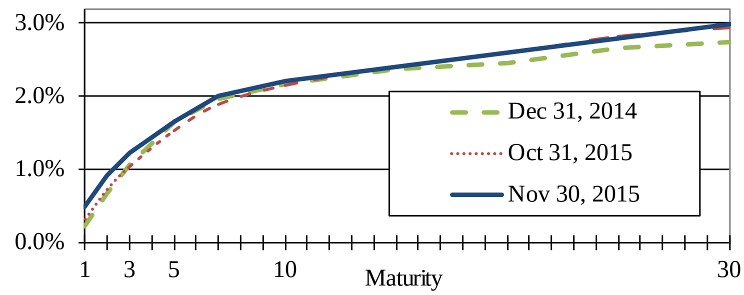
Baird Advisors
Fixed Income Market Comments
November 2015

Interest Rates Rise as Market Anticipates December Hike

The yield on the 2-year Treasury rose to 0.93%, the highest level since early 2010 as the Fed communicated plans for a December "lift-off" provided economic data continued to show healthy progress. The Fed's October meeting minutes stated that it may be "…appropriate to initiate the normalization process at the next meeting", which led the market to price a greater than 70% chance of a December rate increase. The recent strength of the U.S. economy (October nonfarm payrolls +271K, core CPI +1.9% YoY, 3Q revised GDP +2.1%) may provide an opportunity for the Fed to raise rates in December with limited market disruption. In contrast to the U.S., European Central Bank President Draghi reiterated in a speech that the ECB stands ready to provide additional stimulus in December. While geo-political risks remain heightened (e.g. Paris terror attacks, Syrian refugee crisis) the impacts on the global economy have been modest.

Treasury Yields

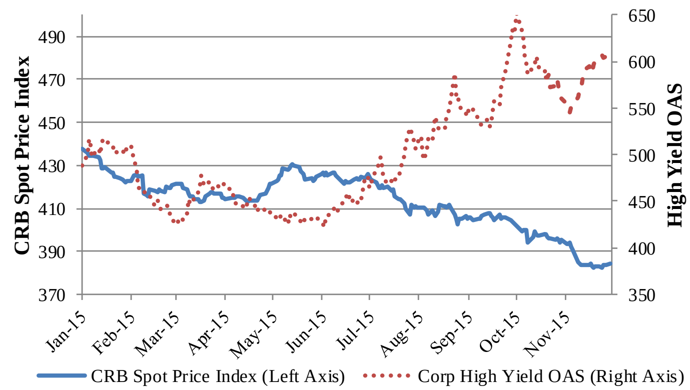


Maturity	12/31/14	10/31/15	11/30/15	1Mo Chg	YTD Chg
1	0.22%	0.32%	0.48%	0.16%	0.26%
2	0.67%	0.73%	0.93%	0.20%	0.26%
3	1.07%	1.04%	1.22%	0.18%	0.15%
5	1.65%	1.53%	1.65%	0.12%	0.00%
7	1.97%	1.89%	2.00%	0.11%	0.03%
10	2.17%	2.15%	2.22%	0.07%	0.05%
30	2.75%	2.94%	2.99%	0.05%	0.24%

Investment Grade Spreads Tighten, High Yield Gaps Wider

Investment grade corporate yield spreads tightened for a second consecutive month (4 bps tighter to 155 bps). The move tighter was led by the Financial sector as spreads tightened 8 bps this month to 129bps as expectations for regulatory-related corporate issuance in this sector declined and investors anticipated that an increase in the Fed Funds rate will be positive for future bank earnings. In contrast, High Yield corporates widened 42 bps to 602 bps due to continued concerns of weak global growth. This weak global growth is also seen in commodity prices as broad-based commodity price indices (see Commodity Research Bureau Spot Index at right) hit new post-crisis lows (falling -2.8% in November, -12.2% YTD).

Commodity Prices Drop, High Yield Widens



Rising Yields Push November Taxable Bond Returns Negative

Rising yields and a flatter curve in anticipation of a Fed hike pushed returns into negative territory across all taxable bond indices in November. Treasuries (-0.41%) lagged spread sectors such as Investment Grade Corporates (-0.22%) and MBS (-0.14%) which benefitted from modest spread tightening. However, High Yield Corporates had the weakest monthly (-2.22%) performance due to a combination of challenging fundamentals and investor outflows from the sector. Tax-exempt municipals outperformed taxable bonds significantly this month (+0.40%), as municipal yields actually declined on the long end due to moderate supply and strong demand, making municipals the top performer YTD (+2.58%).

Total Returns of Selected Barclays Indices and Subsectors

Barclays Index/Sector	November	YTD
U.S. Aggregate Index	-0.26%	0.88%
U.S. Gov't/Credit Index	-0.32%	0.58%
U.S. Intermediate Gov't/Credit Index	-0.26%	1.41%
U.S. 1-3 Yr. Gov't/Credit Index	-0.20%	0.79%
U.S. Treasury	-0.41%	1.01%
U.S. Agency	-0.25%	1.29%
MBS (Mortgage-Backed Securities)	-0.14%	1.54%
CMBS (Commercial Mortgage-Backed Securities)	-0.19%	1.88%
ABS (Asset-Backed Securities)	-0.16%	1.44%
U.S. Corporate - Investment Grade	-0.22%	0.10%
Corporate High Yield	-2.22%	-2.00%
Municipal Bond Index	0.40%	2.58%
TIPS (Treasury Inflation Protected Securities)	-0.10%	-0.65%

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.