

CORPORATE CREDIT UPDATE

Market Perspectives

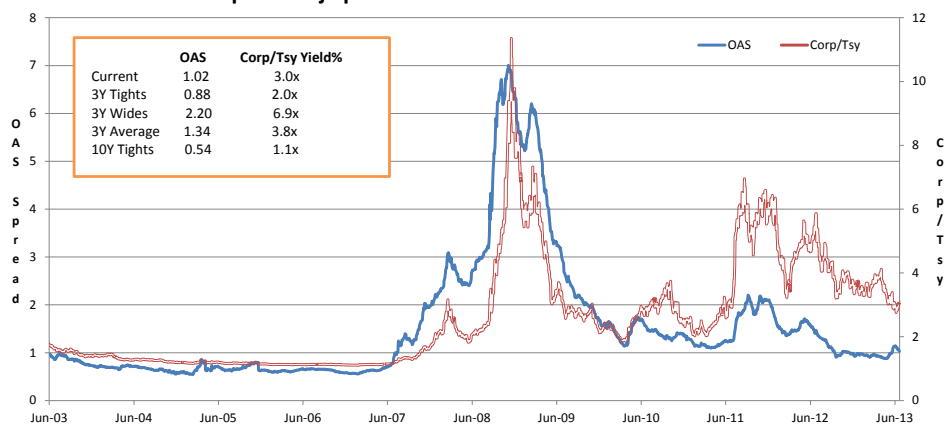
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- As shown in the chart below, the spreads on corporate bonds are near post-crisis tightness based on absolute OAS levels indicating stretched valuations. Corporate yields reflect the Barclays 1-5 Year US Credit Index and Treasury yields are taken from the Barclays 1-5 Year US Government Index.
- Even though spreads have been tighter pre-crisis, we believe reaching 10 year tight spread levels will be challenging due to the quality deterioration of the underlying index. A broad range of financial institutions in the index were downgraded over the last four years resulting in a higher percentage of BBB-rated credits and a lower percentage of AA-rated credits.
- Despite the tight absolute OAS levels, we see that the relative yield pick-up versus Treasuries is substantial. As noted in the chart, Corporate yields are 3 times higher than Treasury rates.



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**Barclays 1-5 Corporate
Option Adj Spread and Relative Value vs. Treasuries**



We believe excess returns can still be achieved in corporate bonds relative to Treasuries. However, we expect future excess returns will be significantly lower than 4.53% experienced by the corporate sector in 2012 as spread tightening potential is limited, placing greater premium on security selection within the sector.

1-5 year Corporate Bonds OAS

	6/08	12/08	6/09	12/09	6/10	12/10	6/11	12/11	6/12	12/12	6/13	7/13
Corporate	271	630	327	167	171	137	125	209	156	99	113	103
Industrial	220	571	246	118	132	112	96	139	113	82	100	91
Utility	239	635	296	164	152	125	117	147	133	98	112	106
Financial Institutions	320	690	432	223	218	166	158	302	210	117	126	115

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