

FIXED INCOME MARKET UPDATE

July 2017

The yield curve was little changed for the month with 3-7 year yields falling more than short and long rates.

Treasury returns were positive for July except for very long maturities as the yield curve steepened. TIPS performed better this month.

Investment grade spreads were generally tighter with investors looking for yield amid stable economic conditions.

TREASURY YIELDS (%)¹

	Monthly Change	7/31/17	6/30/17	5/31/17	4/30/17
90-Day T-Bills	0.06	1.07	1.01	0.97	0.79
2-year Treasury	-0.03	1.35	1.38	1.29	1.26
5-year Treasury	-0.05	1.84	1.89	1.75	1.82
10-year Treasury	0.00	2.30	2.30	2.20	2.28
30-year Treasury	0.06	2.90	2.84	2.86	2.95

TREASURY RETURNS (%)¹

	Duration (years)	July Return	YTD
90-Day T-Bills	0.25	0.09	0.40
2-year Treasury	1.97	0.18	0.56
5-year Treasury	4.78	0.41	1.54
10-year Treasury	8.77	0.27	2.39
30-year Treasury	20.20	-0.92	4.64
TIPS	5.46	0.45	1.30

INTEREST RATE SPREADS (basis points)¹

	Monthly Change	7/31/17	6/30/17	5/31/17	4/30/17
5-year Swap Spread	0	7	7	8	12
10-year Swap Spread	-3	-5	-2	-6	-3
5-year Baa2 Industrial Spread	-4	82	86	95	92
10-year Baa2 Industrial Spread	-9	113	122	128	126
30-year Baa2 Industrial Spread	-10	123	133	138	139
MBS Current Coupon Spread	-5	68	73	73	74

Index returns were all positive for the month.

BROAD MARKET RETURNS (%)¹

	Duration (years)	July Return	Duration adj. vs. Treasuries	YTD Return	Duration adj. vs. Treasuries
U.S. Universal	5.77	0.50	0.31	3.14	1.16
Aggregate	5.99	0.43	0.25	2.71	0.68
Government/Credit	6.58	0.42	0.26	3.09	0.94

Sector returns were all positive for the month. Agency mortgages finally outperformed Treasuries during July.

INVESTMENT-GRADE SECTOR RETURNS (%)²

	Duration (years)	July Return	Duration adj. vs. Treasuries	YTD Return	Duration adj. vs. Treasuries
Treasuries	6.16	0.17	--	2.04	--
U.S. Treasury TIPS	5.46	0.45	--	1.30	--
Agencies	4.36	0.26	0.05	1.92	0.57
Mortgage-Backed Securities	4.66	0.45	0.24	1.81	0.04
Asset-Backed Securities	2.26	0.27	0.05	1.41	0.60
Investment-Grade Corporates	7.52	0.73	0.60	4.56	2.14
Intermediate Corporates	4.51	0.73	0.40	3.42	1.72
Long Corporates	14.15	0.74	1.03	7.15	3.08

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

INVESTMENT-GRADE CREDIT QUALITY RETURNS (%)²

	Duration (years)	July Return	Duration adj. vs. Treasuries	YTD Return	Duration adj. vs. Treasuries
Aaa	5.44	0.30	0.11	1.97	0.08
Aa	6.21	0.52	0.36	3.14	1.13
A	7.55	0.68	0.56	4.18	1.72
Baa	7.60	0.90	0.76	5.38	2.92

The risk appetite was high as the triple-CCC sector outperformed in July and high-yield energy bonds rebounded.

HIGH-YIELD SECTOR RETURNS (%)²

	Duration (years)	July Return	Duration adj. vs. Treasuries	YTD Return	Duration adj. vs. Treasuries
High-Yield Corporates	3.79	1.11	0.83	6.09	4.54
Ba	4.37	1.01	0.74	5.85	4.16
B	3.46	1.04	0.76	5.37	3.86
Caa	3.02	1.61	1.35	8.31	7.01

High-yield spreads continued to tighten across all three ratings categories in July.

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

	Monthly Change	7/31/17	6/30/17	5/31/17	4/30/17
High-Yield Option-Adjusted Spread	-13	352	364	363	371
BB Option-Adjusted Spread	-10	217	227	236	237
B Option-Adjusted Spread	-13	347	361	351	361
CCC Option-Adjusted Spread	-31	649	680	662	691

The high-yield default rate ticked up in July both in total and on an ex-commodities basis.

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

	Monthly Change	7/31/17	6/30/17	5/31/17	4/30/17
Number of Issuers in Default	1	48	47	48	56
Issuer Default Rate	0.13%	4.56%	4.43%	4.53%	5.24%
Number of Issuers in Default (ex-commodities)	3	29	26	23	23
Issuer Default Rate (ex-commodities)	0.41%	3.73%	3.32%	2.94%	2.94%

Other sectors all posted positive returns in the month with convertibles performing very well.

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

	Duration (years)	July Return	Duration adj. vs. Treasuries	YTD Return	Duration adj. vs. Treasuries
Emerging Markets	4.97	0.71	0.43	6.67	4.87
Global Treasuries (Unhedged)	7.91	1.84	1.74	6.41	4.02
S&P Leveraged Loan Index	--	0.69	--	2.63	--
Wells Fargo Hybrid & Pref. Securities Aggregate Index	--	0.48	--	10.10	--
U.S. Convertibles	--	2.59	--	12.63	--

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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