.18
Government/Credit	6.51	0.82	0.08	1.79	0.31

Sector returns were all positive with strong support from buyers looking for income.

INVESTMENT-GRADE SECTOR RETURNS (%)²

	Duration (years)	April Return	Duration adj. vs. Treasuries	YTD Return	Duration adj. vs. Treasuries
Treasuries	6.14	0.69	--	1.37	--
U.S. Treasury TIPS	5.94	0.59	--	1.86	--
Agencies	3.92	0.51	0.07	1.27	0.34
Mortgage-Backed Securities	4.74	0.65	0.02	1.13	-0.14
Asset-Backed Securities	2.31	0.32	0.11	0.85	0.33
Investment-Grade Corporates	7.40	1.07	0.23	2.30	0.61
Intermediate Corporates	4.47	0.83	0.22	2.00	0.77
Long Corporates	14.00	1.63	0.23	3.01	0.25

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

INVESTMENT-GRADE CREDIT QUALITY RETURNS (%)²

	Duration (years)	April Return	Duration adj. vs. Treasuries	YTD Return	Duration adj. vs. Treasuries
Aaa	5.45	0.67	0.02	1.28	-0.03
Aa	6.06	0.76	0.08	1.72	0.32
A	7.54	1.00	0.16	2.04	0.32
Baa	7.47	1.13	0.26	2.86	1.12

Similar to March, high quality high-yield outperformed in April with BBs outperforming both Bs and CCCs.

HIGH-YIELD SECTOR RETURNS (%)²

	Duration (years)	April Return	Duration adj. vs. Treasuries	YTD Return	Duration adj. vs. Treasuries
High-Yield Corporates	3.91	1.15	0.62	3.89	2.79
Ba	4.39	1.35	0.76	3.44	2.23
B	3.67	1.13	0.61	3.68	2.61
CCC	3.17	0.66	0.23	5.35	4.45

High-Yield spreads tightened in April, with BBs outperforming Bs and CCCs. The CCC sector lagged during the month, only tightening 1bp.

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

	Monthly Change	4/30/17	3/31/17	2/28/17	1/31/17
High-Yield Option-Adjusted Spread	-12	371	383	363	388
BB Option-Adjusted Spread	-15	237	252	249	262
B Option-Adjusted Spread	-14	361	375	346	364
CCC Option-Adjusted Spread	-1	691	692	669	736

The High-Yield default rate improved in March, largely due to fewer commodity issuers in default.

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

	Monthly Change	3/31/17	2/28/17	1/31/17	12/31/16
Number of Issuers in Default	-5	61	66	76	75
Issuer Default Rate	-0.44%	5.67%	6.11%	7.06%	6.90%
Number of Issuers in Default (ex-commodities)	0	23	23	26	25
Issuer Default Rate (ex-commodities)	0.04%	2.94%	2.90%	3.28%	3.13%

Other sectors all posted positive returns for the month with the top performers being Emerging Market bonds, Preferreds and Convertibles.

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

	Duration (years)	April Return	Duration adj. vs. Treasuries	YTD Return	Duration adj. vs. Treasuries
Emerging Markets	4.97	1.99	1.32	5.92	4.62
Global Treasuries (Unhedged)	7.92	1.15	0.30	3.27	1.60
S&P Leveraged Loan Index	--	0.08	--	1.16	--
Wells Fargo Hybrid & Pref. Securities Aggregate Index	--	0.74	--	5.83	--
U.S. Convertibles	--	1.04	--	5.82	--

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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