BOND MARKET WATCH
MARCH 31, 2013

As we approach the end of April, looking back at the first quarter of 2013 points to a macroeconomic environment that is sluggish, yet growing. After a very strong start to the year in equities, and corresponding tightening in credit spreads, economic headline numbers started to weaken as we ended the first quarter. The S&P500 gained 10.03% in 1Q 2013 as investors largely discounted the impact of the sequester despite its potentially negative effects on near-term GDP growth. Recently we have started to see some of the sequester's effects, with a weaker government sector compared with the performance of the private sector as of late. Credit has continued to tighten alongside rising equity markets with the Fed still expanding its balance sheet by purchasing $85 billion dollars of Agency MBS and Treasuries a month. This has been followed by an unprecedented commitment by the Bank of Japan to expand their balance sheet with an even larger monthly asset purchase program when compared with Japanese GDP. Balance sheet expansion, both domestic and overseas, along with zero overnight interest rates has led investors to buy higher yielding sectors as risk back-ups have been met with buying in CMBS, financial credit, and high yield. Volatility has also remained relatively muted as The VIX made new trailing 12-month lows at 11.41 in mid-March, and ended the month of March at 12.70. Treasuries remained range-bound for a large portion of 2012, but after yields rose for most of the first quarter, the 10-year was bought heavily on a slight backup in risk appetite. The Ryan Labs 10-year Treasury Index finished 1Q 2013 yielding 1.86% after reaching as high as 2.06% during the quarter. Yields were up marginally after ending 2012 at 1.75%. As we write this in mid April, the 10-year yield has fallen to 1.70%. The trailing 12-month peak for the 10-year Treasury yield was 2.30% in the beginning of April 2012, while its trailing 12-month low of 1.38% came at the end of July 2012. Throughout most of the second half of 2012, the 10-year remained in a range between the mid 1.5% area and 1.9%, and after briefly breaking out above 2%, we have fallen back into this general range here in April 2013. After we saw +236k net jobs added in February in the Non-Farm Payroll report compared with expectations of +165K, March's employment report was much weaker than expected with a Non Farm Payroll expansion of only +88k jobs compared with expectations of +190K . The Ryan Labs 30-year Treasury Index yielded 2.90% at the end of 2011, finished 2012 at 2.94%, and ended March 2013 at 3.12%.

Large cap U.S. corporations have done a good job of managing through a low-growth cycle. By and large, balance sheets remain strong and management has focused on continuing to improve margins despite weak aggregate demand. Balance sheets have been helped tremendously by the record low cost of capital afforded by low rates and low spreads, as well as conservative cash management throughout much of this weak recovery. Margins have been supported largely by strong cost management and high productivity that has only recently waned. At the same time, the cost of a low total employment number and lack of upward pressure on wages is relatively weak consumer demand pressuring top-line performance. That theme appears to be continuing during the midst of 1Q 2013 earnings season. With 1Q 2013 earnings in the midst of coming out as we write this in April, earnings continue to be healthy as firms focus on profitability but growth continues to weaken. Over 70% of companies that have reported thus far in the S&P500 have beat earnings estimates. Yet, future top-line growth outlooks by management have largely been week and a over 50% of companies have missed sales estimates. Persistently weak GDP growth, recent commodity price declines, and weaker-than-expected industrial production and growth out of China continue to make the macro environment challenging. Additionally, the U.S. government component of GDP's weakness has been an example of the sequester's negative near-term impact. The Eurozone remains in a troubling economic situation with unemployment in Spain recently posting 30-year highs above 27%. Within high-grade fixed income, after credit spreads in the Barclays Aggregate Index ended 2011 at 217 bps, and ended 2012 at 133 bps, spreads continued to tighten in the first quarter of 2013, ending March at 130 bps . After ending December 2011 at 337 bps and tightening to 155 bps off Treasuries to end 2012, financials tightened to 142 bps. Industrials closed out the year at 133 bps, and ended the quarter slightly wider at 137 bps.

Following a strong 2012, ABS and CMBS have had a good 1Q 2013 although there have been pockets of mediocre performance. Most of the positive technicals in ABS and CMBS have remained a strength, as comparative relative value remains in place despite much of comparable credit assets trading at or near trailing 2 year tights. Fundamentals in CMBS have been in good shape, with rising commercial real estate prices and declining cap rates. In ABS, many consumer sub sectors have performed well fundamentally such as auto ABS. CMBS was up 19 bps versus duration-neutral Treasuries for the month of March but underperformed Treasuries by 3 bps for the first quarter. CMBS outperformed Treasuries by 841 bps for 2012. Agency MBS underperformed duration neutral Treasuries by 14 bps for the first quarter of 2013 after outperforming by 91 bps for 2012. U.S. core fixed income has returned -0.12% for the first quarter of 2013.

RYAN LABS
ASSET MANAGEMENT

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Yield and Total Returns

Ryan Labs Indexes	YTW	QTD	YTD	12M[1]	Ryan Labs Indexes	YTW	QTD	YTD	12M[1]
RL 2 Year Indexes					**RL 10 Year Indexes**				
TIPS	-1.99	0.53	0.53	0.93	TIPS	-0.51	-1.00	-1.00	7.78
Treasury	0.24	0.06	0.06	0.44	Treasury	1.86	-0.62	-0.62	5.96
Agency	0.01	0.03	0.03	0.41	Agency	0.94	1.54	1.54	5.58
AAA Corporate	0.46	0.39	0.39	1.88	AAA Corporate	2.53	1.17	1.17	6.91
AA Corporate	0.70	0.49	0.49	2.84	AA Corporate	2.81	0.29	0.29	7.97
A Corporate	1.08	0.70	0.70	4.50	A Corporate	3.04	0.42	0.42	10.46
BBB Corporate	1.57	0.98	0.98	5.69	BBB Corporate	3.81	1.06	1.06	13.10
Financials	1.30	0.89	0.89	5.46	Financials	3.41	1.11	1.11	14.92
Industrials	0.98	0.63	0.63	3.72	Industrials	3.28	0.42	0.42	9.00
Utilities	0.93	0.67	0.67	3.50	Utilities	3.15	0.56	0.56	8.85
RL 5 Year Indexes					**RL 30 Year Indexes**				
TIPS	-1.59	0.38	0.38	3.35	TIPS	0.48	-4.92	-4.92	8.73
Treasury	0.75	0.02	0.02	2.75	Treasury	3.12	-3.64	-3.64	7.12
Agency	0.95	-1.13	-1.13	1.05	Agency	3.06	-0.95	-0.95	8.09
AAA Corporate	1.33	0.99	0.99	5.29	AAA Corporate	3.92	-1.33	-1.33	9.62
AA Corporate	1.63	0.63	0.63	5.99	AA Corporate	4.28	0.13	0.13	11.90
A Corporate	1.93	0.88	0.88	9.03	A Corporate	4.43	-1.31	-1.31	11.36
BBB Corporate	2.54	0.96	0.96	8.21	BBB Corporate	4.98	-0.57	-0.57	13.00
Financials	2.25	1.39	1.39	11.21	Financials	4.72	0.92	0.92	18.25
Industrials	1.97	0.76	0.76	6.87	Industrials	4.59	-1.56	-1.56	10.36
Utilities	1.96	0.99	0.99	7.82	Utilities	4.39	-0.65	-0.65	9.85
Barclays Indexes					**Barclays Indexes**				
BC Aggregate	1.86	-0.12	-0.12	3.77	BC ABS	0.96	-0.02	-0.02	2.85
BC CMBS	1.83	0.13	0.13	6.14	BC MBS	2.57	-0.05	-0.05	1.98

The material presented and calculated here is based on information considered reliable. Ryan Labs does not represent that it is accurate or complete.

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Ryan Labs TIPS	Yield To Worst (%)	MDuration (Years)	Year To Date Returns (%)	Last 12 Month Returns (%)
2 Year TIPS	-1.99	2.60	0.53	0.93
5 Year TIPS	-1.59	5.21	0.38	3.35
10 Year TIPS	-0.51	10.52	-1.00	7.78
30 Year TIPS	0.48	22.01	-4.92	8.73
RL TIPS Index	-1.01	8.52	-0.72	5.32

Market Implied Breakeven Inflation Expectation	Yield To Worst (%)		Inflation (%)	
	Nominals [1]	TIPS	BEI [2]	Current [3]
CPI (1 Month Lag)				2.0
2 Year	0.24	-1.99	2.23	
5 Year	0.75	-1.59	2.35	
10 Year	1.86	-0.51	2.37	
30 Year	3.12	0.48	2.63	

1) Nominals represent conventional U.S. Treasury Bonds and Notes.

2) BEI = Breakeven Inflation Rate (Nominal yields minus TIPS yields). Widening BEI indicates that TIPS are outperforming nominal bonds. When realized inflation is greater than implied inflation, TIPS also outperform.

3) Current Inflation = Bureau of Labor Statistics, Year over Year Consumer Price Index (non-seasonally adjusted, all items, 1 month lag)

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