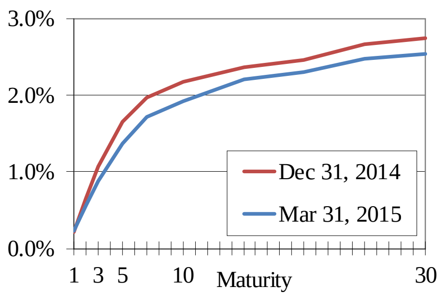
Baird Advisors
Fixed Income Market Comments
March 2015

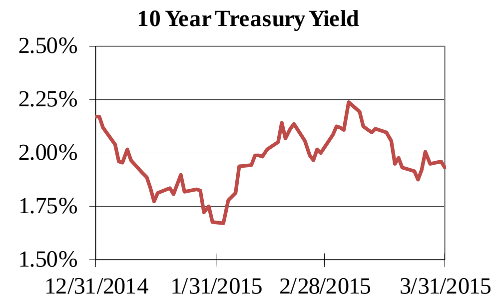
Yields Decline for Month, Quarter

The 10-year treasury declined 7 basis points (bps) for the month and 24 bps for the quarter ending at 1.93% on 3/31/15. Interest rate volatility increased in the first quarter as 10-year yields traded in a fairly wide 57 bps range (1.67% to 2.24%). Despite the Fed removing the word “patient” from its policy statement (telling the market that the first rate increase could now occur at any future FOMC meeting), yields on intermediate and long Treasuries fell in response to the Fed lowering their multi-year projections for future policy rates, growth, and inflation. Any continued positive economic data (February nonfarm payrolls +295K) may enable the Fed to commence policy tightening, even as inflation remains nearly nonexistent (Feb. +0.0% CPI year over year), temporarily suppressed in part by a strong U.S. dollar and the drop in oil prices. Additionally, Chairwoman Yellen has commented that the first fed funds rate increase may occur while inflation remains below the committee’s 2% target.

Treasury Yields

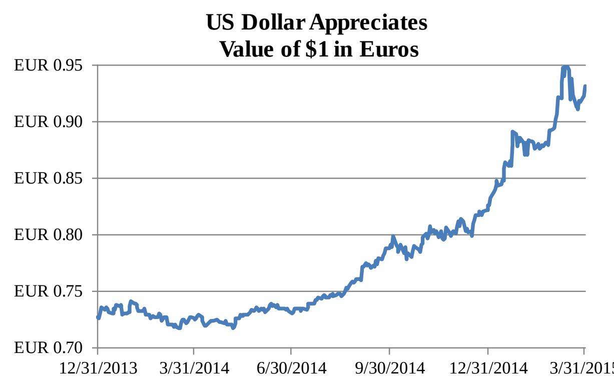


Maturity	12/31/14	3/31/15	1Q Change
1	0.21%	0.23%	0.02%
2	0.66%	0.56%	-0.10%
3	1.07%	0.88%	-0.19%
5	1.65%	1.37%	-0.28%
7	1.97%	1.71%	-0.26%
10	2.17%	1.93%	-0.24%
30	2.75%	2.54%	-0.21%



European Central Bank commences Quantitative Easing

In January the European Central Bank (ECB) announced a long-awaited quantitative easing (QE) program, and began buying securities (predominantly European Sovereign bonds) in March, which has contributed to negative yields on global bonds. Approximately 16% of sovereign bonds in the J.P. Morgan Global Government Bond Index are trading at negative yields. The divergence in global central bank policies, with the U.S. preparing to tighten while the ECB begins QE has driven global capital flows into U.S. markets and contributed to a 12.7% appreciation of the U.S. Dollar vs the Euro in the quarter (see graph at right).



Solid March Returns Conclude Quarter

Declining yields added to bond market returns, allowing all major sectors to finish the first quarter in positive territory. In spite of a record-setting quarter with $379 billion of gross fixed-rate, investment-grade credit issuance, U.S. Corporates (+2.32%) handily posted the strongest investment grade sector returns. Mortgage-Backed Securities (+1.06%) lagged the pack for the quarter as interest rate volatility rose and federal housing policy changes spurred additional mortgage refinancing activity, inducing higher prepayments on premium-priced MBS securities. Corporate High Yield returns ended with the strongest overall quarterly performance (+2.52%) even with months such as March (-0.55%) that were hampered by declines in oil-related industries.

Total Returns of Selected Barclays Indices and Subsectors

Barclays Index/Sector	March	1Q 2015
U.S. Aggregate Index	0.46%	1.61%
U.S. Gov’t/Credit Index	0.50%	1.84%
U.S. Intermediate Gov’t/Credit Index	0.49%	1.45%
U.S. 1-3 Yr. Gov’t/Credit Index	0.23%	0.59%
U.S. Treasury	0.63%	1.64%
U.S. Agency	0.43%	1.17%
MBS (Mortgage-Backed Securities)	0.37%	1.06%
CMBS (Commercial Mortgage-Backed Securities)	0.63%	1.77%
ABS (Asset-Backed Securities)	0.41%	0.90%
U.S. Corporate - Investment Grade	0.32%	2.32%
Corporate High Yield	-0.55%	2.52%
Municipal Bond Index	0.29%	1.01%
TIPS (Treasury Inflation Protected Securities)	-0.47%	1.42%

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.