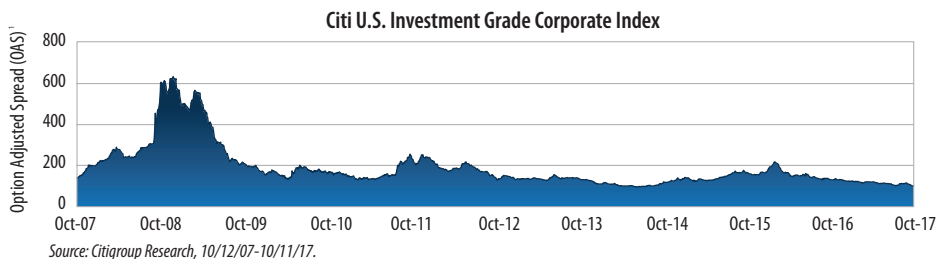


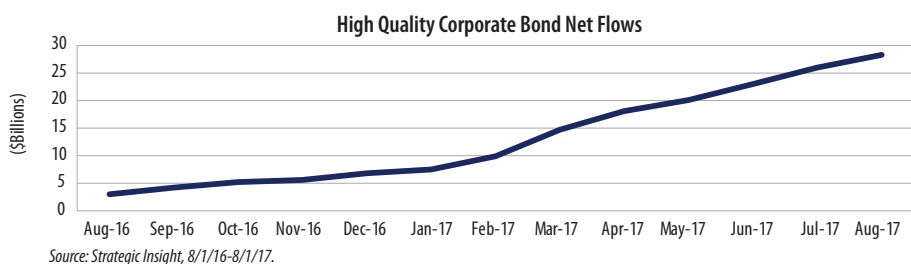
# Credit Check - October 2017

## Monthly Update from the FTA Investment Grade Team



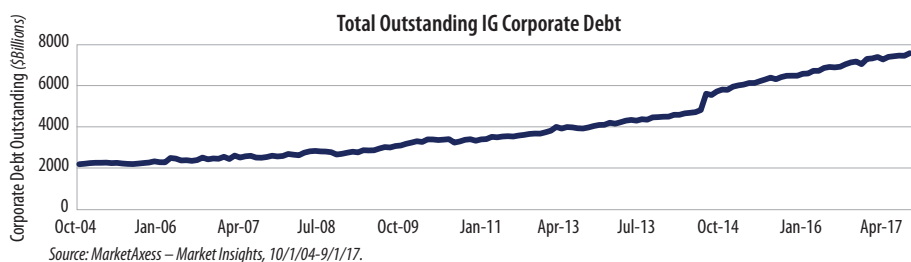
Investment Grade (IG) Corporate yield spreads to U.S. treasuries have remained in a tightening trend for 2017 helping to provide positive excess returns.

Although spreads appear fully valued, we expect spreads to tighten somewhat into the year-end due to strong corporate earnings which are improving credit metrics for IG companies.



Demand for IG credit has been robust in 2017 with record inflows into IG funds with total IG AUM sitting at a record \$3.4 trillion.

The steady pace of IG inflows is not showing signs of slowing down. Market technical factors (supply/demand) such as this, support our outlook on tighter spreads moving forward.



Years of accommodative central bank policy and low interest rates have encouraged IG-rated companies to borrow and issue record levels of new debt. Total outstanding IG corporate debt has grown over 3x's since the mid-2000's.

Rising levels of corporate debt has contributed to meaningful increases in balance sheet leverage. Returns on IG corporate bonds could be pressured if the pace of supply continues and corporate earnings are directed toward shareholder rewards rather than improving balance sheets.

<sup>1</sup>Option-adjusted spread is the spread relative to a risk-free interest rate, usually measured in basis points (bp), that equates the theoretical present value of a series of uncertain cash flows of an instrument to its current market price. OAS can be viewed as the compensation an investor receives for assuming a variety of risks (e.g. liquidity premium, default risk, model risk), net of the cost of any embedded options. A larger OAS implies a greater return for greater risks.

All charts are for illustrative purposes only and not indicative of any investment.

**Balance Sheet Leverage** - Total Debt/EBITDA (earnings before interest, taxes and depreciation).

**US Broad Investment-Grade Bond Index** - Tracks the performance of US Dollar-denominated bonds issued in the US investment-grade bond market. Introduced in 1985, the index includes US Treasury, government sponsored, collateralized, and corporate debt providing a reliable representation of the US investment-grade bond market.

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