

FIXED INCOME MARKET UPDATE

January 2018

Treasury rates rose dramatically with intermediate rates suffering the most in the sell-off.

Treasury returns were negative again with rates rising across the yield curve. Twelve month returns turned negative for intermediate maturities.

Investment grade spreads were all tighter as corporate bonds continue to outperform Treasuries.

TREASURY YIELDS (%)¹

	Monthly Change	1/31/18	12/31/17	11/30/17	10/31/17
90-Day T-Bills	0.08	1.46	1.38	1.26	1.13
2-year Treasury	0.26	2.14	1.89	1.78	1.60
5-year Treasury	0.31	2.52	2.21	2.14	2.02
10-year Treasury	0.30	2.71	2.41	2.41	2.38
30-year Treasury	0.20	2.94	2.74	2.83	2.88

TREASURY RETURNS (%)¹

	Duration (years)	January Return	YTD
90-Day T-Bills	0.25	0.13	0.13
2-year Treasury	1.95	-0.30	-0.30
5-year Treasury	4.71	-1.27	-1.27
10-year Treasury	8.71	-2.45	-2.45
30-year Treasury	20.19	-3.68	-3.68
TIPS	5.62	-0.86	-0.86

INTEREST RATE SPREADS (basis points)¹

	Monthly Change	1/31/18	12/31/17	11/30/17	10/31/17
5-year Swap Spread	5	8	3	6	7
10-year Swap Spread	4	3	-1	0	-3
5-year Baa2 Industrial Spread	-6	69	75	77	76
10-year Baa2 Industrial Spread	-2	118	120	120	114
30-year Baa2 Industrial Spread	-4	123	127	130	124
MBS Current Coupon Spread	4	63	59	64	62

Index returns were negative with the rise in interest rates.

BROAD MARKET RETURNS (%)¹

	Duration (years)	January Return	Duration adj. vs. Treasuries	YTD Return	Duration adj. vs. Treasuries
U.S. Universal	5.85	-0.96	0.33	-0.96	0.33
Aggregate	6.07	-1.15	0.18	-1.15	0.18
Government/Credit	6.65	-1.15	0.31	-1.15	0.31

Sector returns were all negative as the rise in rates overwhelmed the spread tightening.

INVESTMENT-GRADE SECTOR RETURNS (%)²

	Duration (years)	January Return	Duration adj. vs. Treasuries	YTD Return	Duration adj. vs. Treasuries
Treasuries	6.11	-1.36	--	-1.36	--
U.S. Treasury TIPS	5.62	-0.86	--	-0.86	--
Agencies	3.91	-0.73	0.08	-0.73	0.08
Mortgage-Backed Securities	4.99	-1.17	-0.15	-1.17	-0.15
Asset-Backed Securities	2.14	-0.29	0.04	-0.29	0.04
Investment-Grade Corporates	7.52	-0.96	0.72	-0.96	0.72
Intermediate Corporates	4.39	-0.79	0.30	-0.79	-0.30
Long Corporates	14.15	-1.30	1.61	-1.30	1.61

Lower quality outperformed higher quality, but still ended up with negative returns across the investment grade rating spectrum.

INVESTMENT-GRADE CREDIT QUALITY RETURNS (%)²

	Duration (years)	January Return	Duration adj. vs. Treasuries	YTD Return	Duration adj. vs. Treasuries
Aaa	5.55	-1.25	-0.05	-1.25	-0.05
Aa	5.94	-0.94	0.34	-0.94	0.34
A	7.50	-1.21	0.45	-1.21	0.45
Baa	7.67	-0.65	1.09	-0.65	1.09

High-Yield total returns and excess returns were positive in January despite the treasury sell-off, driven by the lower quality single B and CCC sectors.

High-Yield spreads tightened across all ratings categories during the month.

The High-Yield default rate ticked down in December and remains below the long-term average of 4.48%.

U.S. Convertibles posted a strong month 3.94%, piggy backing off the solid performance from U.S. equities while Preferred Stocks were down 2.80%.

HIGH-YIELD SECTOR RETURNS (%)²

	Duration (years)	January Return	Duration adj. vs. Treasuries	YTD Return	Duration adj. vs. Treasuries
High-Yield Corporates	3.94	0.60	1.49	0.60	1.49
Ba	4.49	0.04	1.08	0.04	1.08
B	3.63	0.71	1.53	0.71	1.53
Caa	3.21	1.96	2.65	1.96	2.65

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

	Monthly Change	1/31/18	12/31/17	11/30/17	10/31/17
High-Yield Option-Adjusted Spread	-24	319	343	344	338
BB Option-Adjusted Spread	-21	190	211	202	202
B Option-Adjusted Spread	-28	316	343	348	328
CCC Option-Adjusted Spread	-35	580	615	618	637

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

	Monthly Change	12/31/17	11/30/17	10/31/17	9/30/17
Number of Issuers in Default	-2	32	34	31	33
Issuer Default Rate	-0.22%	3.55%	3.77%	3.44%	3.67%
Number of Issuers in Default (ex-commodities)	-2	20	22	21	21
Issuer Default Rate (ex-commodities)	-0.30%	3.01%	3.31%	3.16%	3.18%

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

	Duration (years)	January Return	Duration adj. vs. Treasuries	YTD Return	Duration adj. vs. Treasuries
Emerging Markets	5.13	0.36	1.64	0.36	1.64
Global Treasuries (Unhedged)	7.91	1.80	3.50	1.80	3.50
S&P Leveraged Loan Index	--	0.96	--	0.96	--
Wells Fargo Hybrid & Pref. Securities Aggregate Index	--	-2.80	--	-2.80	--
U.S. Convertibles	--	3.94	--	3.94	--

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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