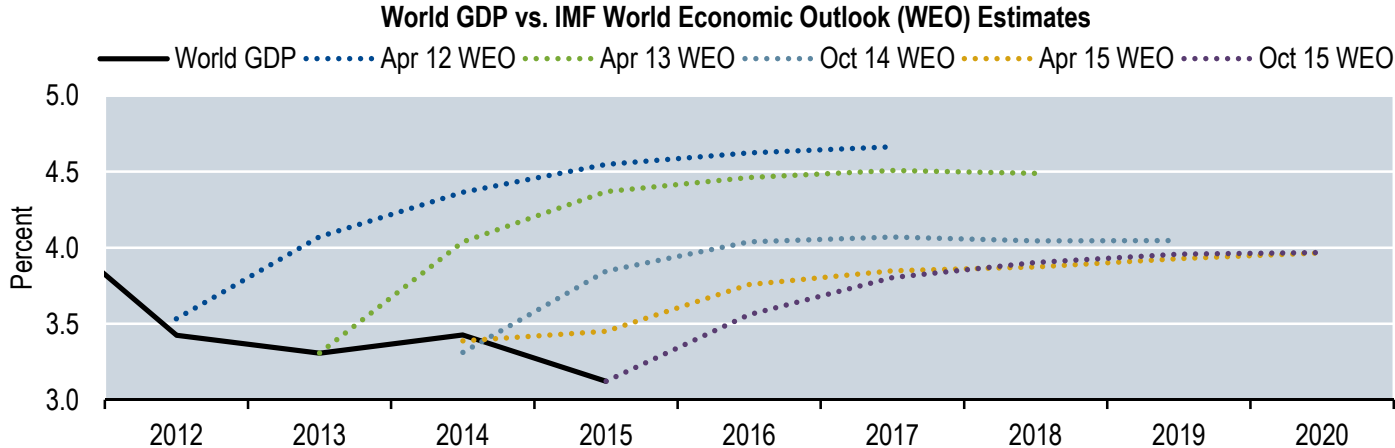


Market and Strategy Update

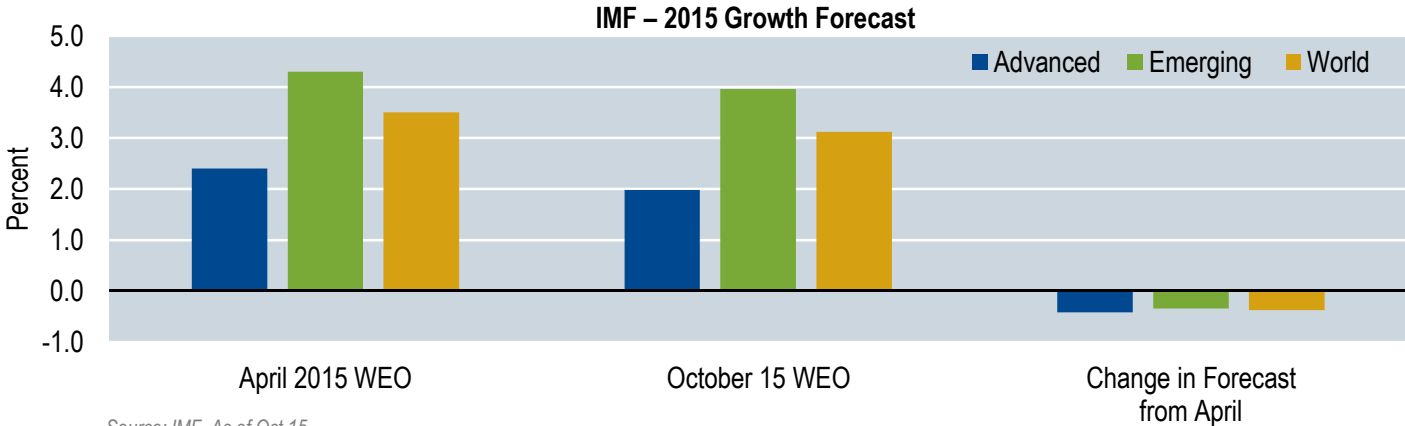
January 7, 2016

Ken Leech
Chief Investment Officer

IMF – 2015 Growth Forecast

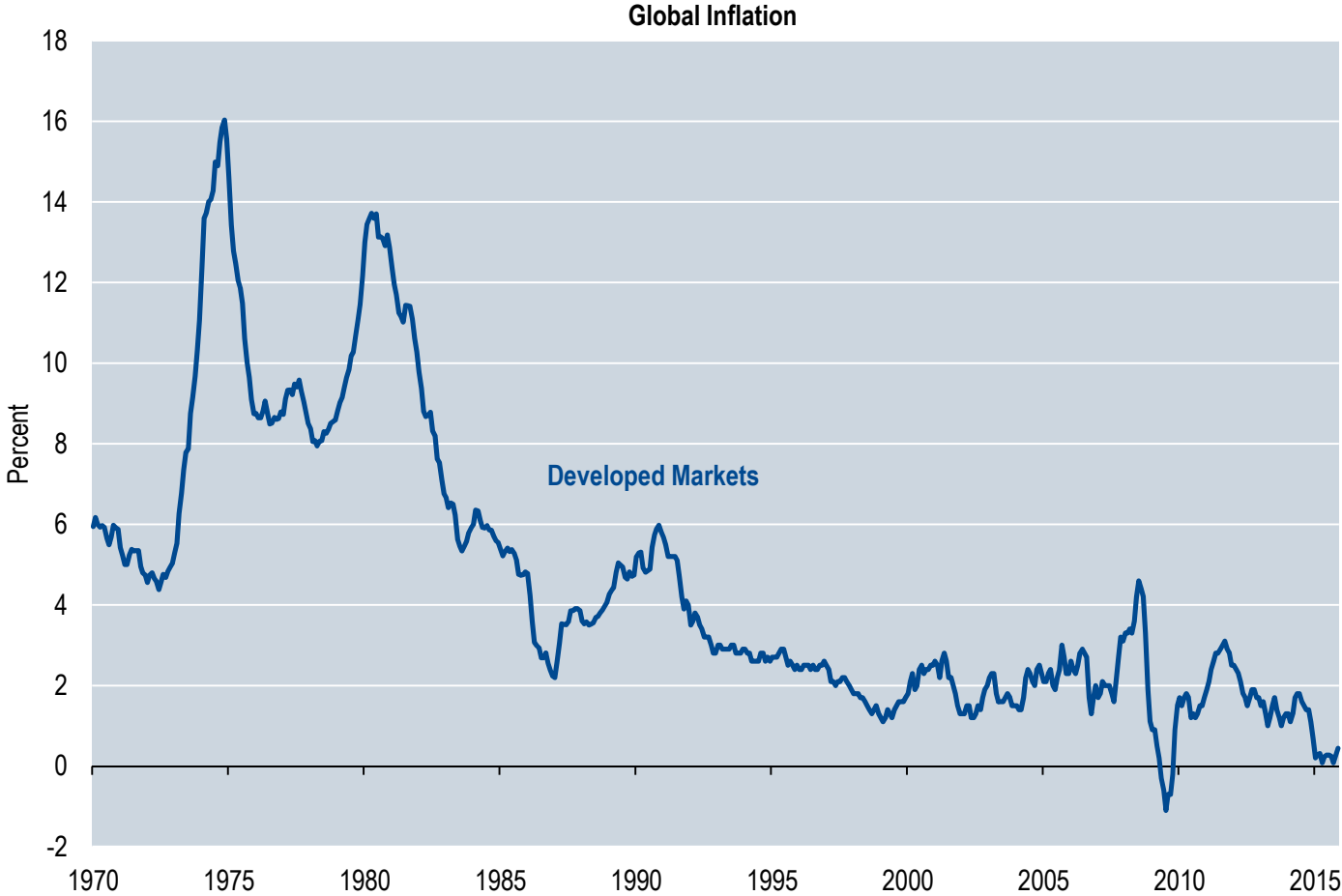


Source: IMF. As of Oct 15



Source: IMF. As of Oct 15

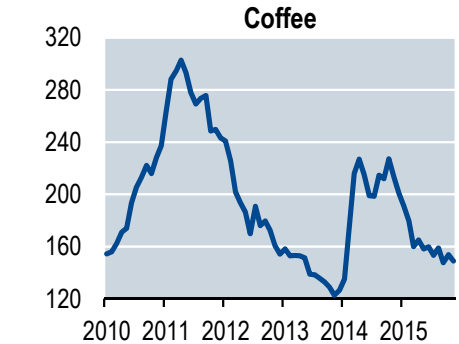
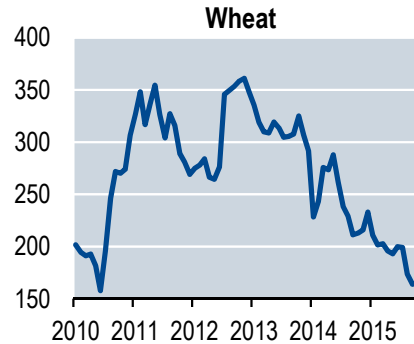
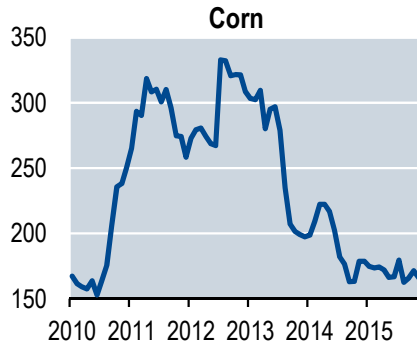
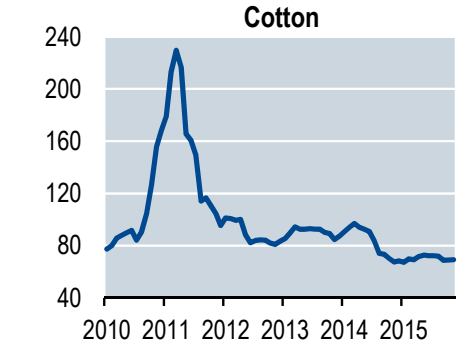
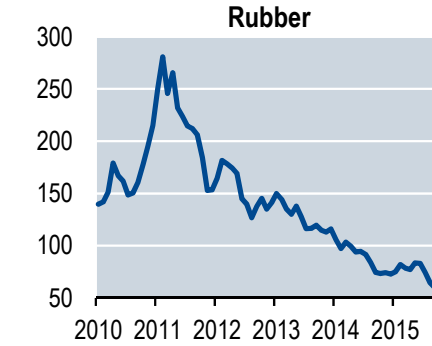
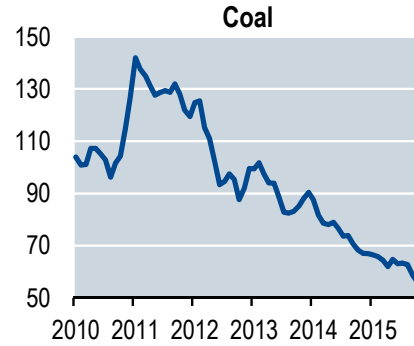
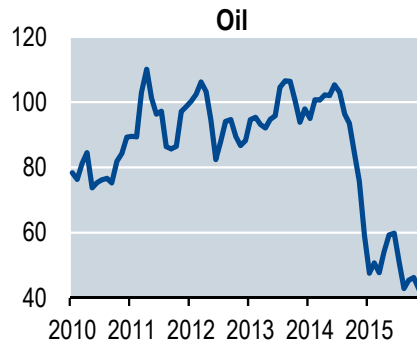
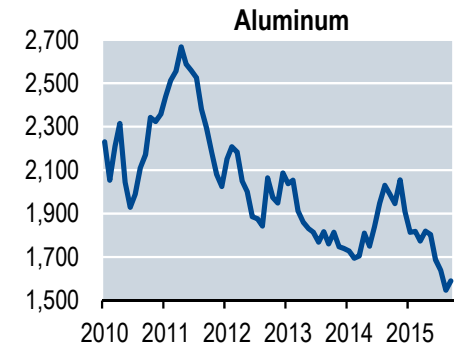
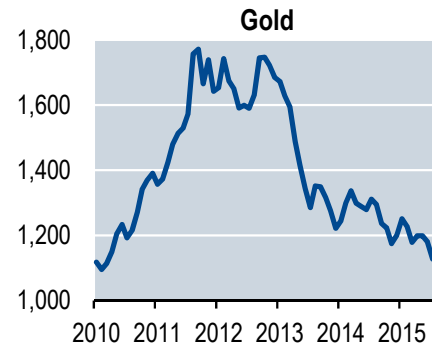
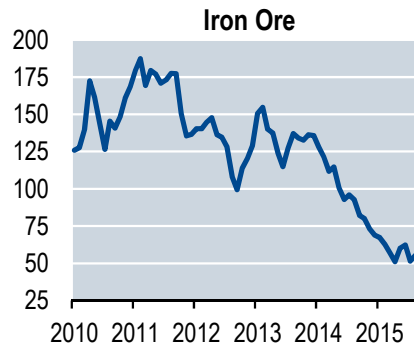
Global Inflation



Source: IMF World Economic Outlook Nov 15

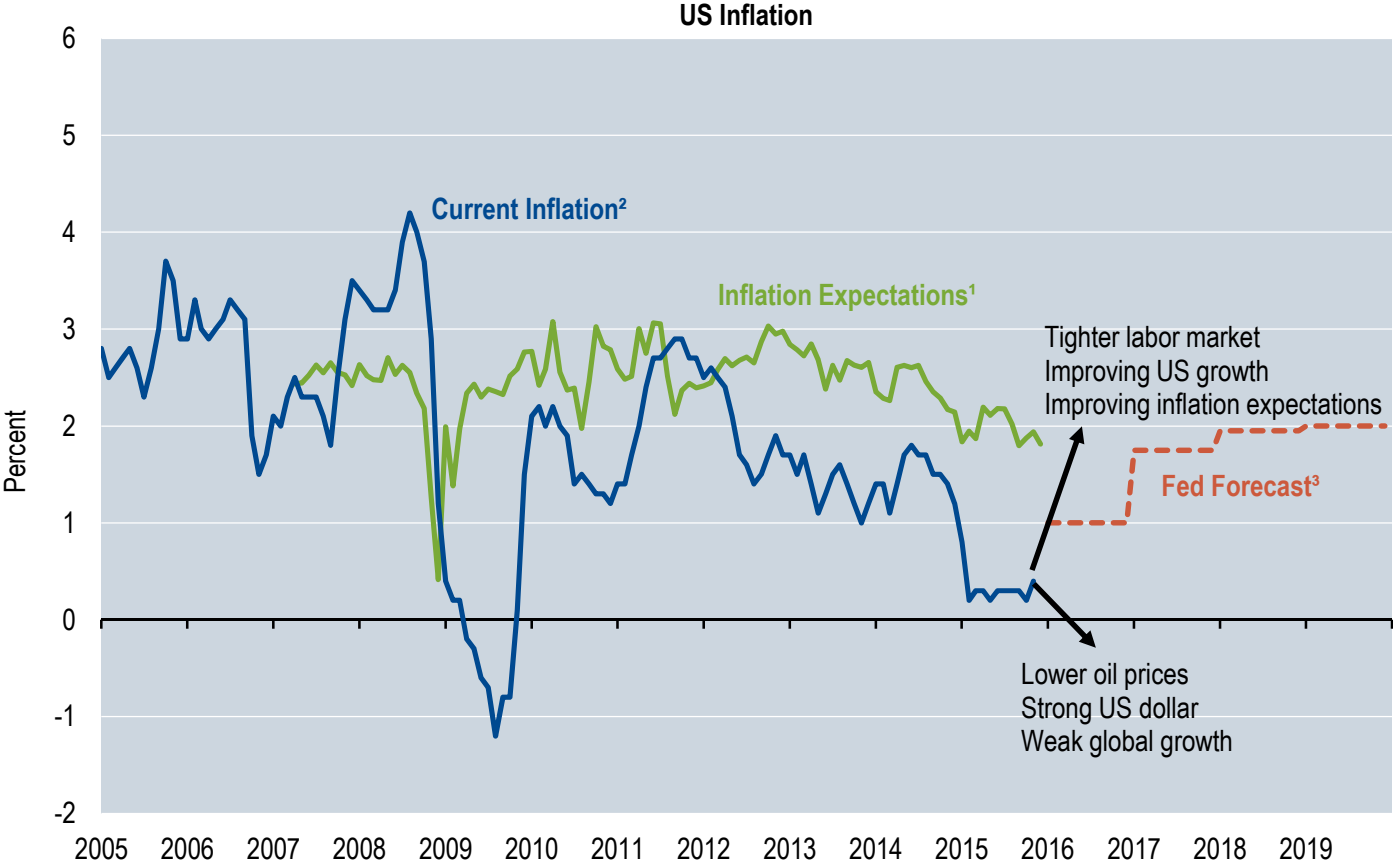
Commodities

Price Trends of Key Commodities in US Dollars



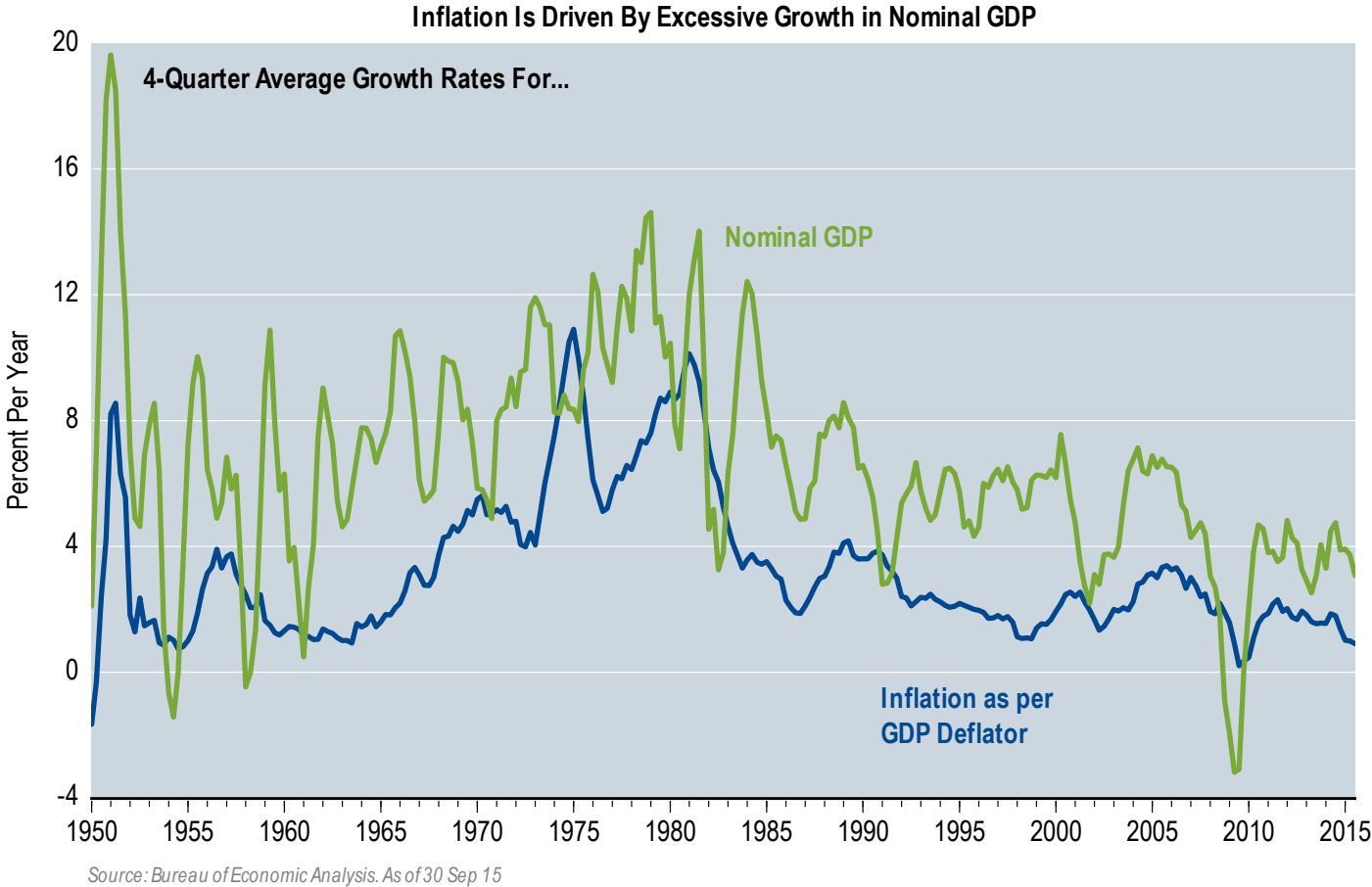
Commodity units priced in US Dollars. Source: Indexmundi.com. As of 30 Nov 15

US Inflation

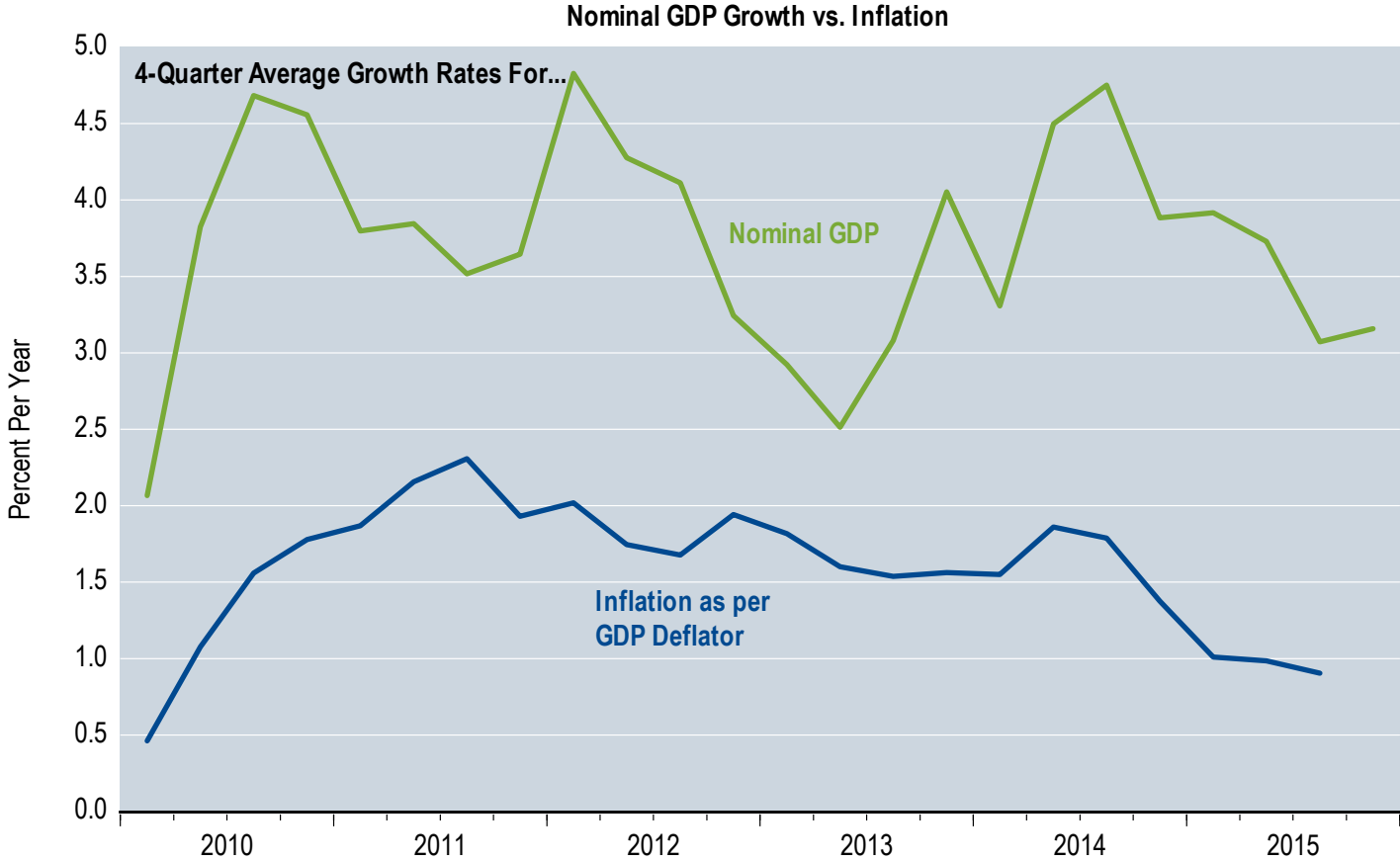


Source: Federal Reserve Economic Data. As of 31 Dec 15
¹US 5 year-5 year inflation forward
²US PCE
³December Central tendency

Nominal GDP and Inflation



Nominal GDP and Inflation



Source: Bureau of Economic Analysis. As of 30 Sep 15

Will the Fed Make a Policy Mistake?

December FOMC Statement:

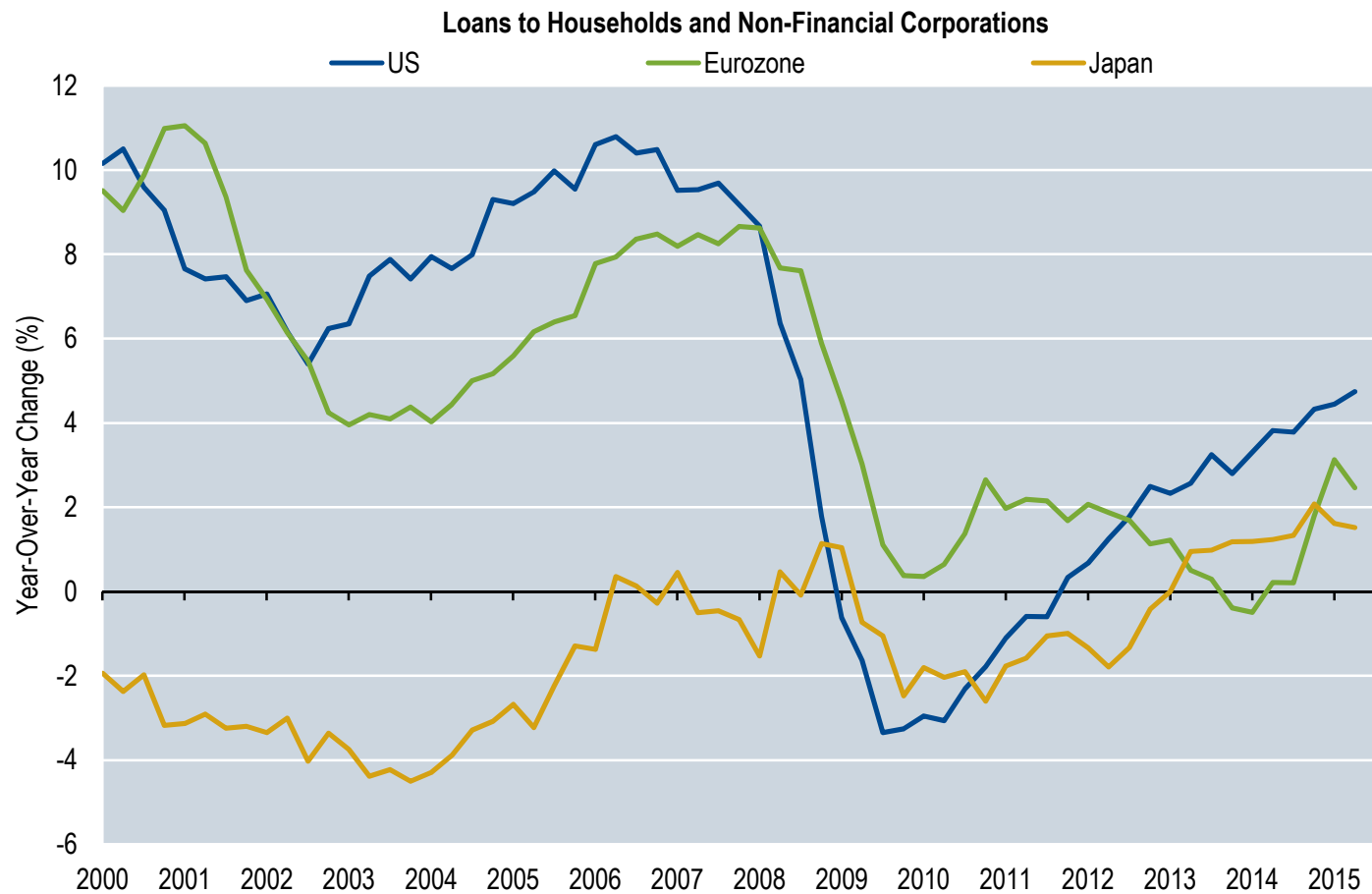
- “In light of the current shortfall of inflation from 2 percent, the Committee will carefully monitor actual and expected progress toward its inflation goal.”

Minutes from the December FOMC Meeting:

- “In determining the size and timing of further adjustments to monetary policy, some members emphasized the importance of confirming that inflation would rise as projected and of maintaining the credibility of the Committee's inflation objective.”
- “Also, a number of participants pointed out that because inflation was still running well below the Committee's objective and the outlook for inflation was subject to considerable uncertainty, it would probably take some time for the data to confirm that inflation was on a trajectory to return to 2 percent over the medium term.”

Europe – Part of the Problem or the Solution?

Is Monetary Policy Getting Traction?



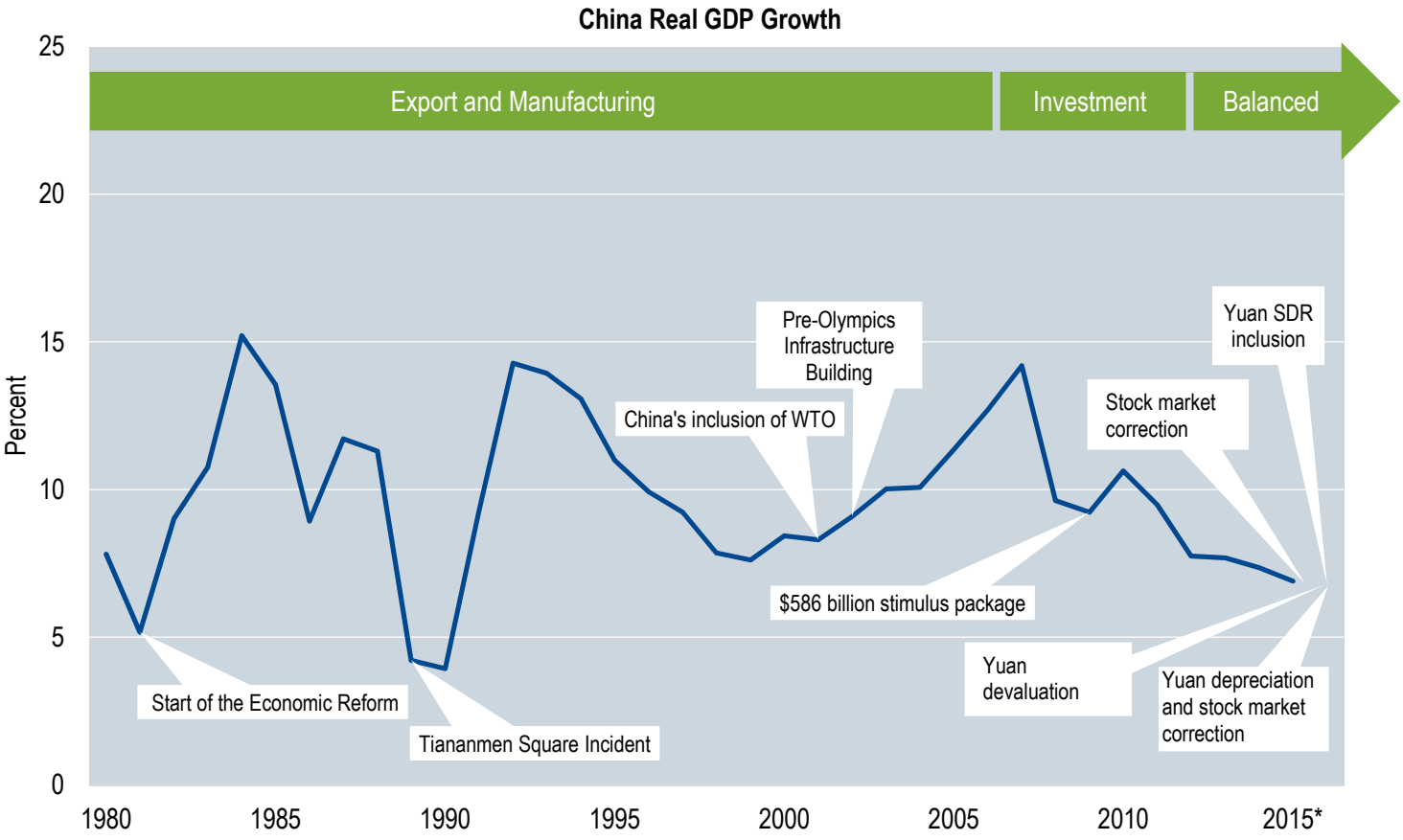
Source: Fed, ECB, BoJ, BIS. As of 30 Jun 15

Eurozone Inflation



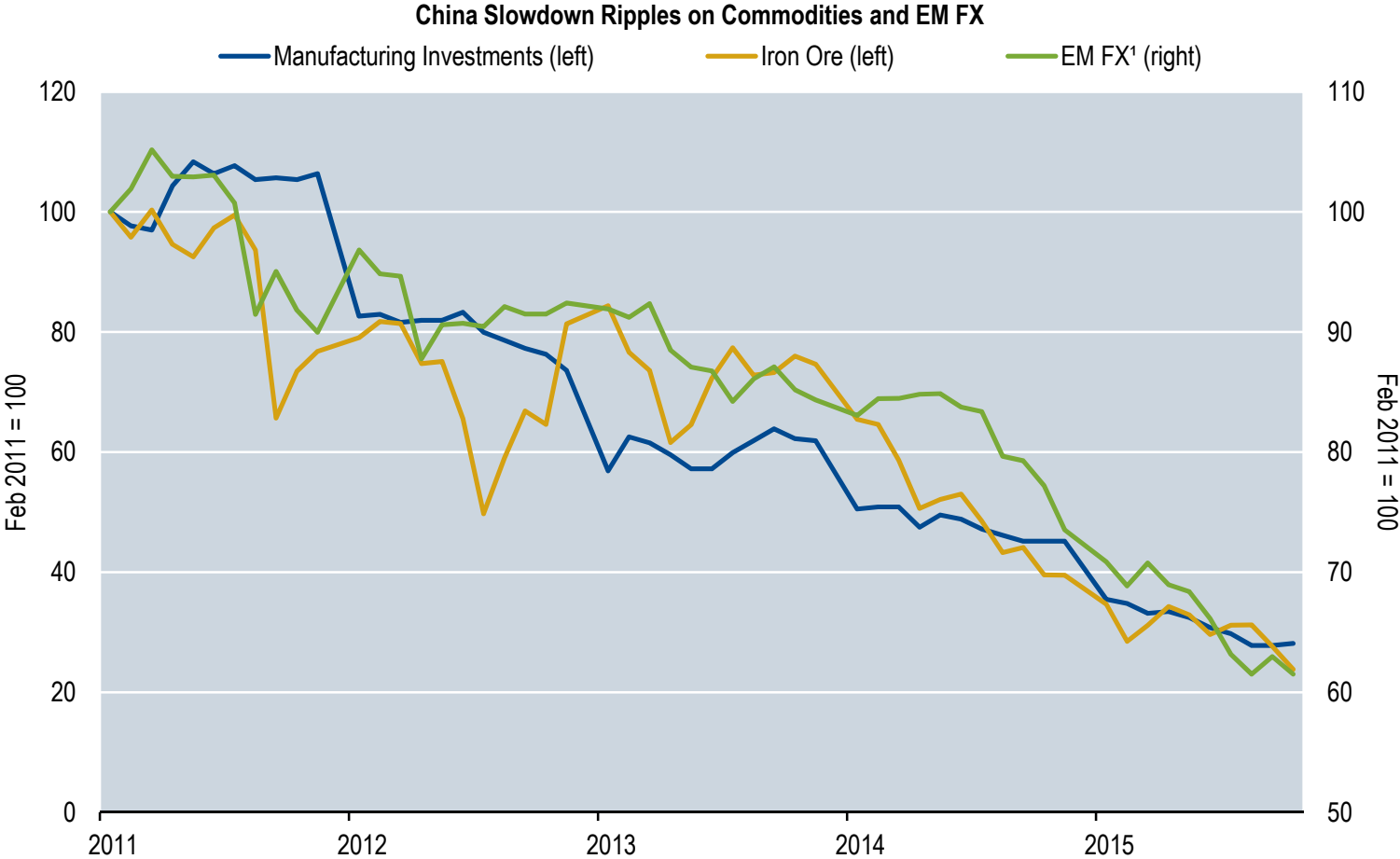
Source: Bloomberg. As of 31 Dec 15
*Euro 5 year-5 year inflation swap

Chinese Growth – Where to From Here?



*2015 GDP growth is an estimate based on the first 3 quarters GDP growth
 Source: The World Bank. As of 30 Sep 15

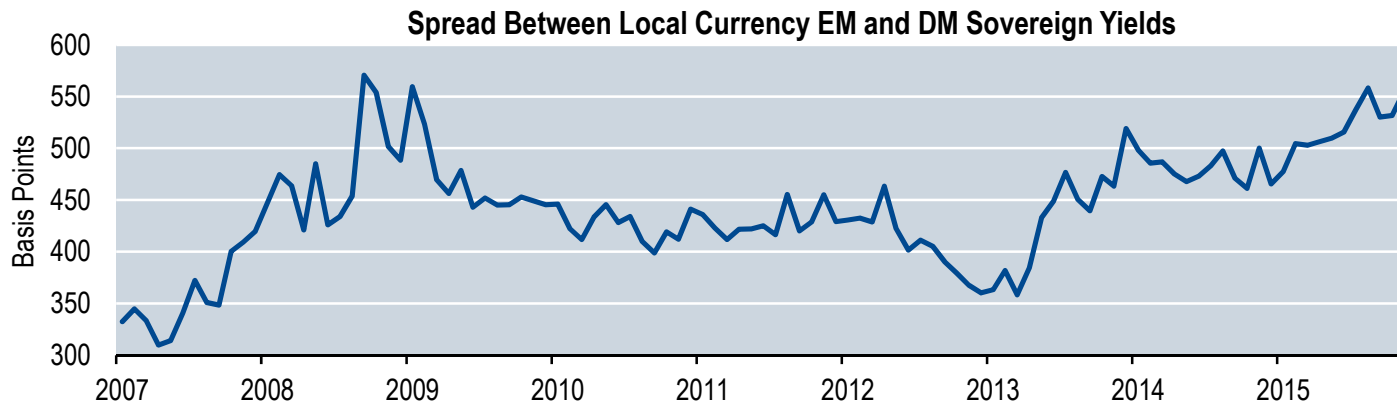
China Slowdown Ripples on Commodities and EM FX



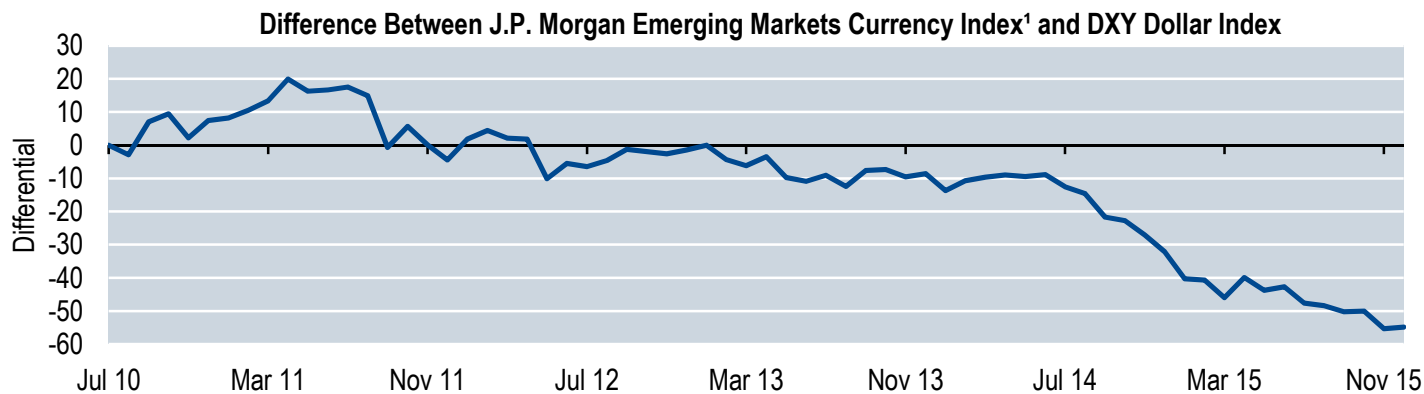
¹EM FX is represented by GBI-EM Global Diversified FX Return
 Source: Bloomberg, J.P. Morgan. As of 30 Nov 15

Emerging Markets

How Long Will the Beating Persist?



Source: J.P. Morgan. As of 31 Dec 15

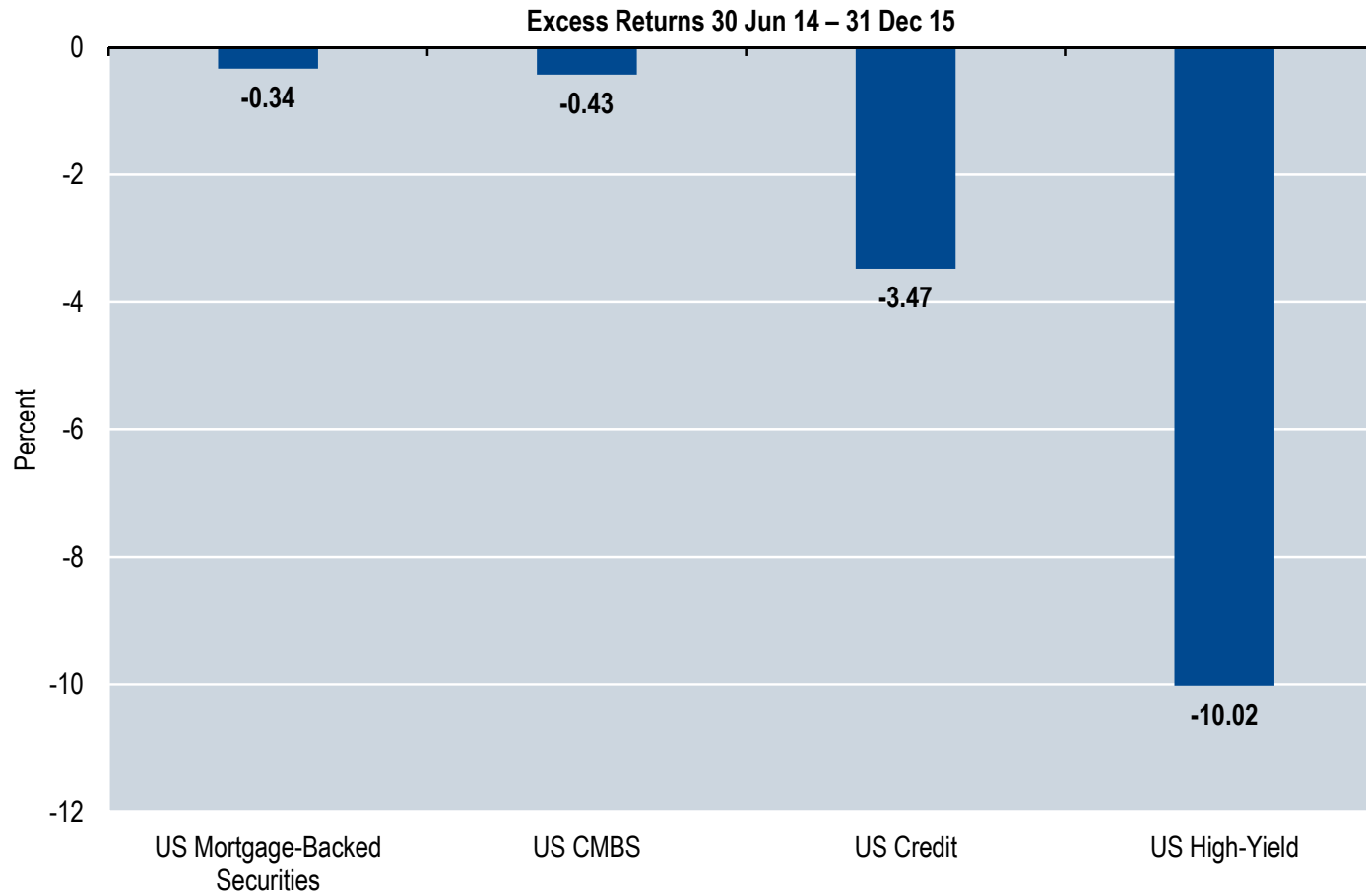


Source: J.P. Morgan and Bloomberg. As of 31 Dec 15

¹The J.P. Morgan EM Currency Index is a tradable benchmark for emerging markets currencies vs. USD. The index is comprised of a basket of ten emerging market currencies:

BRL, CLP, CNH, HUF, INR, MXN, RUB, SGD, TRY, ZAR.

Excess Returns by Sector



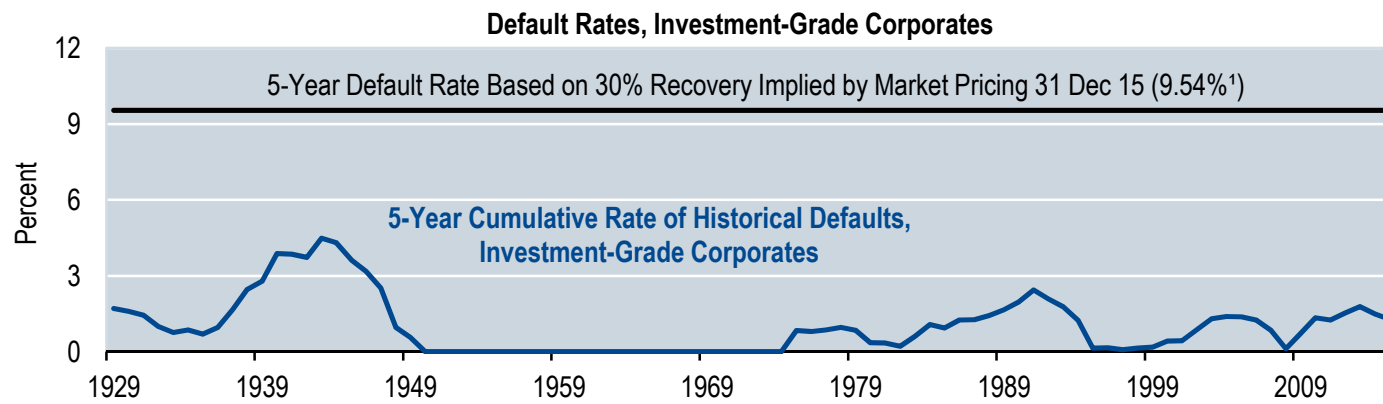
Source: Barclays. As of 31 Dec 15

Past performance is not a guarantee of future results.

Corporate Bonds



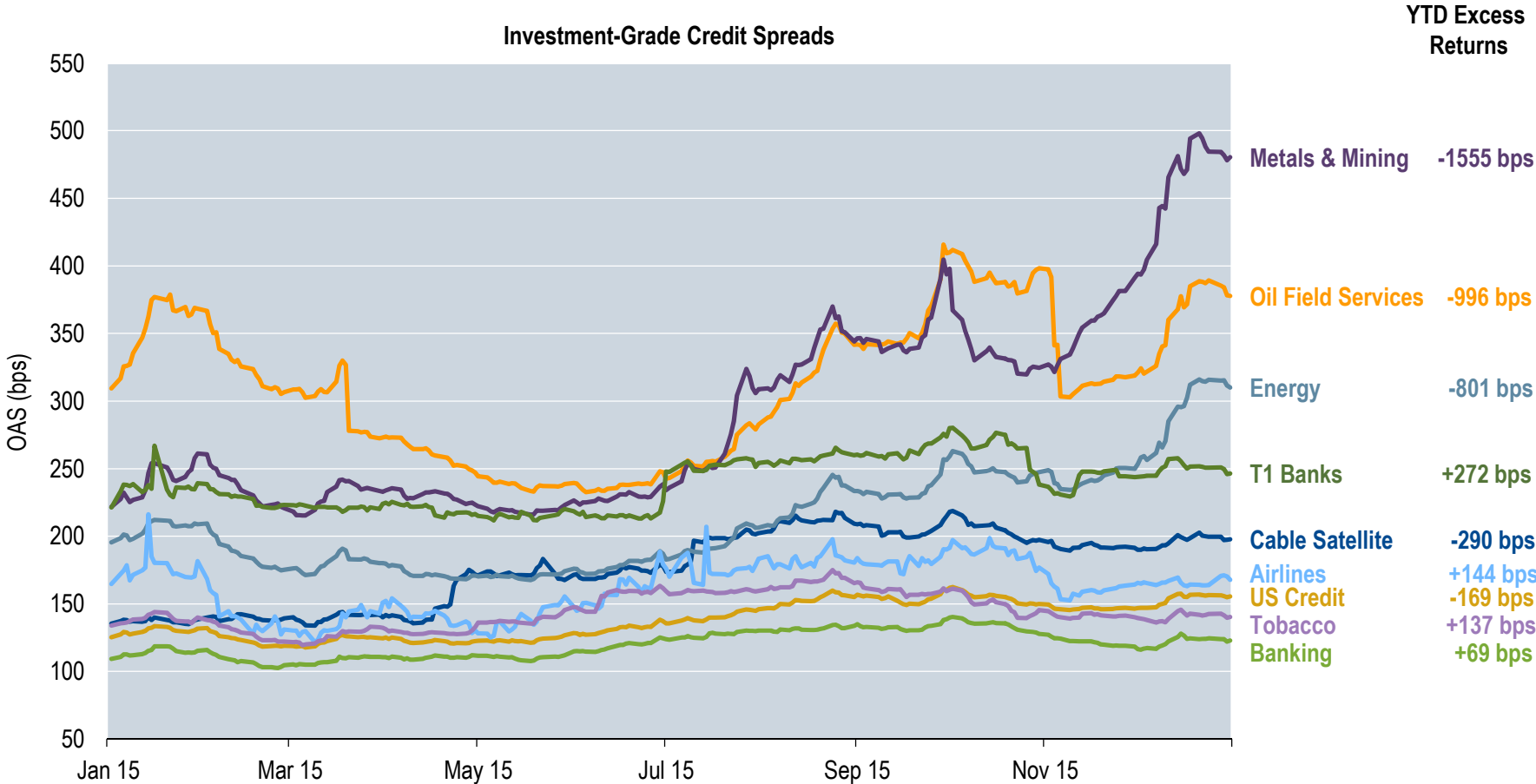
Source: Barclays. As of 31 Dec 15



Source: Moody's, Barclays, Bloomberg. As of 31 Dec 15
 ¹Calculation assumes 25 bps liquidity premium

Investment-Grade Credit Spreads

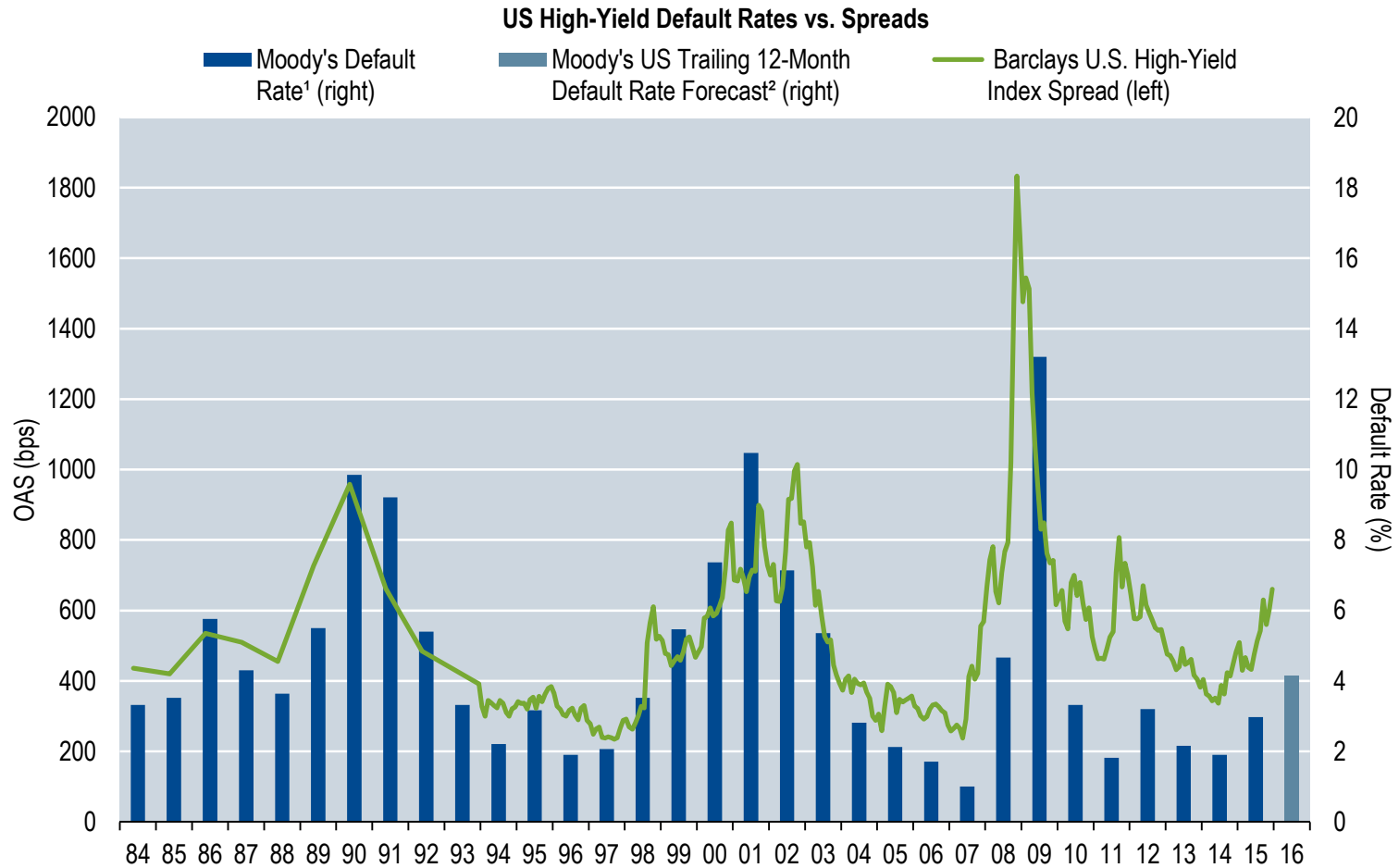
Credit Spreads Wider: Large Dispersion Between Winners and Losers



Source: Barclays. As of 31 Dec 15

US High-Yield

US High-Yield Spreads Appear to Provide a Significant Cushion vs. Expected Default Rates



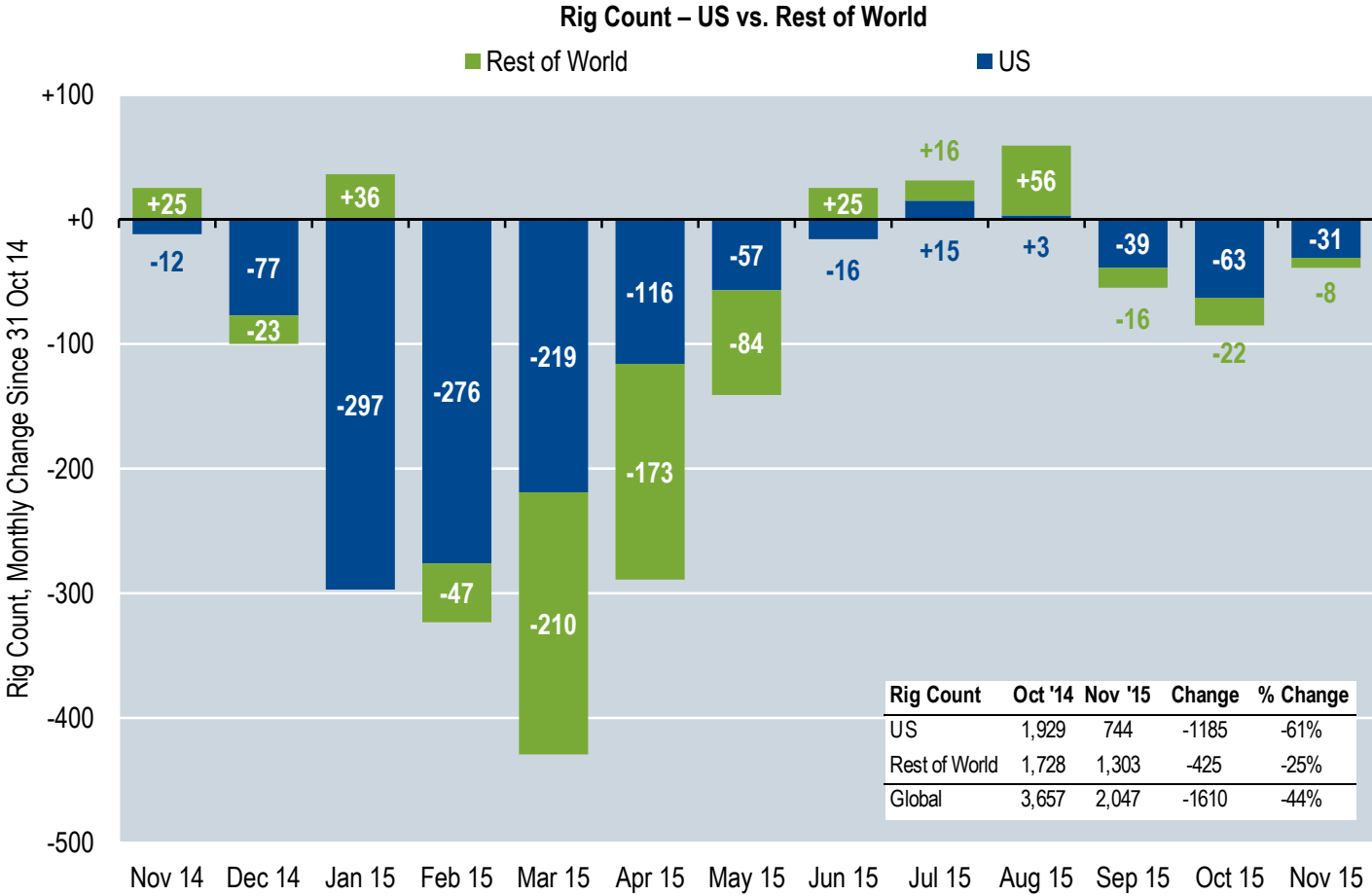
Source: Moody's, Barclays, Western Asset. As of 31 Dec 15

¹As of 30 Nov 15

²Moody's US Trailing 12-Month Issuer-Weighted Spec-Grade Default Rate Forecast ending 30 Nov 16

Energy Sector

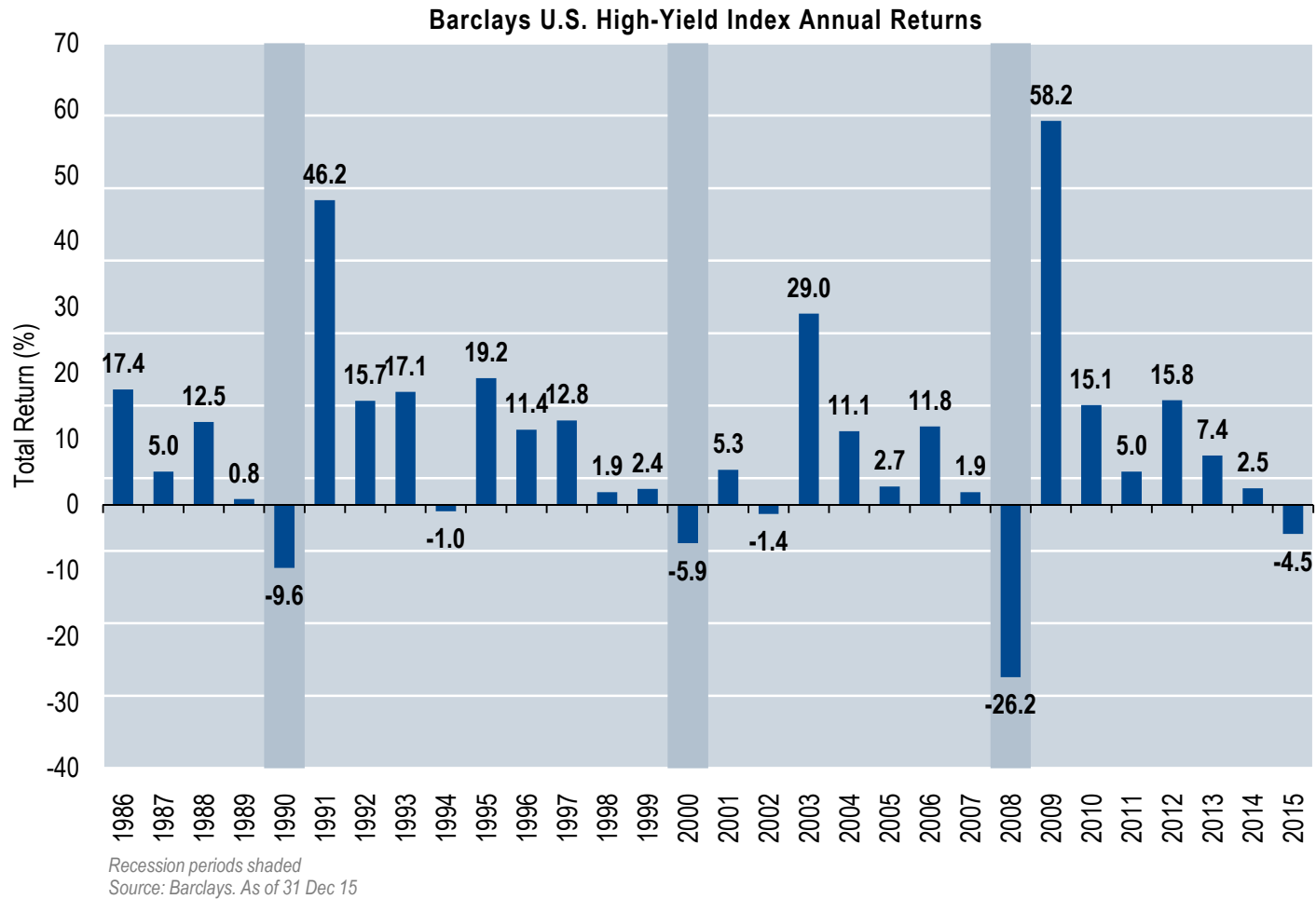
US Rig Cuts Outpace Rest of World



Source: J. P. Morgan, Baker Hughes. As of 30 Nov 15

US High-Yield

US High-Yield Has Had a Negative Return in Just 6 of the Past 30 Years, Each of Which Was Followed by a Strong Return

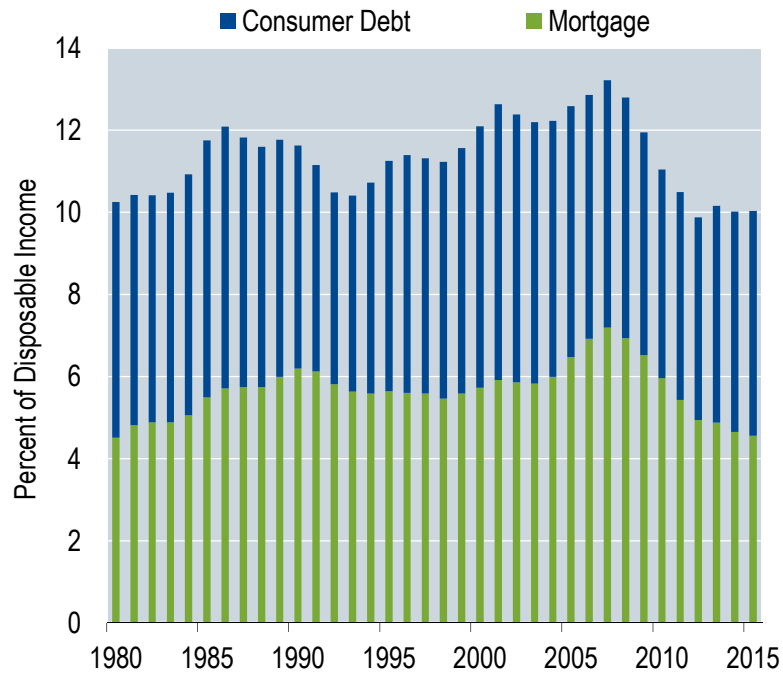


Average annual return in year after a negative return: 31.58%

Past performance is no guarantee of future results

MBS Sector

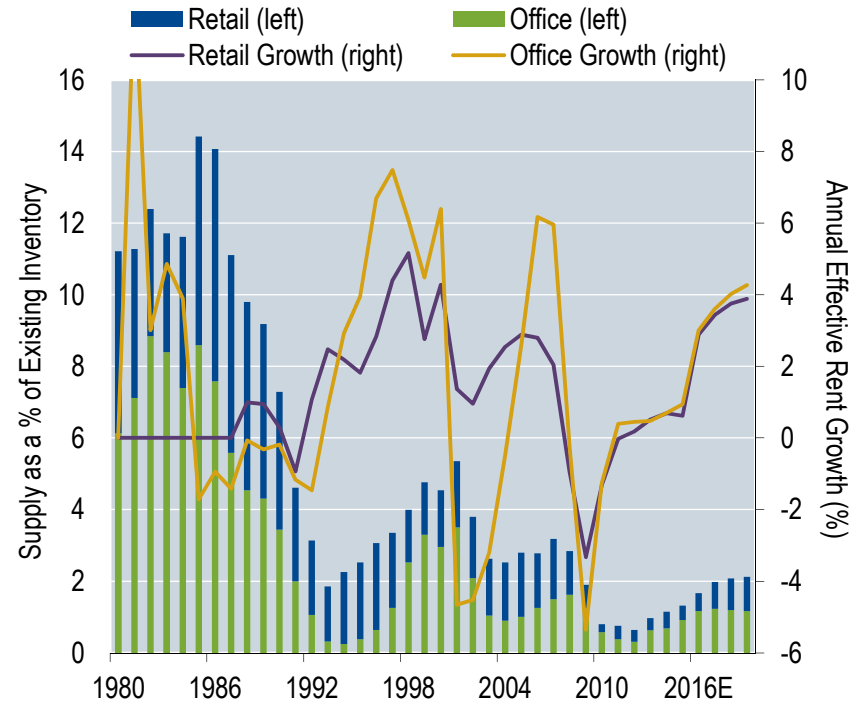
Consumer and Real Estate Fundamentals Remain at Historically Attractive Levels



Source: Federal Reserve. As of 30 Sep 15

Consumer leverage is at lowest levels in 35 year, while mortgage availability continues to be constrained

Student Loan ABS, legacy and new issue RMBS should be the biggest beneficiaries



Source: REIS, BoA. As of 30 Sep 15

CRE supply and demand hasn't been as favorable in decades...rental growth in office and retail should accelerate as new construction remains muted

New issue CMBS and subordinate debt opportunities should be the biggest beneficiaries

Conclusion

Global growth and inflation have moved lower, downside risks persist

Accommodative monetary policy remains crucial for ongoing global recovery

Interest rate normalization will proceed, but very slowly

Spread sectors are expected to outperform government bonds

Questions & Answers



Thank you.

Risk Disclosure

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