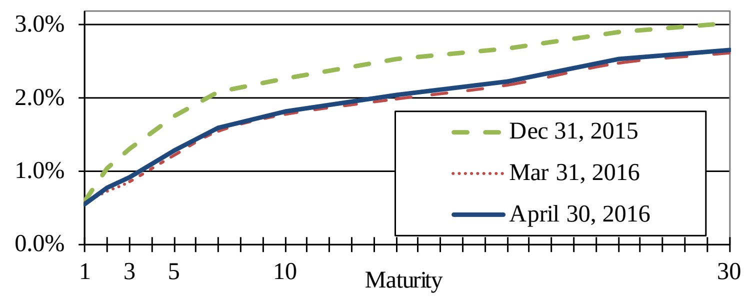
Baird Advisors
Fixed Income Market Comments
April 2016

Treasury Yields Inch Higher, Central Banks Stay the Course

Treasury yields inched higher in April as investor fears continued to subside following the market turmoil experienced in January and February. Global growth concerns abated on signs of stabilization in China while global central banks stayed the course by maintaining extraordinary stimulus. In spite of markets expecting additional stimulus, the Bank of Japan decided to stay on hold and observe the impact of negative rate policies implemented earlier this year. The European Central Bank left its policy rates unchanged while standing "ready to act, using all the available instruments in its mandate" should economic conditions deteriorate. In the U.S., the Fed left the Fed Funds rate unchanged in a 25bps to 50bps range and the timing of future rate hikes continues to be "data dependent". Recent U.S. economic data has been mixed – while March nonfarm payrolls (+215k) were slightly better than expected, 1Q GDP only grew at a 0.5% annualized pace and inflation remains tepid (March CPI +0.9% YoY). Markets reacted favorably to the more stable environment and oil prices rose by nearly 20% to $45/barrel.

Treasury Yields



Maturity	12/31/15	3/31/16	4/30/16	1Mo Chg	YTD Chg
1	0.60%	0.58%	0.55%	-0.03%	-0.05%
2	1.05%	0.73%	0.77%	0.04%	-0.28%
3	1.31%	0.86%	0.92%	0.06%	-0.39%
5	1.76%	1.22%	1.28%	0.06%	-0.48%
7	2.09%	1.55%	1.60%	0.05%	-0.49%
10	2.27%	1.78%	1.82%	0.04%	-0.45%
30	3.02%	2.62%	2.66%	0.04%	-0.36%

Spreads Tighten Further

The more stable outlook for global growth and the rebound in oil and commodity prices helped spreads tighten further this month. Industrials continued to lead the corporate sector back from the historically wide levels in mid-February, tightening 20 bps in the month to 148 bps (now 35 bps tighter YTD). Meanwhile financials tightened 13bps to 142 bps, but are 8 bps wider year to date, giving back the relative spread tightening to industrials that occurred in 2015. CMBS has tightened 20 bps so far this year in line with corporates, while spreads on ABS and agency pass-throughs have been more stable. High yield spreads continued to exhibit heightened volatility and greater sensitivity to commodity and oil prices, tightening 79 bps to end the month at 577 bps.

Option-Adjusted Spreads (in bps)

	12/31/15	3/31/16	4/30/16	1Mo Chg	YTD Chg
U.S. Aggregate Index	56	56	50	-6	-6
U.S. Agency (non-mortgage)	21	20	21	1	0
Mortgage and ABS Sectors					
U.S. Agency Pass-throughs	24	22	20	-2	-4
Asset-Backed Securities	72	74	68	-6	-4
CMBS	121	109	101	-8	-20
Corporate Sectors					
U.S. Investment Grade	165	163	146	-17	-19
Industrial	183	168	148	-20	-35
Utility	150	151	142	-9	-8
Financial Institutions	134	155	142	-13	8
U.S. High Yield	660	656	577	-79	-83

Sources: Barclays

Spread Sectors Outperform, Strong Returns Year to Date

Spread sectors posted positive returns in April and outperformed Treasuries and agencies, with all major indices posting strong year-to-date returns. Investment grade corporates had some of the strongest returns for the month (+1.37%) as renewed demand was met with lower-than-average issuance. Corporate high yield outperformed all other sectors, returning an impressive 3.92% in April as markets continued to make a profound recovery from the turmoil of the first quarter. Year-to-date bond returns have been impressive across many sectors, already well ahead of the full year 2015 returns in just four months.

Total Returns of Selected Barclays Indices and Subsectors

Barclays Index/Sector	April	YTD	2015
U.S. Aggregate Index	0.38%	3.43%	0.55%
U.S. Gov't/Credit Index	0.48%	3.96%	0.15%
U.S. Intermediate Gov't/Credit Index	0.27%	2.72%	1.07%
U.S. 1-3 Yr. Gov't/Credit Index	0.14%	1.12%	0.65%
U.S. Treasury	-0.11%	3.09%	0.84%
U.S. Agency	-0.01%	2.03%	1.01%
MBS (Mortgage-Backed Securities)	0.16%	2.14%	1.51%
CMBS (Commercial Mortgage-Backed Securities)	0.38%	4.00%	0.97%
ABS (Asset-Backed Securities)	0.24%	1.60%	1.25%
U.S. Corporate - Investment Grade	1.37%	5.39%	-0.68%
Corporate High Yield	3.92%	7.40%	-4.47%
Municipal Bond Index	0.74%	2.42%	3.30%
TIPS (Treasury Inflation Protected Securities)	0.35%	4.82%	-1.44%

Disclosures

This is not a complete analysis of every material fact regarding any company, industry or security. The information has been obtained from sources we consider to be reliable, but we cannot guarantee the accuracy.

Fixed income is generally considered to be a more conservative investment than stocks, but bonds and other fixed income investments still carry a variety of risks such as interest rate risk, credit risk, inflation risk, and liquidity risk. In a rising interest rate environment, the value of fixed-income securities generally decline and conversely, in a falling interest rate environment, the value of fixed-income securities generally increase. High yield securities may be subject to heightened market, interest rate or credit risk and should not be purchased solely because of the stated yield.

Indices are unmanaged, and are not available for direct investment. *Past performance is not a guarantee of future results.*

The Barclays Aggregate Bond Index is an index comprised of approximately 6000 publicly traded bonds including U.S. Government, mortgage-backed, corporate, and Yankee bonds with an average maturity of approximately 10 years.

The Barclays Government/Credit Index is a combination of the Government Index which measures government-bond general and Treasury funds, and the Credit Bond Index, which is a market value-weighted index which tracks the returns of all publicly issued, fixed-rate, nonconvertible, dollar-denominated, SEC registered, investment grade Corporate Debt.

The Barclays Intermediate Government/Credit Index is a combination of the Government Index which measures government-bond general and Treasury funds, and the Credit Bond Index, which is a market value-weighted index which tracks the returns of all publicly issued, fixed-rate, nonconvertible, dollar-denominated, SEC registered, investment grade Corporate Debt with maturities between one and ten years.

The Barclays Government/Credit Intermediate Index (1 – 3 yr.) is a combination of the Government Index which measures government-bond general and Treasury funds, and the Credit Bond Index, which is a market value-weighted index which tracks the returns of all publicly issued, fixed-rate, nonconvertible, dollar-denominated, SEC registered, investment grade Corporate Debt with maturities between zero and three years.

The Barclays U.S. Treasury Index includes public obligations of the U.S. Treasury. Treasury bills are excluded by the maturity constraint of at least one year but are part of a separate Short Treasury Index. In addition, certain special issues, such as state and local government series bonds (SLGs), as well as U.S. Treasury TIPS, are excluded. STRIPS are excluded from the index because their inclusion would result in double-counting. Securities in the Index roll up to the U.S. Aggregate, U.S. Universal, and Global Aggregate Indices. The U.S. Treasury Index was launched on January 1, 1973.

U.S. Agency: This index is the U.S. Agency component of the U.S. Government/Credit index. Publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government (such as USAID securities). The largest issues are Fannie Mae, Freddie Mac, and the Federal Home Loan Bank System (FHLB). The index includes both callable and non-callable agency securities.

U.S Corporate – Investment Grade: This index is the Corporate component of the U.S. Credit index. It includes publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered.

CMBS (Commercial Mortgage-Backed Securities): This index is the CMBS component of the U.S. Aggregate index. The Barclays CMBS ERISA-Eligible Index is the ERISA-eligible component of the Barclays CMBS Index. This index, which includes investment grade securities that are ERISA eligible under the underwriter's exemption, is the only CMBS sector that is included in the U.S. Aggregate Index.

MBS (Mortgage-Backed Securities): This index is the U.S. MBS component of the U.S. Aggregate index. The MBS Index covers the mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). The MBS Index is formed by grouping the universe of over 600,000 individual fixed rate MBS pools into approximately 3,500 generic aggregates.

ABS (Asset-Backed Securities): This index is the ABS component of the U.S. Aggregate index. The ABS index has three subsectors: credit and charge cards, autos, and utility. The index includes pass-through, bullet, and controlled amortization structures. The ABS Index includes only the senior class of each ABS issue and the ERISA-eligible B and C tranche. The Manufactured Housing sector was removed as of January 1, 2008, and the Home Equity Loan sector was removed as of October 1, 2009.

Corporate High Yield: The Barclays U.S. High Yield Index covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included.

The Barclays Municipal Bond Index is a broad-based, total-return index. The bonds are all investment-grade, tax-exempt, and fixed-rate securities with long-term maturities (greater than 2 years). They are selected from issues larger than $50 million.

The Barclays TIPS Index consists of Treasury Inflation Protected Securities (TIPS). TIPS are securities whose principal is tied to the Consumer Price Index. TIPS pay interest semi-annually, based on the fixed rate applied to the adjusted principal.