



Market Commentary

THE ECONOMY

- The economy continues to operate within tolerance of the Fed's expectations but there are certain measures that are worth monitoring. Headline inflation decreased for the first time in more than a year as the effects of energy lapping last year's price trough exposed underlying weakness away from the energy component. GDP growth for the first quarter was 0.9%, which is weak but not uncommon for the quarter most susceptible to transitory weather effects. The results of the election in France are indicative of a lower probability of a "Frexit", reducing concerns of further cracks in the foundation of the EU, but elsewhere geopolitical risks have increased. Heightened tensions with North Korea and escalating activity in both Syria and Afghanistan highlighted the fragility of the current relative peace.

STRUCTURED MARKETS

- Following a strong Q1 performance, which saw robust demand and narrowing spreads, the ABS market took a breather during the first few weeks of April as the market digested heavy new issue supply. Excess returns for the primary segments were modestly positive for the fiscal MTD period, mostly driven by coupon carry versus the index.
- Industry headlines pertaining to a mature auto cycle and declining used car values weighed on auto ABS during April, resulting in several basis points (bps) of spread widening at the top of the capital stack. For the first time in months, we observed the longer average life tranches of certain new issue deals struggle to find full subscription, eventually pricing at the wide end of initial talk. While headwinds will certainly remain, we view the modest deterioration in fundamentals as a normalization and feel that prime auto ABS is well structured to absorb higher losses going forward.

CORPORATE CREDIT MARKET

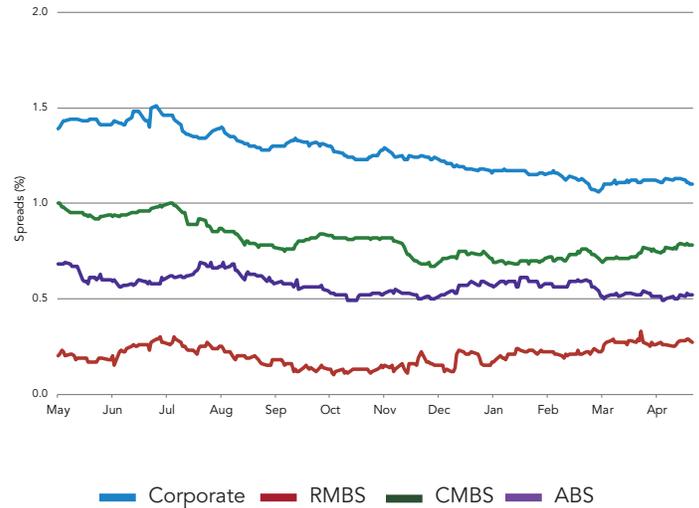
- The US Corporate Index tightened 2 bps through April and ended the month at 116 bps. First quarter earnings have largely reported both earnings and sales surprises to the upside. Furthermore, Macron's pro-globalization victory in the first round of the French election was supportive of spread compression at the end of the month.
- Primary issuance came in at roughly \$80B with the bulk of supply coming from self-funded financials exiting earnings blackout. The Street estimates that May supply will be in the neighborhood of \$120B-\$125B.

GOVERNMENT MARKET

- The 2-yr yield increased about 1 bp through April. 5-yr and 10-yr yields both decreased about 11 bps and the 30-yr yield decreased about 6 bps.

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SPREADS TO TREASURIES



BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Gov/Credit	0.18%
Int. Gov/Credit	0.62%
Aggregate	0.77%
1-3 Yr US Treasury	0.14%
3-5 Yr US Treasury	0.57%
5-10 Yr US Treasury	1.00%
10-20 Yr US Treasury	1.30%
20+ Yr US Treasury	1.57%

SECTOR DATA FROM BARCLAYS AGGREGATE

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	1.07%	0.23%	3.23%
Financials	0.92%	0.21%	3.01%
Industrials	1.14%	0.25%	3.32%
Utilities	1.11%	0.10%	3.44%
RMBS	0.65%	0.02%	2.81%
CMBS	0.79%	0.01%	2.71%
ABS	0.32%	0.11%	1.84%
Agencies	0.54%	0.04%	2.14%

*Month-to-date performance of spread bearing bonds versus duration-matched Treasuries