**Highlights**

- Interest rates trended lower as the curve flattened over the quarter. The 10 yr US Treasury Note started the quarter at 2.35%, near the high of the past year, then trended lower throughout the quarter, ending the period at 2.04%. The 2 yr Bellwether Treasury finished relatively flat for the period at 0.63% after starting the quarter at 0.64%.

- Expectations for a rate hike in 2015 shifted as the prospect for weaker global and domestic growth loomed along with volatile equity markets. Market participants seem to be unsure whether they should be settling in for a longer waiting period on a rate hike.

**Outlook**

- We remain in the camp of a 2015 rate hike. We believe the path of subsequent increases will be shallow, ultimately applying upward pressure on rates, particularly in the short end and leading to a continued curve flattening.

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Please see Disclosures for important information.
**Highlights**

- The Barclays Corporate Investment Grade Index generated total and excess returns of 0.83% and -1.46%, respectively, for the 3rd quarter of 2015. Spread volatility remained high during the quarter, though the Treasury rally aided total returns. Slowing growth concerns in China/emerging markets, the growing new issuance calendar, and uncertainty surrounding the Fed all weighed on spreads.

- Despite a sensitive market, Corporate new issuance was still at a record high for the 3rd quarter, pushing YTD issuance to $985B, 11% higher than 2014. Due to the volatile markets, several potential issuers have postponed accessing the primary markets, and according to Lipper, investment-grade funds have experienced increased outflows, $25B YTD, from the sector.

**Outlook**

- Though we do see value at current levels, we expect spreads to widen in the near term as the issuance overhang has been deferred, not removed. Current corporate bonds are trading at spread levels consistent with a weak recessionary environment or an imminent crisis. We view the emerging market crisis as a headwind to US growth but not a catalyst for a global recession.

- A significant global crisis was looming during previous solid economic periods when spreads were trading wider. During the spread widening of 2002-2003, the US was on the verge of invading Iraq after the terrorist attacks on 9/11/2001. Throughout 2010-2012, Europe was facing a significant sovereign/financial crisis with no obvious solutions and the US was on the precipice of losing its AAA ratings as it dealt with political gridlock.

- We view China’s slowing growth in a different context than the prior crises for two primary reasons: 1) China’s leadership has the authority and tools to support its economy. Over the past year, China has lowered its benchmark rate 5 times and initiated various policy/fiscal stimulus measures. 2) Unlike the European sovereign crisis, we believe the impact on the US economy is manageable. Exports to China as a percentage of US GDP are less than 1% and the combined exposure to all of Asia and Latin America would still be less than 6% of GDP.
Mortgage-Backed Securities (MBS)

**Highlights**

- The Barclays US Agency Mortgage-Backed Securities Index posted total and excess returns of 1.30% and -0.22%, respectively, during the third quarter. The 15-yr sector underperformed the 30-yr on a total return basis (1.05% versus 1.35%) as longer maturity yields declined, though outperformed on an excess returns basis (-0.18% versus -0.24%).
- Gross issuance of Agency MBS in the 3rd quarter matched the previous quarter’s robust pace of $350B, bringing YTD issuance to $973B. Net issuance surged to $89B during the 3rd quarter, bringing the YTD total to $124B.
- MBS performed well relative to other non-Treasury sectors during the period despite elevated issuance and volatility in the rates markets stemming from Greece, China and uncertainty around Fed policy. Equity market volatility, as measured by the VIX, also spiked during the quarter. Mortgage rates were relatively stable, moving within a 25 bps range compared to 50 bps on the 10-yr Treasury yield, mitigating prepayment risks and option costs.
- The FOMC’s decision to leave rates unchanged was a net positive for Agency MBS as a range-bound rate environment is supportive of carry trades and the expected timeline for the Fed’s tapering of reinvestments on their $1.75T MBS book was pushed further out in 2016.

**Outlook**

- While the Agency MBS sector is expected to hold up well relative to other spread sectors in a risk-off environment, MBS spreads are tight relative to credit products, such as corporates bonds, and are vulnerable to risk-on reallocations by money managers, who have recently covered their MBS underweights and are now neutral to overweight the sector.
- Issuance over the 4th quarter should decline due to seasonal factors, providing a respite to the glut of supply during the 2nd and 3rd quarters. Focus is already shifting, however, to the roughly $250B per year in net supply that private investors will need to absorb once the Fed tapering begins. This should put upward pressure on MBS spreads relative to Treasuries over the longer term.
- MBS still offer an attractive yield advantage relative to Treasuries though we are focused on less negatively convex securities that are less susceptible to supply/demand imbalances resulting from Fed policy changes.
### Highlights

- The Barclays AAA Asset-Backed Securities (ABS) Index generated total and excess returns of 0.74% and 0.16%, respectively for the quarter. Total ABS issuance exceeded $160B through the 3rd quarter. Equipment and Other ABS are well above 2014 levels, while Auto ABS continues to make up over half the total volume. Credit Card ABS has been the biggest laggard this year.
- Auto issuance is being driven by a strong new and used car market. September new car sales were at 17.7M SAAR and the Manheim Index continues to stay at a high level of 124.8. Auto loan terms have extended and more volume has shifted to the lease sub-sector versus prime loans. There is some indication, though, that pressure is starting to emerge as vehicles come off-lease; the CPI for used vehicles has declined 1.5% YOY.
- Credit Card ABS is lagging around $35B YTD. Underlying consumer lending fundamentals are strong with rising consumer confidence. Revolving debt is now in excess of $914B and master trust credit metrics are excellent with well-seasoned receivables. As a result, delinquencies are below historic norms at 1.4% as of August.

### Outlook

- A heavy supply calendar keeps spreads drifting wider across the board. AAA ordinary ABS paper is relatively more attractive than off-the-run sub-sectors.
- As more vehicles come off-lease, pressuring prices, we continue to be watchful of last cash flow notes where there is concentrated residual value exposure.
- Swap spread tightening of 10-15 bps have offset some of the credit spread widening, leading to strong performance in Credit Cards. With Credit Card ABS supply below expectations providing technical support to prices, the sub-sector is a good source of liquidity to rotate into more opportunistic sectors.
Commercial Mortgage-Backed Securities (CMBS)

Highlights

- The Barclays AAA Commercial Mortgage-Backed Securities (CMBS) Index generated total and excess returns of 1.54% and -0.05%, respectively for the quarter. CMBS private label issuance, including conduit and single-asset deals, has reached $73B YTD, reflecting -$9B net issuance with full-year net issuance forecasts at -$14B.
- Pricing has stabilized at wider levels in the 3rd quarter with front-end AAA bonds 10-15 bps wider YTD. A and BBB- tranches have experienced the most widening at 117 bps and 125 bps, respectively. Swap spreads tightened during the 3rd quarter, offsetting some of the credit spread widening; two-year swap spreads tightened over 10 bps during the quarter.
- Nationally, CRE prices are up 9.2% for the year and 13% versus pre-crisis peaks, led by a 39.5% increase in central business district office prices since pre-crisis. International demand has helped to buoy key markets with trophy assets along with a prolonged low-rate environment. Fundamentals are strong in all sub-sectors reflected by positive net operating income (NOI) growth rates.
- 3.0 deals are less attractive than 2.0 deals due to weakening underwriting standards. Specifically, there has been an increase in the percentage of interest-only loans in deals, causing more cash flows to be tied to longer bonds. The traditional front-pay bonds are smaller slices of the overall deal and overall deal sizes are smaller with more than 40% of issuance less than $1B.

Outlook

- Legacy CMBS comprises less than 50% of outstanding paper with large loans prepaying. As a result, legacy paper durations continue to drop below one year, removing them from benchmark indices. Though CMBS prices are supported by negative net supply, there are risks that NOIs won’t keep up with underlying borrower costs and higher cap rates.
- CMBS front-end AAA spreads are wide compared to historical levels; however, we view them as less compelling relative to ABS, where underwriting is still strong and spreads have widened significantly. Compared to corporate bonds, which are exhibiting much wider spreads, CMBS fair well as they don’t have the same exposure to specific sectors such as mining or energy.
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The Barclays US Corporate Investment Grade Index is a component of the Barclays US Credit Index which includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements within the Barclays U.S. Aggregate Index.

The Barclays US Mortgage-Backed Securities (MBS) Index tracks agency mortgage backed pass-through securities (both fixed-rate and hybrid ARM) guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

The Barclays AAA ABS Index represents the asset-backed securities within the Barclays US Aggregate Index.

The Barclays AAA CMBS Index represents the commercial mortgage-backed securities within the Barclays US Aggregate Index.

The CBOE Volatility Index® (VIX®) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.

The Manheim Used Vehicle Value Index measures used car prices independent of underlying shifts in the characteristics of the vehicles being sold. That means the index can appropriately measure trends in used car prices, regardless of vehicle condition, mileage and options.
Exports as a capacity to import (constant LCU). Gross capital formation (current LCU). Gross capital formation (current US$). Download. CSV XML EXCEL. 2014. 72.2. Cyprus. United StatesBrazilColombiaJapanIndonesiaIndiaChina (People's Republic of)AustraliaTurkeyRussiaNew ZealandChileUnited KingdomOECD - AverageItalyIsraelFranceSouth AfricaGreeceCanadaCosta RicaSpainFinlandNorwayMexicoKoreaPortugalSwedenEuropean UnionEuro areaGermanyIcelandPolandAustriaDenmarkLatviaSwitzerlandLithuaniaEstoniaSloveniaCzech RepublicBelgiumNetherlandsHungarySlovak RepublicIrelandLuxembourg020406080100120140160180200220. United States, Exports, 2016: 12 % of GDP. It is measured in million USD, as percentage of GDP for net trade, and also in annual growth for exports and imports. The value for Exports of goods and services (annual % growth) in United States was 3.02 as of 2018. As the graph below shows, over the past 47 years this indicator reached a maximum value of 18.82 in 1973 and a minimum value of -8.40 in 2009.

Definition: Annual growth rate of exports of goods and services based on constant local currency. Exports of goods and services represent the value of all goods and other market services provided to the rest of the world. They include the value of merchandise, freight, insurance, transport, travel, royalties, license fees, and other services, such as communication, construction, financial, information, business, personal, and government services. They exclude compensation of employees and investment income (formerly called factor services) and transfer payments. Data are in constant local currency.; ; World Bank national accounts data, and OECD National Accounts data files.; ; What was Uni...