Monthly Market Update

August 2016

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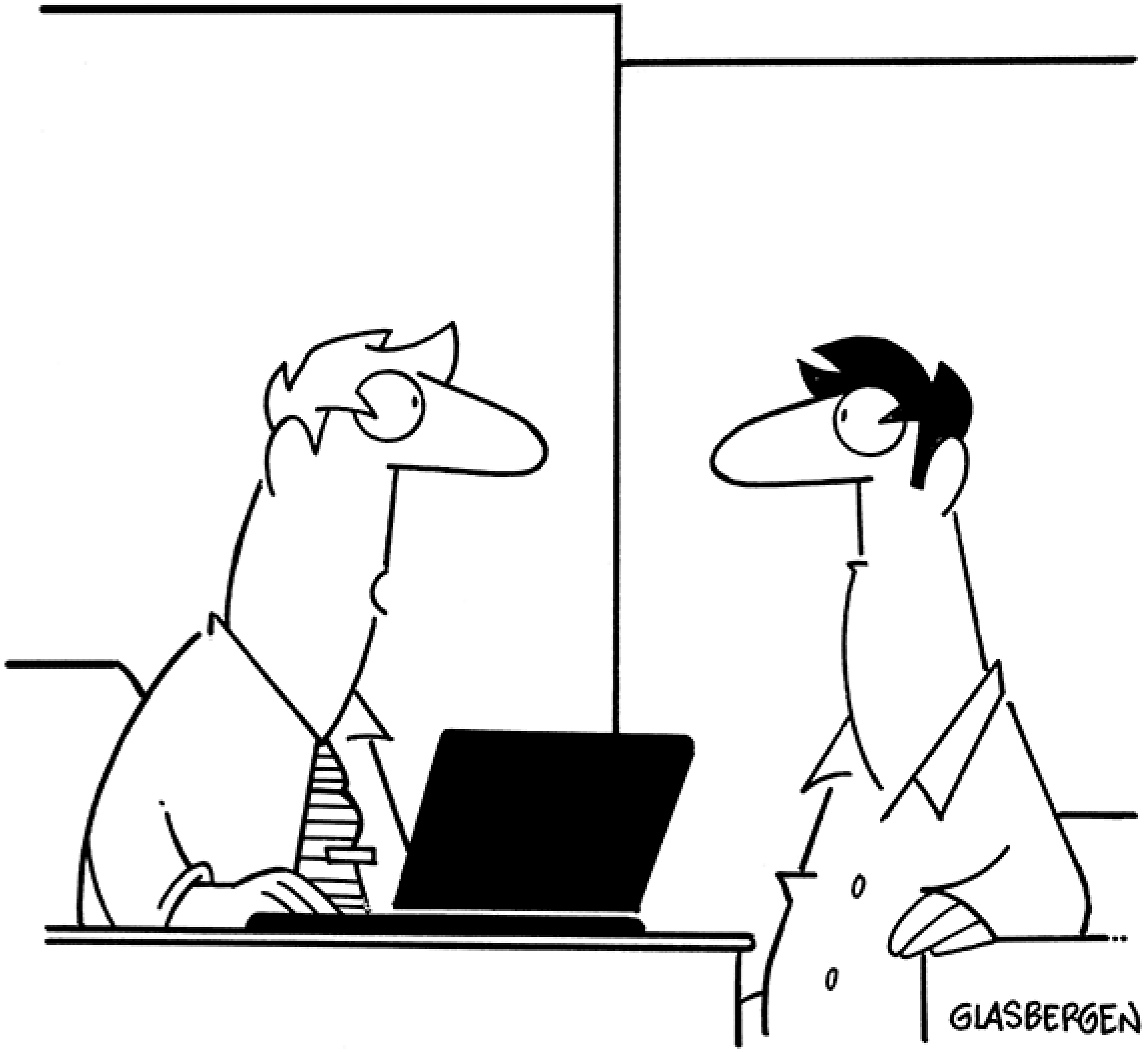
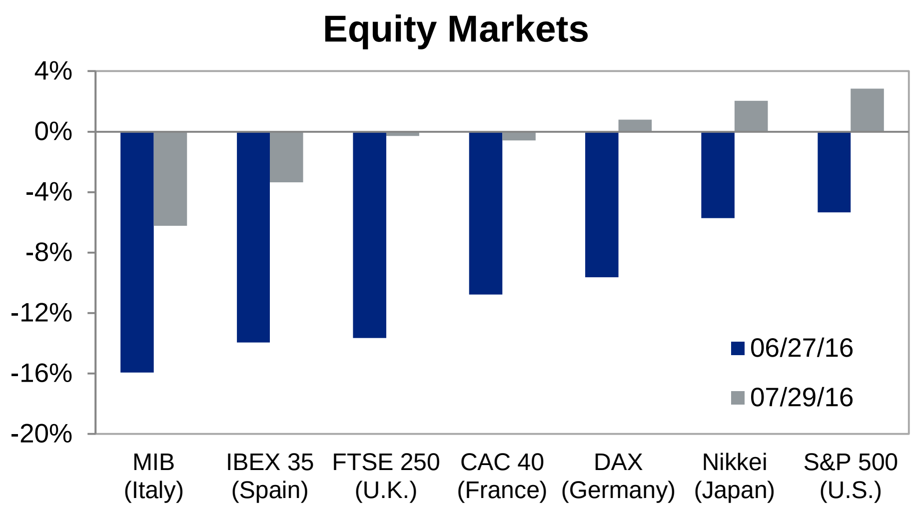


"Bonds are a great investment. I sold a vintage 007 doll on eBay for $900!"

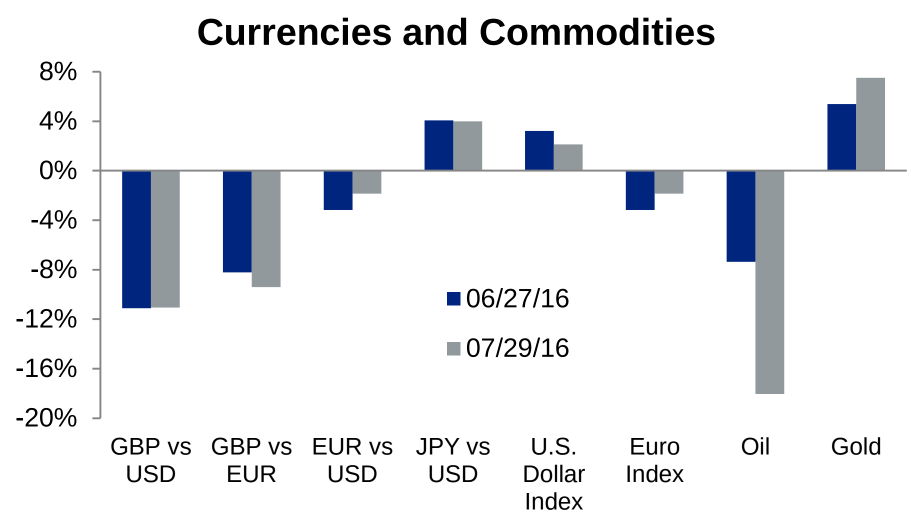
Current Market Themes

- The aftermath of Brexit is all but forgotten
- Equities rally worldwide, pushing S&P 500 to all-time highs
- Sovereign yield curves flatten further
- The Fed remains on hold while central banks worldwide ease
- The economy’s lackluster rate of growth
- Labor market rebounds after a weak spring
- Inflation remains subdued
- The housing market’s hot summer

The Brexit Effect



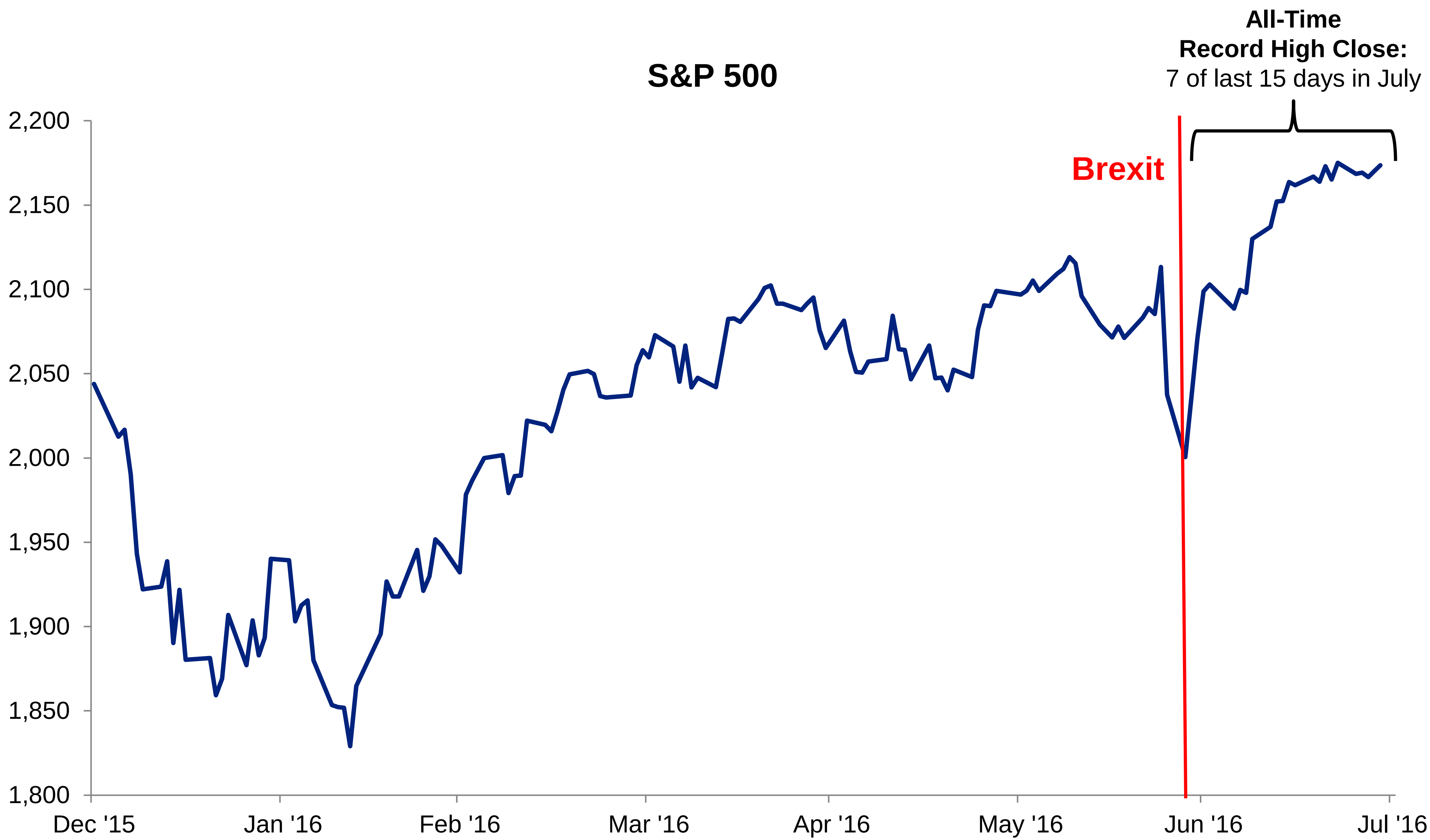
10-Year Government Bond Yields						
Country	U.K.	U.S.	Germany	France	Switz.	Japan
Yield (07/29/16)	0.69%	1.45%	-0.12%	0.10%	-0.56%	-0.19%
Change	-0.69%	-0.29%	-0.21%	-0.35%	-0.19%	-0.05%



Credit Indicators	June 23 Before Brexit	June 27 After Brexit	July 29 Month End
CDX Investment Grade	76 bps	92 bps	72 bps
CDX High Yield	422 bps	479 bps	395 bps
Euro Investment Grade	75 bps	99 bps	68 bps
Euro High Yield	320 bps	417 bps	317 bps
U.S. CDS	25 bps	29 bps	23 bps
German CDS	19 bps	24 bps	17 bps
U.K. CDS	36 bps	47 bps	36 bps

Source: Bloomberg, as of 07/29/16. Change is from 06/23/16.

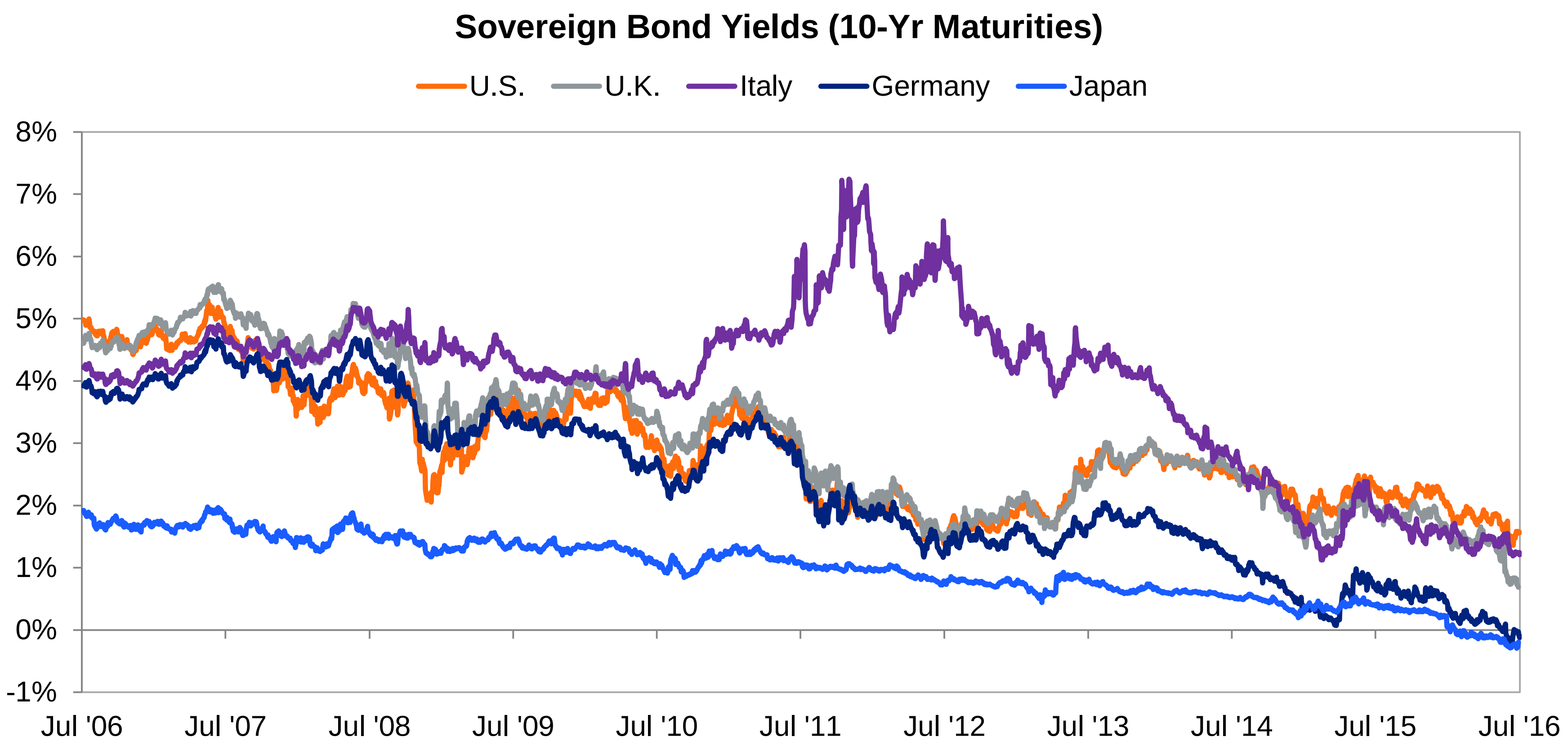
U.S. Stocks Soar to All-Time Highs



Source: Bloomberg, as of 07/29/16.

Record Low Bond Yields

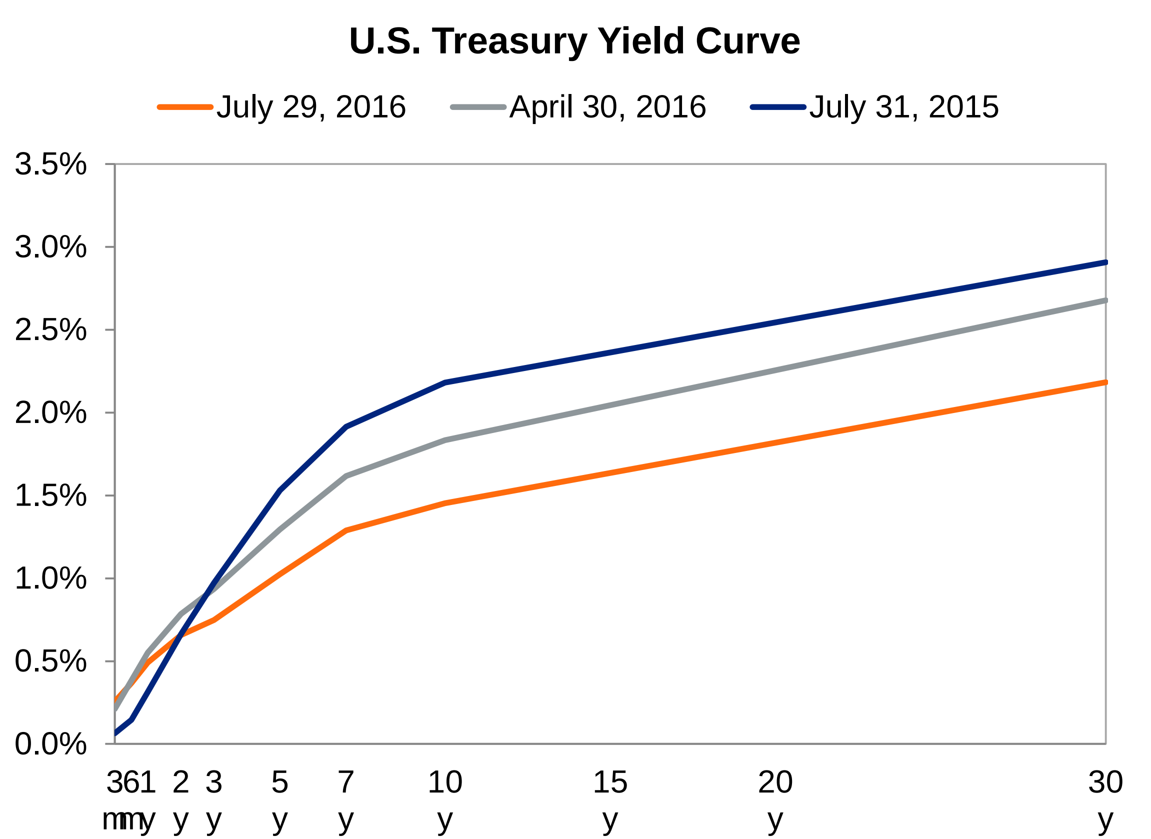
- Global yields have fallen over the last decade in the midst of aggressive monetary policy undertaken by major central banks. Global growth concerns led to an additional decrease in yields in the last 12 months.
- The Bank of Japan introduced negative interest rates for the first time in late January 2016 while the ECB expanded its stimulus program in March. The Brexit vote led to a steep decline in UK's sovereign bond yields in late June.



Source: Bloomberg, as of 07/29/2016.

U.S. Treasury Curve Flattening

- Longer maturity treasury yields have fallen substantially this year over concerns about global growth and global demand given negative yields abroad.
- On the shorter end of the curve, rates rose modestly during July, paring June declines, as Brexit fears abated.

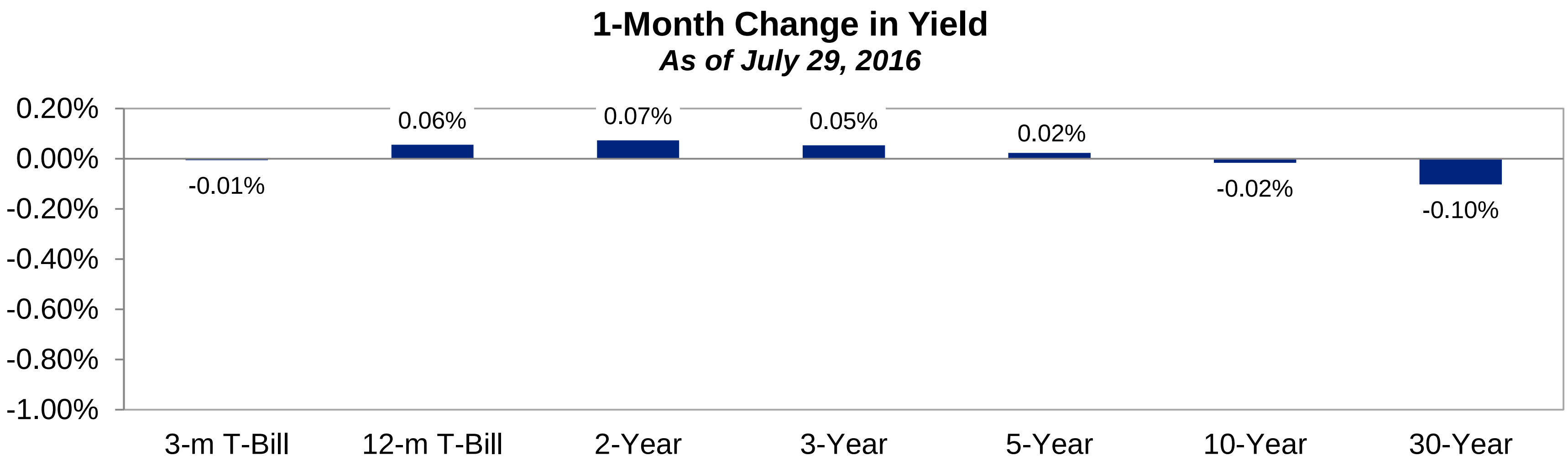


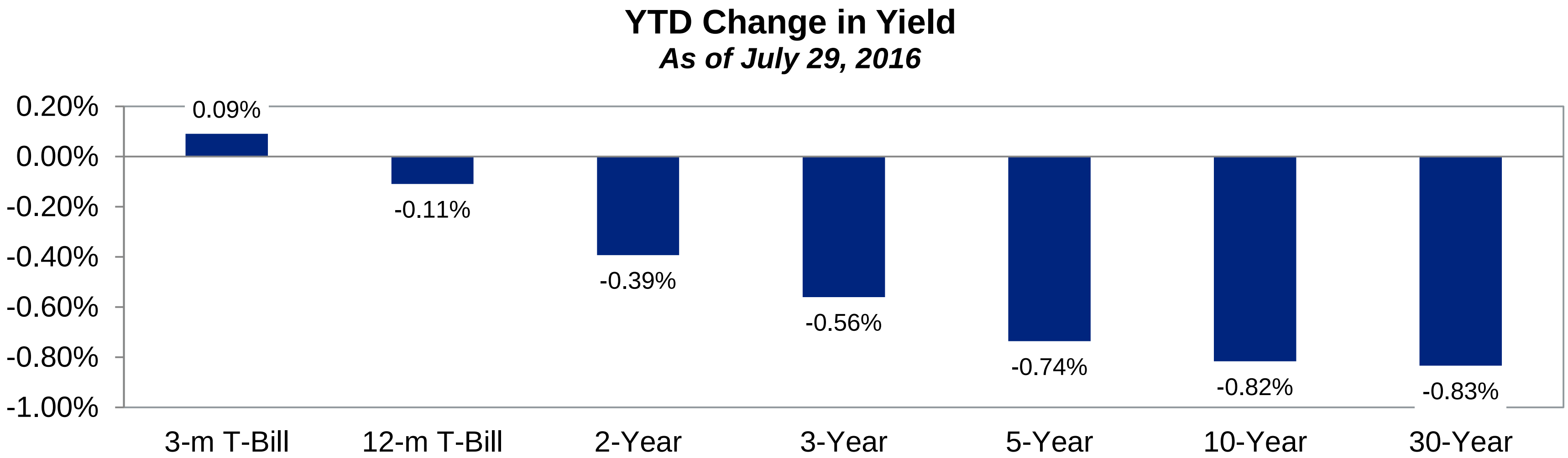
Source: Bloomberg.

Yield Curve History

	07/29/16	04/30/16	07/29/15
1-Mo.	**0.18**	**0.16**	**0.03**
3-Mo.	**0.26**	**0.21**	**0.06**
6-Mo.	**0.37**	**0.38**	**0.15**
1-Yr.	**0.49**	**0.55**	**0.31**
2-Yr.	**0.66**	**0.78**	**0.66**
3-Yr.	**0.75**	**0.94**	**0.97**
5-Yr.	**1.03**	**1.30**	**1.53**
7-Yr.	**1.29**	**1.62**	**1.92**
10-Yr.	**1.45**	**1.83**	**2.18**
30-Yr.	**2.18**	**2.68**	**2.91**

U.S. Treasury Yield Changes

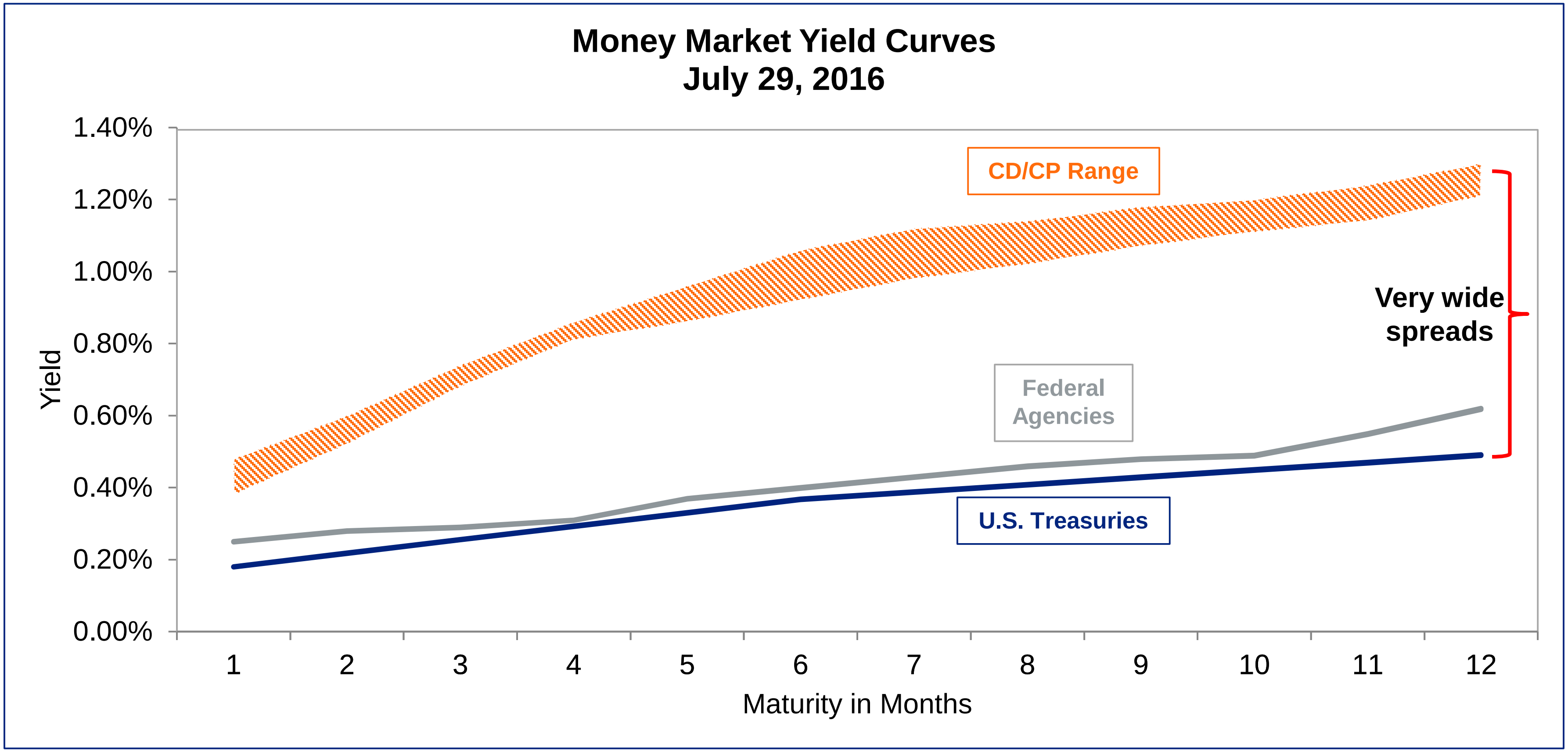




Source: Bloomberg.

Short Maturity Yield Environment

- Yields on commercial paper and negotiable bank CDs remain very attractive alternatives to Treasury Bills and short-term agencies. Spreads remain significantly wider beyond three months amid looming money market reform in October.
- CP/CD rates vary significantly by issuer, credit quality and structure.



Source: Bloomberg, PFMAM. Information on CD/CP ranges are estimates based on independently compiled data.

FOMC Statement Highlights

July

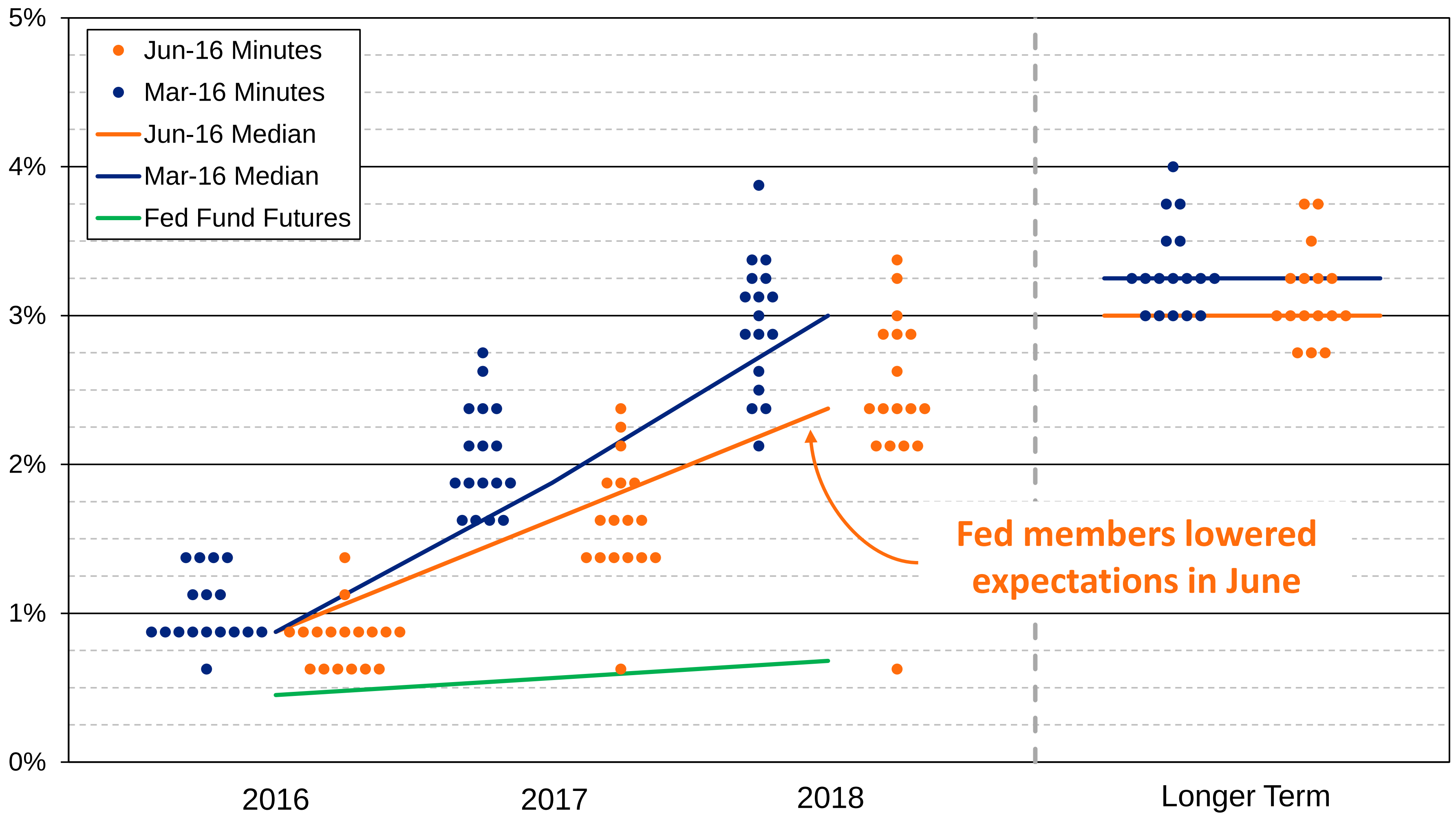
27

- June indicates that the labor market **strengthened** and that economic activity **has been expanding at a moderate** rate.
- Job gains **were strong in June** following weak growth in May. On balance, payrolls and other labor market indicators point to **some increase in labor utilization in recent months.**
- Inflation **continued to run below** the Committee's 2 percent longer-run objective, partly reflecting earlier declines in energy prices and decreasing prices of non-energy imports.

- **Near-term risks to the economic outlook have diminished.** The Committee continues to closely monitor inflation indicators and global economic and financial developments.
- Against this backdrop, **the Committee decided to maintain the target range for the federal funds rate at 0.25 – 0.50%**. The stance of monetary policy remains accommodative…
- In light of the current shortfall of inflation from 2%, the Committee will carefully monitor actual and expected progress toward its inflation goal. The Committee expects that economic conditions will evolve in a manner that will warrant **only gradual increases in the federal funds rate**.

Source: Federal Reserve.

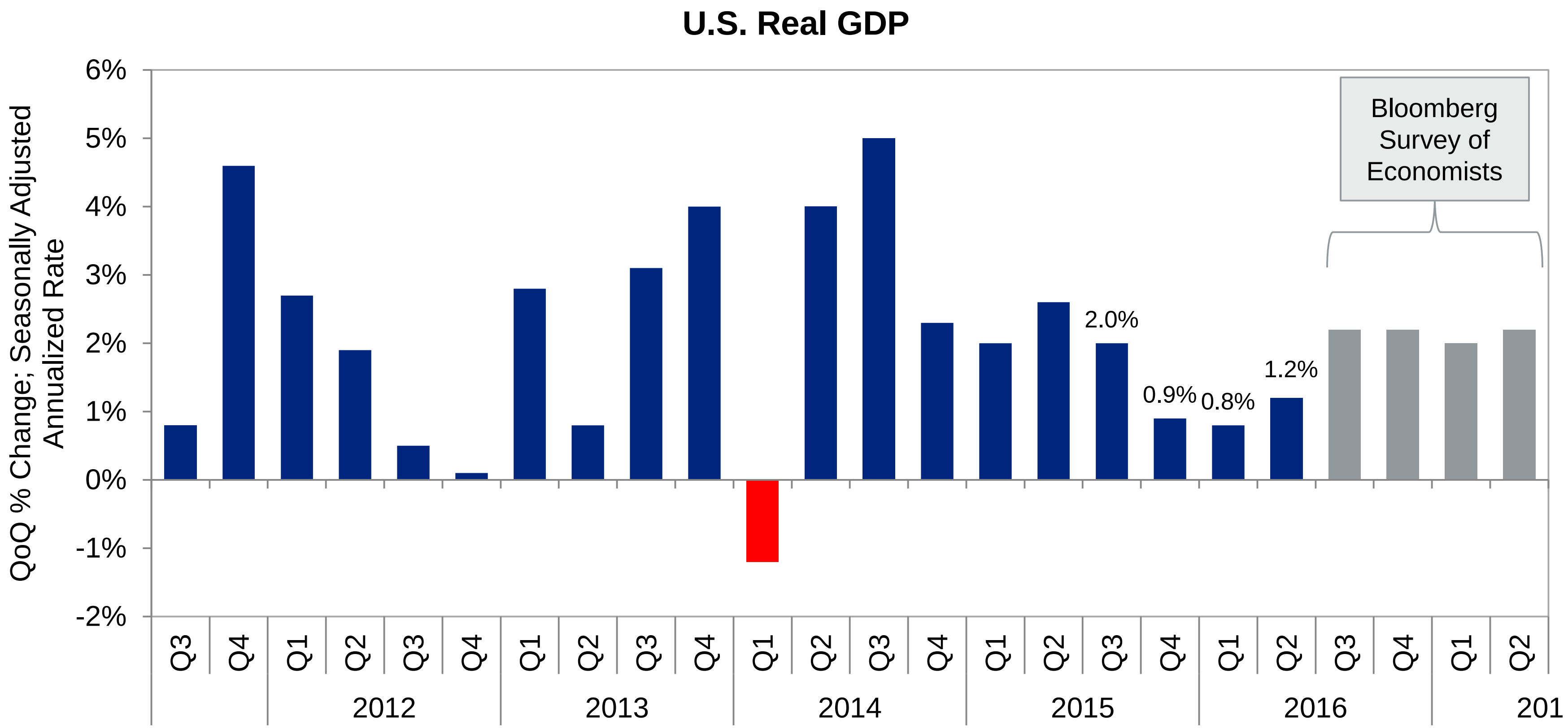
FOMC "Dot Plot"



Source: FOMC; Fed Funds Futures as of 07/29/2016. Individual dots represent each of the 17 FOMC members' judgment of the midpoint of the appropriate target range for the federal funds rate. One participant did not submit longer-run projections in the June 2016 meeting.

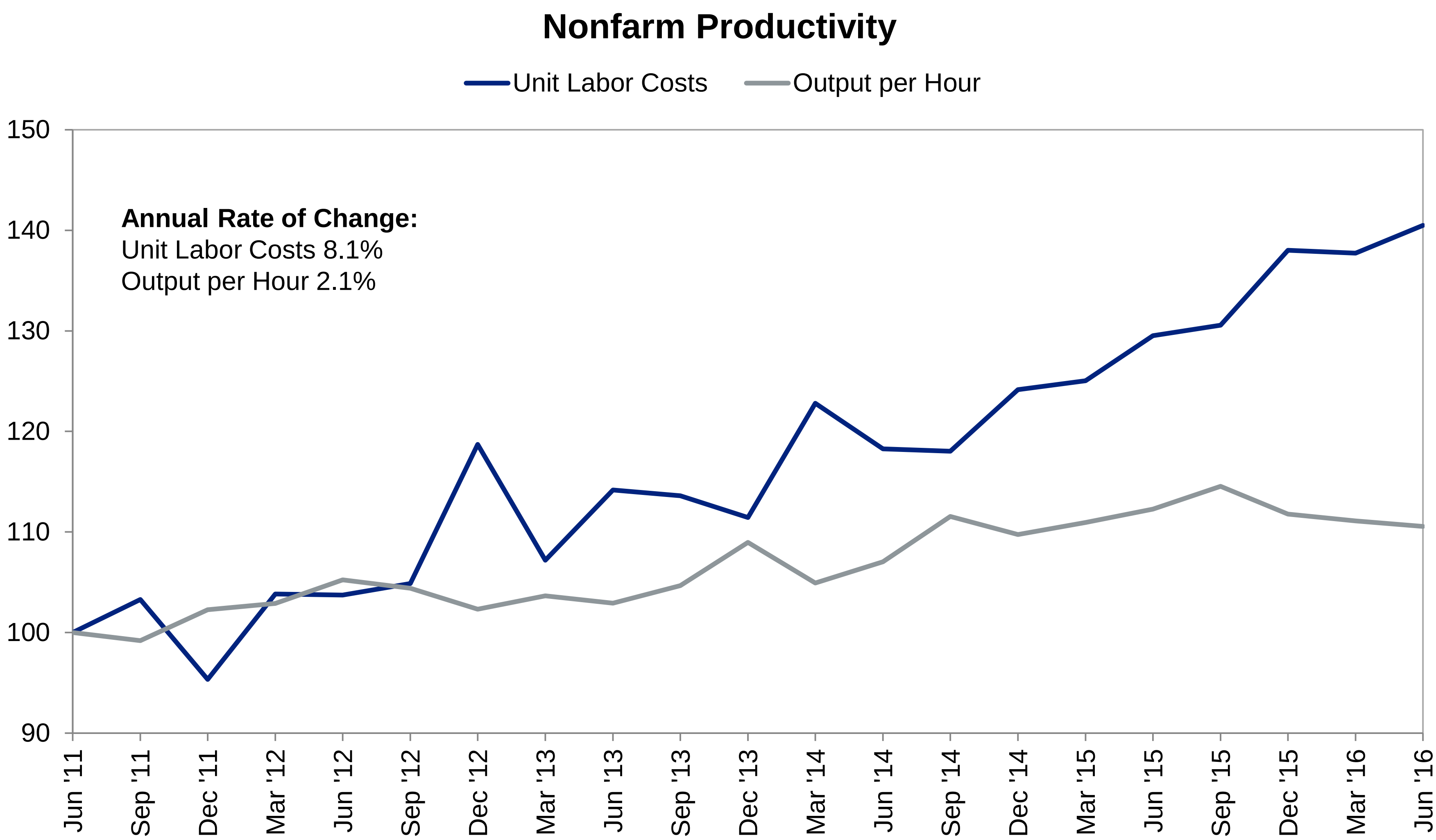
U.S. Economy on Moderate Growth Track

- U.S. GDP growth continued at a lackluster pace of 1.2% in the second quarter of 2016, according to the first estimate by the Bureau of Economic Analysis. The 1st quarter's rate of expansion was revised down to 0.8% from its final estimate of 1.1%.
- Second quarter GDP reflected positive contributions from personal consumption, contributing the most to GDP since the 4th quarter of 2014. Business investment detracted from GDP for the 3rd quarter in a row, the most since the 2nd quarter of 2009, amid a significant decline in inventories. Net exports and government consumption were also slight drag on growth.



Source: Bureau of Economic Analysis; Bloomberg survey results as of 08/03/2016.

Labor Costs Outpace Production

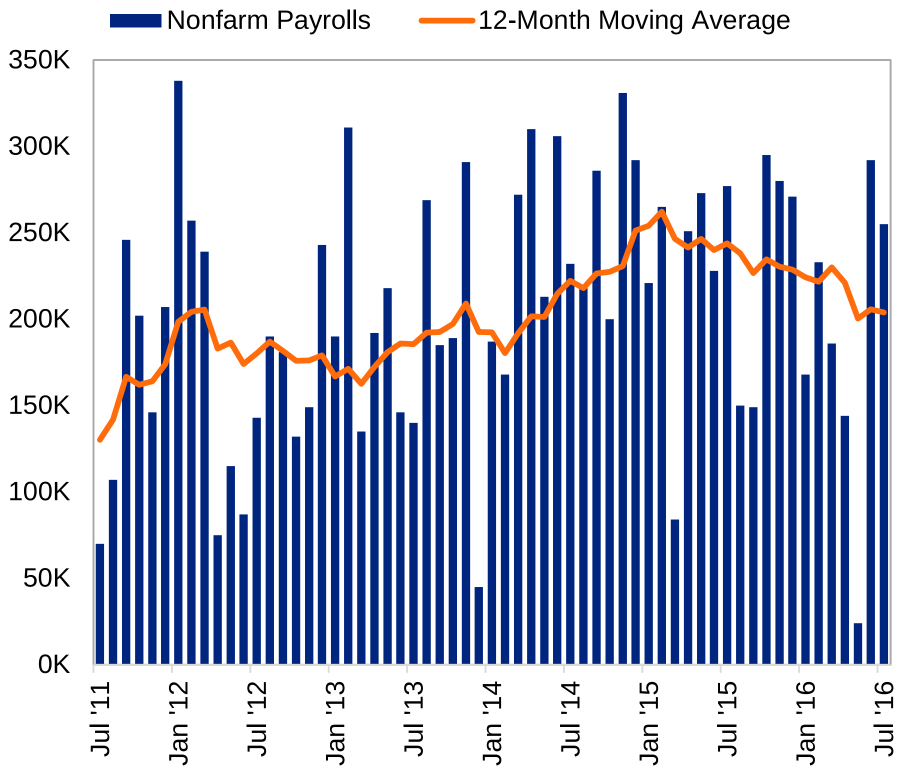


Source: Bureau of Labor Statistics, as of 07/29/2016. Both indices are normalized from 100, starting 06/30/2011.

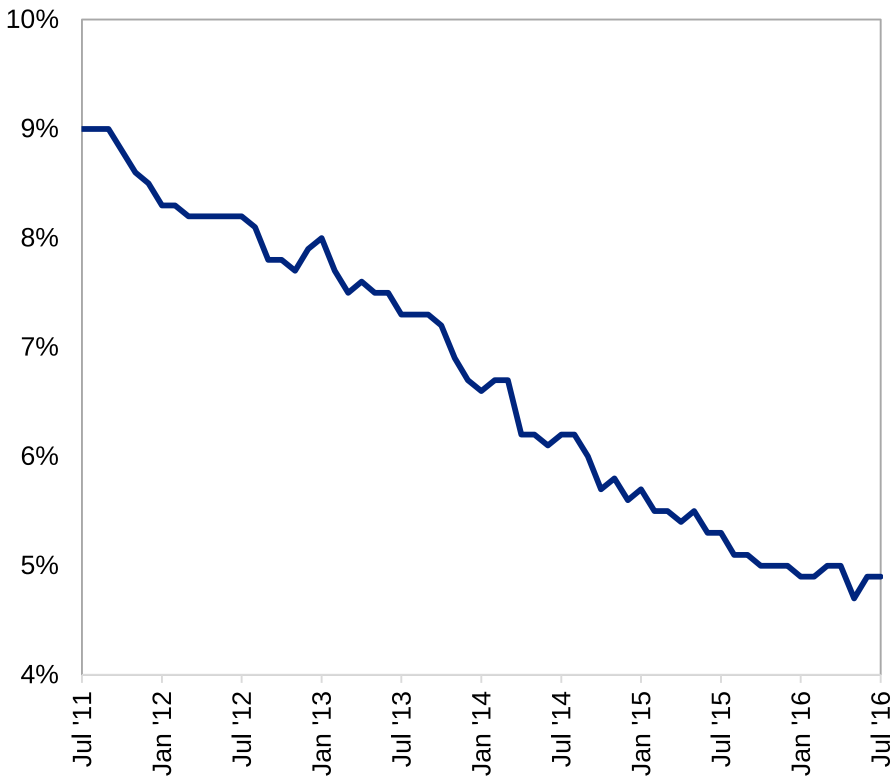
U.S. Labor Market Rebounds in June

- The U.S. Labor market added 255,000 jobs in July. Together with June's jobs, July marked the biggest 2-month increase since last year.
- The unemployment rate remained at 4.9%, as the additional jobs were met with an increase in the labor force participation rate.
- Average hourly earnings increased by 0.3% in July while rising 2.6% year-over-year.

Monthly Change in Nonfarm Payrolls

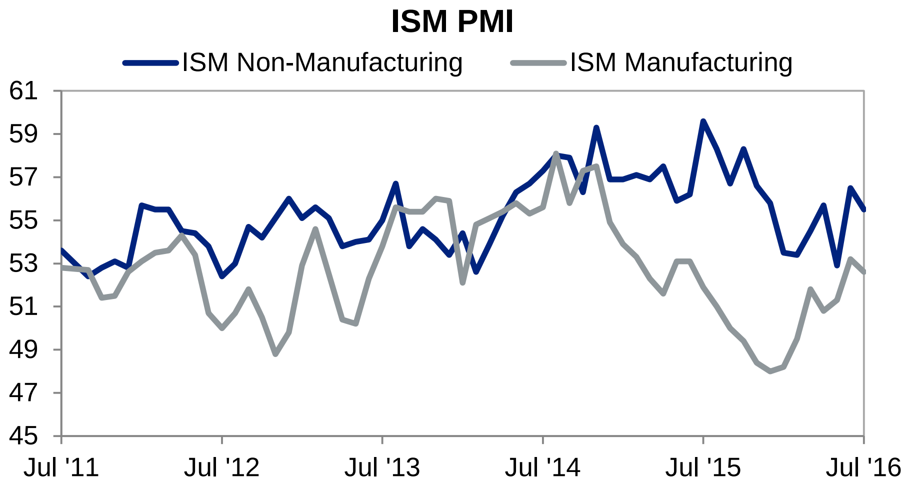


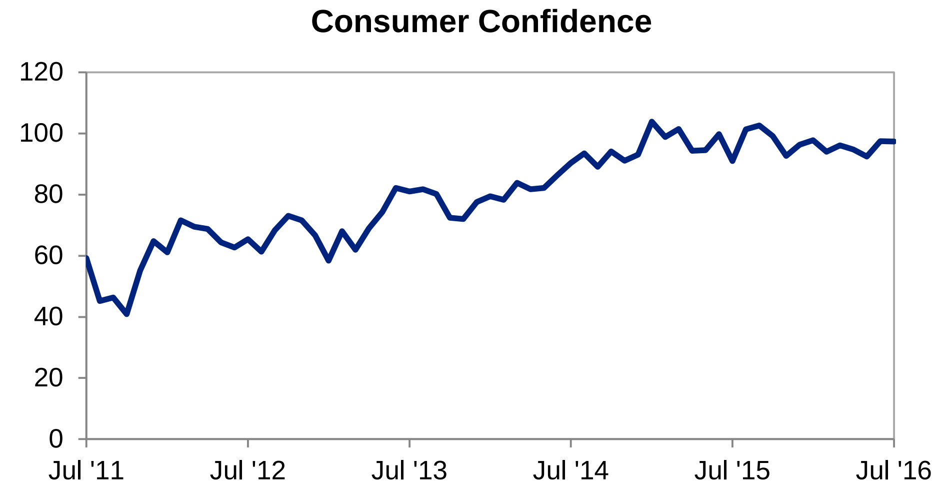
Unemployment Rate

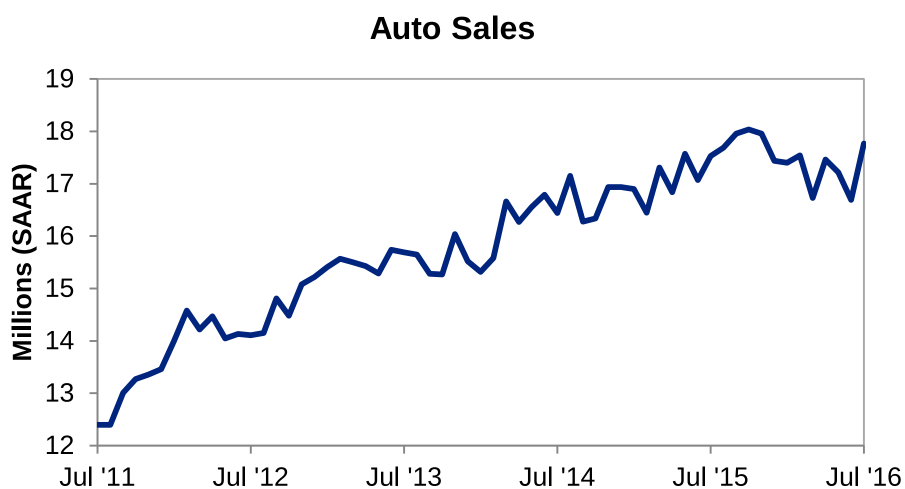


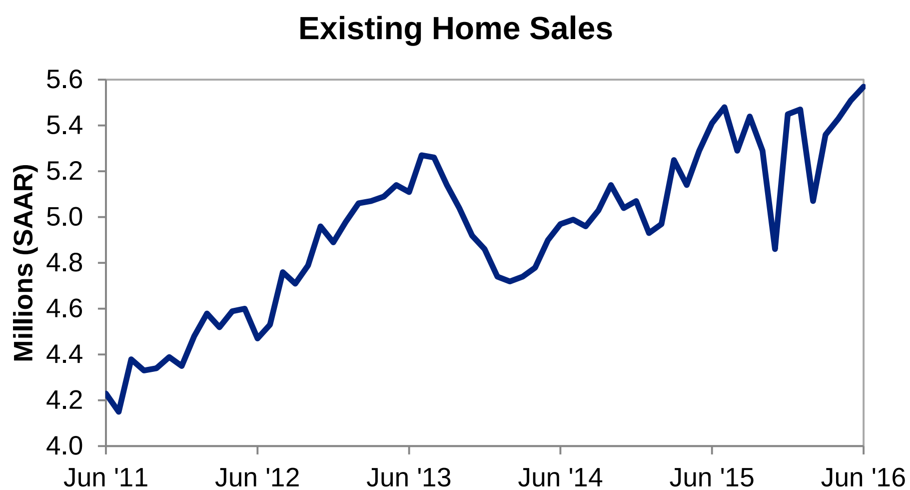
Source: Bureau of Labor Statistics, as of 08/05/2016.

Economic Backdrop









Source: Bloomberg. As of 07/29/2016. SAAR is the seasonally adjusted annualized rate.

Yield Environment

As of July 29, 2016

Maturity	Treasury	Federal Agency	AA Corporate	A Corporate	AAA Taxable Municipal
3-Month	0.26%	0.33%	0.60%	0.74%	-
6-Month	0.37%	0.45%	0.71%	1.03%	-
1-Year	0.49%	0.54%	0.81%	0.94%	0.61%
2-Year	0.66%	0.78%	1.00%	1.17%	0.85%
3-Year	0.75%	0.88%	1.19%	1.38%	1.06%
5-Year	1.03%	1.19%	1.58%	1.74%	1.41%
10-Year	1.45%	1.75%	2.36%	2.52%	2.17%

Source: Bloomberg BVAL yield curves for Treasury, Corporate and Municipal yields, TradeWeb for Federal Agency yields. 3 and 6 month corporate yields from commercial paper; A-1+ for AA and A-1 for A.

Fixed-Income Index Returns

July 31, 2016	Effective Duration	Yield	Periods Ended 07/31/2016					
			YTD	1 Month	3 Month	1 Year	3 Years	5 Years
1-3 Year Indices								
U.S. Treasury	1.88	0.67%	1.38%	(0.06%)	0.43%	1.20%	0.91%	0.75%
Agency	1.59	0.80%	1.25%	(0.03%)	0.36%	1.17%	0.98%	0.86%
Corp A-AAA	1.91	1.33%	2.09%	0.16%	0.70%	2.30%	1.71%	1.86%
MBS (0 to 3 Years)	2.07	1.28%	1.28%	0.13%	0.66%	2.55%	1.75%	1.46%
Municipals	1.86	0.66%	1.18%	0.20%	0.49%	1.44%	1.08%	1.06%
1-5 Year Indices								
U.S. Treasury	2.72	0.78%	2.35%	(0.04%)	0.77%	2.19%	1.56%	1.26%
Agency	2.07	0.87%	1.83%	(0.02%)	0.55%	1.77%	1.49%	1.25%
Corp A-AAA	2.75	1.53%	3.19%	0.32%	1.11%	3.43%	2.63%	2.59%
MBS (0 to 5 Years)	3.20	1.75%	2.68%	0.17%	1.00%	3.22%	2.96%	2.42%
Municipals	2.48	0.79%	1.65%	0.25%	0.65%	2.15%	1.68%	1.59%
Master Indices (Maturities 1 Year and Greater)								
U.S. Treasury	6.67	1.15%	6.11%	0.42%	2.80%	6.13%	4.04%	3.37%
Agency	3.84	1.16%	3.79%	0.26%	1.58%	3.75%	2.93%	2.37%
Corp A-AAA	7.19	2.35%	7.97%	1.22%	3.19%	8.41%	5.55%	4.97%
MBS (0 to 30 Years)	3.35	1.84%	3.32%	0.22%	1.17%	3.94%	3.82%	2.84%
Municipals	6.76	1.68%	4.35%	(0.05%)	1.89%	7.10%	6.21%	5.33%

Source: BofA Merrill Lynch Indices. Returns greater than on year are annualized.

Sector Preferences – August 2016

Sector		PFMAM Investment Preference
MMF/LGIP		
Commercial Paper/CDs		
Treasury:	T-Bill	
	T-Note	
Agency:	<= 3 years	
	> 3 Years	
Corporates:	Financials	
	Industrials	
Municipal Bonds		
Asset-Backed		
Mortgage Backed		

Sector Considerations

CP/CDs
CP/CD rates beyond 3 months continue to slowly march higher as upcoming money market reform has diminished demand for maturities beyond the October 14th implementation date of reform. This dynamic has resulted in very attractive yields for investors without near-term liquidity needs.

Treasuries
New issuance shrinking as federal deficit improves; 1-5 year maturities offer value near the upper end of recent trading ranges, but the yield curve continues to flatten, reducing value in longer maturities.

Federal Agencies
Spreads have narrowed modestly over the month, but remain close to their YTD wides in the front end. Along the curve, we find the front end, primarily 2 and 3 year maturity securities offer the most value, as continued supply has kept spreads elevated. The spread curve remains relatively flat out in longer maturity securities.

Corporates
Accommodative central bank policies continue to support corporate spreads. We favor banks as spreads are attractive and fundamentally sound. Industrial spreads defy aggressive balance sheet action and M&A risk. Issuer selection is critical.

Municipals
Taxables offer value compared to other spread products but remain deal specific with limited availability of inventory.

ABS
Economic outlook supports incremental value in AAA prime fixed-rate auto loan, equipment and credit card tranches. Collateral performance remains relatively strong and within rating agency expectations. Swap spread widening has increased relative value in the two to three year part of the curve. The new issue market offers the most attractive avenue to add.

MBS
Given the recent tightening on both an OAS and nominal basis, the sector is now trading at fair valuation levels. Over the near-term, performance should remain highly market directional – outperforms with a Treasury market selloff, underperforms with a rally.

Source: PFMAM., as of 07/29/2016. This material is for general information purposes only and is not intended to provide specific advice or a specific recommendation. Analysis is subject to changes in the market environment, and may vary based on the client's particular circumstances.

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