The HY Wire

The emperor has no clothes

Bank of America Merrill Lynch

22 March 2016

High Yield Strategy
Global

Michael Contopoulos
HY Credit Strategist
MLPF&S
+1 646 855 6372
michael.contopoulos@baml.com

Michael John
HY Credit Strategist
MLPF&S
+1 646 855 6743
michael.john@baml.com

Neha Khoda
Credit Strategist
MLPF&S
+1 646 855 9656
neha.khoda@baml.com

Rachna Ramachandran
Quant Rel Value Strategist
MLPF&S
+1 646 855 7927
rachna.ramachandran@baml.com

Bad news is bad news, until it's good

The market reaction from last week's dovish FOMC statement took us by surprise. The prospect of lower rates for longer dominated investor sentiment in the 2nd half of last week, outweighing Chair Yellen's concerns over global growth and tighter financial conditions. We believe the underlying commentary provided by Chair Yellen shows the vulnerability for high yield issuers to longer-term growth trends. Couple the deteriorating fundamentals for high yield issuers with downgrades outpacing upgrades by a ratio of 3.5:1 and a worsening of global growth potential, and we believe the recent rally, though boosted by strong inflows and cash generation, will ultimately fade.

Conviction tested, but not shaken

As market participants we believe our job is not done well if every day we don't test our thesis and conviction, try to find information that may change our view, and adapt appropriately. And there has been no time where we have done that more since the weeks following February 11th. However, after digging into the macro and fundamental data, analyzing the technicals created by more easy central bank policy and breaking down our thesis as to why this is the end of the credit cycle and not some overblown year and a half selloff bound to snap back, we conclude that our bearish disposition for the remainder of the year remains just as well justified as late last year.

Flows

US HY recorded another impressive +$2.01bn (+1.0%) net inflow last week, their 5th consecutive time in the green. Over the last 4 weeks, US HY has gained a net $11.52bn from retail flows, the largest ever in a 4 week span for the asset class.

Issuance

DM high yield issuance has picked up from its slow start to the year with $2.3bn priced last week, bringing MTD and YTD totals to $7.1bn and $22.8bn, respectively. As we are currently 55% of the way through March and have seen $7.1bn priced thus far, at the current pace we would conclude the month with $12.9bn in new issuance, below the historical monthly average of $15.9bn.

Performance

Market performance was positive and broad-based last week as all asset classes finished in the green. US HY returned 1.24%, placing it in 4th place and bringing its YTD total to +2.99%. Within sectors, Energy (+4.08%) outperformed off the back of a 6.3% increase in oil prices, followed by Materials (+1.76%) and Commercial Services (+1.71%).

Recent BofA Merrill Lynch Global Research Reports

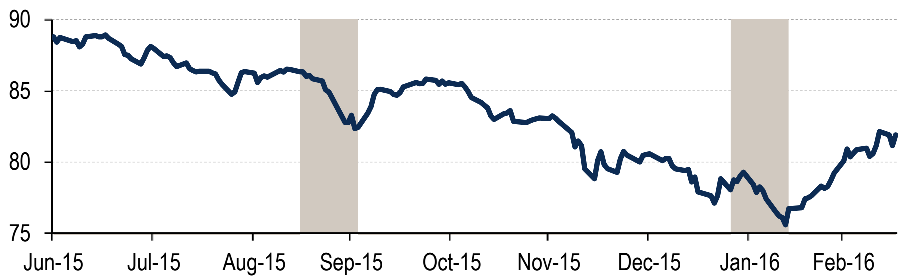
Title: Subtitle	Primary Author	Date Published
The High Yield Flow Report: Luck o' the inflows 17 March 2016	Michael Contopoulos	17 Mar 2016
The HY Note: Outbearing the bear 16 March 2016	Michael Contopoulos	16 Mar 2016
RV Brief: Spring Roll: CDX HY26 16 March 2016	Rachna Ramachandran	16 Mar 2016
The HY Note: Trade opportunities on the back of the ECB 11 March 2016	Michael Contopoulos	11 Mar 2016

The View From Above

Bad news is bad news, until it's suddenly good

The market reaction from last week's dovish FOMC statement took us by surprise. Due to risks stemming from global economic and financial developments, Chair Yellen kept the target range for the federal funds rate unchanged at ¼ to ½ percent. And although this outcome was largely expected by markets, the Fed also cited global growth concerns and subsequently reduced their growth and inflation forecasts for this year and next. Under normal conditions, the mentioning of global growth concerns by the Fed has been met with a market selloff as a negative economic outlook brings concerns of lower corporate earnings. In fact, the last two times the Fed indicated global risks to the domestic economy, while holding rates steady, high yield declined 4.5% and 4% over the next 13 days (Chart 1).

Chart 1: HYG declined 4% over 13 days the last 2 times the Fed indicated global economic risks



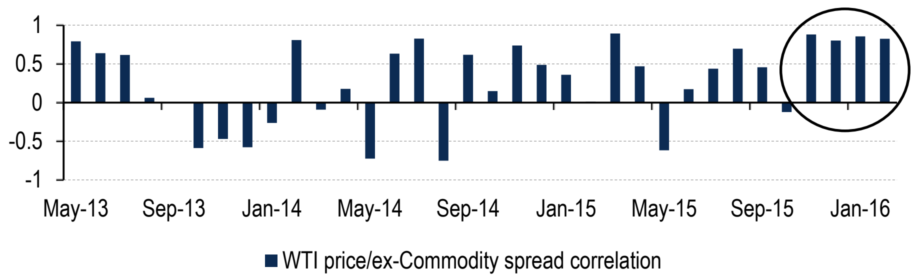
Source: BofA Merrill Lynch Global Research, Bloomberg

However, the prospect of lower rates for longer dominated investor sentiment in the 2nd half of the week, causing high yield to return 1.23% in just 3 days. While in the short term lower rates spells risk on and may be good for high yield, we believe the underlying commentary provided by Chair Yellen shows the vulnerability for high yield issuers to longer-term growth trends. Tighter financial conditions, slower global growth, and a strong dollar will all negatively impact future earnings from high yield issuers, in our opinion. And with ex-Commodities YoY EBITDA growth running negative in 3 out of the last 5 quarters (the worst in a non-recessionary period since 2000), we question how much further balance sheets can deteriorate before investors question the overall health of the high yield market. And as we discuss below, when looking at measures other than EBITDA, the fundamental picture becomes even less compelling for the asset class.

We also believe it is telling that bank stocks moved significantly lower after the rate decision. Though the price action in banks makes sense - a lower for longer rate environment reduces these companies' net interest margin – typically the moves in bank equity and high yield spreads are very well correlated (-48%). In our view the challenging bank environment could be a canary in the coal mine for high yield. As financial volatility increases, bank earnings decline, and unease about the global economy heightens, banks pull back on risk and lending and the ability for corporates to access funding in times of need is compromised. Note the latest Fed survey on lending standards as a prime example of declining risk tolerance for loan officers.

Ultimately, we believe markets are currently responding to a major influx in cash and ignoring the fundamental backdrop for high yield- and this could continue for some time, likely until a negative catalyst takes the market lower. Case in point, in the past 4 months non-commodity spreads have been 85% correlated with crude oil prices (Chart 2). Such a high correlation suggests to us that investors have taken their eye off the ball with respect to non-commodity balance sheet health- something that is likely to lead to a surprise increase in defaults and negative price action later this year.

Chart 2: ex-Commodity HY spreads and oil prices have become increasingly correlated



Source: BofA Merrill Lynch Global Research, Bloomberg
Correlations multiplied by -1

To this end, we wonder how long asset allocators will continue to focus too intently on transitory risk-on signals while ignoring the weak macro credit environment. Couple the deteriorating fundamentals for high yield issuers with downgrades outpacing upgrades by a ratio of 3.5:1 and a worsening of global growth potential, and we believe the recent rally, though boosted by strong inflows and cash generation, will ultimately fade.

Weekly Recap

US HY tightened 10bps last week to deliver a 1.02% WoW return. Ex-Energy & Materials, high yield actually widened 1bp last week as a continued rally in commodity prices caused the two sectors to outperform the broader market. Retail funds continued to pour money into high yield with a $2.1bn (+1.0%) net inflow last week, the 5th consecutive weekly inflow. High yield issuance has picked up modestly from its extended drought to start the year, though remains below historical averages with $2.3bn priced last week and $7.1bn month-to-date.

Table 1: Spreads, yields, and returns

Index	OAS	1W-Chg	1M-Chg	YTW	WoW Return	YTD Return
US HY	684	-10	-151	8.29	1.02%	3.35%
ex-Energy	602	-3	-118	7.46	0.60%	3.28%
ex-Materials	667	-8	-145	8.12	0.98%	2.97%
ex-E&M	573	1	-110	7.18	0.50%	2.82%

Source: BofA Merrill Lynch Global Research

Conviction tested, but not shaken

On November 24th, 2015 the opening paragraph of our Year Ahead report read as follows:

One year ago we wrote that 2015 would mark an inflection point for high yield; that there was a paradigm shift in the making that would alter the way high yield traded. This view led us to a bearish disposition for the year, one that we continue to maintain heading into 2016. In fact, as we re-read last year's outlook, much of the same themes remain. Just like our position in late 2014 we make the case that Q1 next year will be seasonally strong, particularly with el niño creating a warmer weather pattern that will likely help the US economy. Coupled with higher than normal cash balances and a market that has sold off meaningfully in the back half of this year, we envision a scenario where accounts look to put money to work as they feel re-assured by seemingly underlying fundamental strength and optically wide spreads. To this point, we believe we could see high yield tighten beginning with the New Year, as the hope for earnings growth and the ability for leveraged credit to grow into its capital structure buoys demand for the product. We would not advocate buying but would take the opportunity to sell positions in crowded BB paper, accumulating dry powder for a better entry point later.

Although it took nearly 11 weeks to play out, our thoughts for Q1 now seem to be prescient, as the market is tighter on the year for the first time (1bp as of March 16th). As market participants we believe our job is not done well if every day we don't test our thesis and conviction, try to find information that may change our view, and adapt appropriately. And there has been no time where we have done that more since the weeks following February 11th.

However, after digging into the macro and fundamental data, analyzing the technicals created by more easy central bank policy and breaking down our thesis as to why this is the end of the credit cycle and not some overblown year and a half selloff bound to snap back, we conclude that our bearish disposition for the remainder of the year remains just as well justified as late last year. In fact, although the rally we have recently experienced has been significant, at its basics the reasons for it are exactly what we expected when we wrote our 2016 outlook.

Bolstering our view that investors should not be lured into the temptation of throwing caution to the wind is that from our perspective, there still seems to be very heavy headwinds blowing directly into the path of the global and domestic economies. In fact, though the manufacturing and production portion of the economy appears to have bottomed out, the consumer now looks to be experiencing unexpected - if only modest so far - weakness. And as capital markets continue to remain challenging for the lowest quality issuers, we are concerned of the potential pitfalls of a tightening credit market in the context of a world where revenue growth and share prices were boosted by easy monetary policy and cheap debt. Although our economists wrote last week that they are not seeing signs of economic deterioration through the credit channel, we still worry that an elongated period of tight credit markets could ultimately weigh on hiring over the course of 2016 and 2017. And although it seems that for the time being investors are willing to overlook some signals suggesting a weaker consumer, we believe eventually renewed concerns of a global and US slowdown will overtake any reach for yield activity. Whether the concerns are justified or not is likely to define the shape of the cycle (slow and exaggerated, as the last 18 months have been, or shorter and steeper, as in 2009) but not whether the cycle has turned.

When fear turns to greed

Our economists believed in the beginning of the year that recession concerns were overdone. And although we are more bearish than they are on the longer term prospects of the economy, we agreed. The market clearly got ahead of itself in thinking we were currently in a recession or headed toward one within the next few months. However, we stress, it doesn't take a recession to have bad markets (4.95% yields to 10% yields in 20 months can attest to that) and the study of recession probabilities should only be viewed in determining the shape of the cycle, not whether the cycle has turned or not. In other words, a recessionary environment is likely to bring a peak default rate while a non-recessionary environment is likely to bring exactly what we have experienced over the last year and a half: a rolling blackout. Not exactly a time period most credit investors will look back fondly upon and very reminiscent to 1998 – 2002.

Having said the above, we think it's necessary to break down the economic data; not only to show that a) our economists were correct, but b) to show that markets have reacted just as irrationally on the way up as they did on the way down.

What to make of GDP

As we entered the year, Q4 GDP growth was struggling at just 0.6%, as the manufacturing sector continued to languish and a strong dollar weighed on the trade deficit. However, as January turned to February a surprise upward GDP revision to 1.0% gave comfort to many investors that perhaps the macro data wasn't as bad as initially thought. Let us consider the revisions for a moment and put the 1.0% into context. The changes to fourth-quarter growth largely reflected a greater buildup in inventories, which only reduced GDP by 0.14%, compared to a previously reported 0.45% drag. Household consumption, on the other hand, was revised lower to just 2.0% in the 4th quarter, weaker than the initially estimated 2.2% annualized growth. Stripping out inventories and trade, the two most volatile components of GDP, final sales increased by 1.4% in the 4th quarter compared with a previously reported 1.6% pace. So although the headline revision to 4th quarter GDP appeared optimistic and caused markets to react positively, the underlying components show a weaker consumer than what was previously thought.

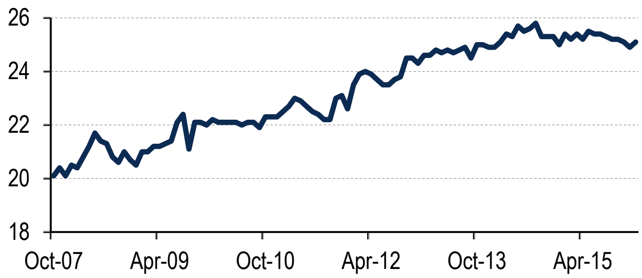
Additionally, the last 5 quarters have now averaged a paltry 1.9; above our economists "new trend" of 1.7%, but well below the previous 5 quarters of 3.0%. More importantly, had Q4 stayed at 0.6% the 5 quarter average would have moved down to 1.8%... hardly a meaningful change to the broader trends in growth. Furthermore, with the biggest argument for economic growth being the strength of the consumer, it appears to us that we have to at least consider the revisions on net being neutral if not being tilted negative.

Repaired balance sheets shows lack of confidence

We remember several conversations over the last several years where we have said finance professionals should all have degrees in psychology, and that in our opinion, economists should question the willingness of the consumer to spend simply because of the scars from the financial crisis. And in fact, we have seen a modest increase in consumption and a large increase in savings even as the average individual in the US has received a large benefit from lower gasoline. Though clearly this is healthy for the balance sheet of every day Americans, we can't say the same for what it means for corporate health (more on this below).

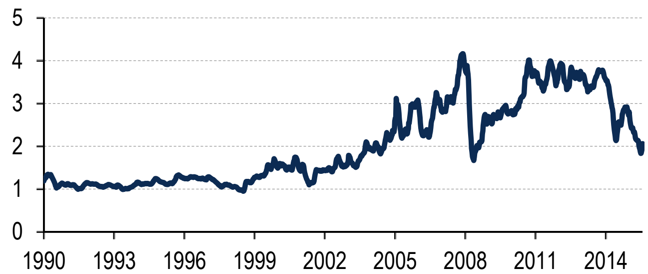
However, we also think it's worthwhile to consider that maybe the consumer is not as healthy as we would like to believe. For example, we frequently hear that a bright spot in the economy is the strong auto sales figures over the last several years. However, there are a number of reasons why auto sales ought to be stronger today relative to history, and we caution against extrapolating this data to the broader consumer. First, the average age of a vehicle on the road today is roughly 12 years whereas prior to the recession, the average age of a replaced car was about 10 years. So the existing stock of automobiles is old and likely needs to be replaced. Second, the auto market has been the one place where consumer credit has been plentiful, and low rates have incentivized consumers to borrow to upgrade their older vehicle. Additionally, banks love to extend auto credit as auto loans tend to be the last piece of debt a consumer doesn't pay for. Third, with gas prices and fuel efficiency causing arguably one of the cheapest environments ever to drive a car, it is no surprise consumers have decided to buy.

Chart 3: Fuel efficiency (sales-weighted MPG)



Source: BofA Merrill Lynch Global Research

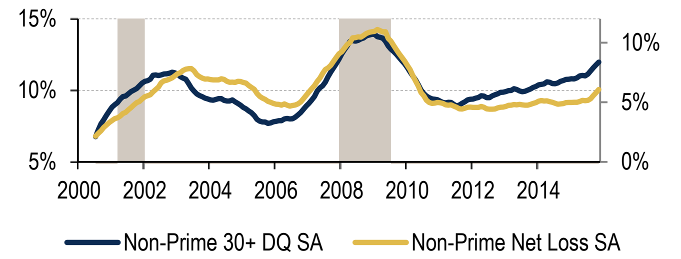
Chart 4: Retail gasoline prices ($/gallon)



Source: BofA Merrill Lynch Global Research

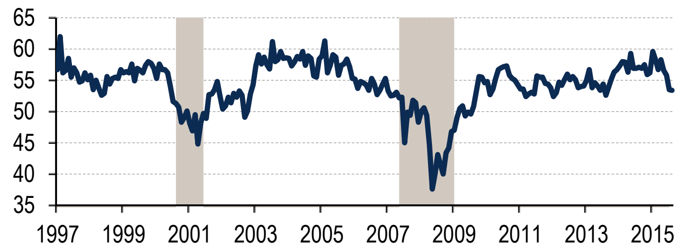
Although we are not suggesting the auto market is primed for weakness, we are saying that using the space as a good indication of consumer health may be optimistic. In fact, subprime delinquencies are on the rise and are consistent with the early stages of the last recession while prime losses have also recently begun to increase. Also suggestive of a weaker consumer, since the beginning of the rally, non-manufacturing ISM declined for a second month in a row and retail sales were revised lower for January. Again, although we stress that we're not disagreeing with our economists, as current data doesn't suggest a recession in the near term, nor do we think the data supports a meaningfully different macro environment than where we were in January. In fact, in our interpretation, the data would suggest weakness in a more vital part of the economy: the consumer.

Chart 5: Auto loan delinquencies and losses are up



Source: BofA Merrill Lynch Global Research, Intex

Chart 6: ISM Non-manufacturing is falling



Source: Bloomberg

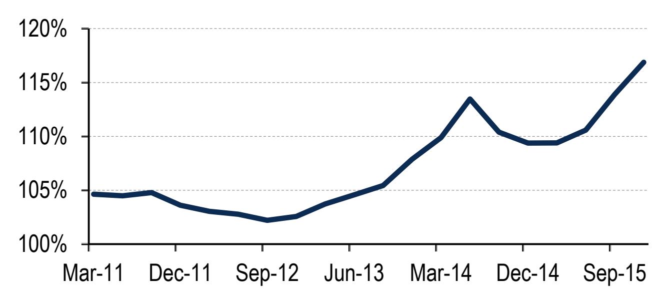
Why the obsession with adjusted EBITDA?

Perhaps more important than the macro economic backdrop, however, is the continuation of a fundamental picture that in our view is troubling. Over the last year we have noted that fundamentals have been obscured by an emphasis on Adjusted EBITDA as a preferred measure of cash flow. In our view, EBITDA alone is a poor indication of a company's ability to pay debt, without going ahead and adjusting it further. In fact, EBITDA first came into prominence during the 1980s LBO boom as a way to make highly levered, often very risky deals appear safer than they actually were. And today the measure has been further altered to not only add back amortization and depreciation, but also to eliminate any "1-off" write downs, goodwill impairments, legal costs, etc. In our view, this practice obscures the real health of the high yield market, particularly as asset impairments and write-downs begin to snowball. EBITDA is in and of itself a non-GAAP measure and we believe that although Adjusted EBITDA may be worthwhile in some very limited circumstances, the practice has obfuscated major fundamental problems within the asset class.

At least use EBIT over EBITDA

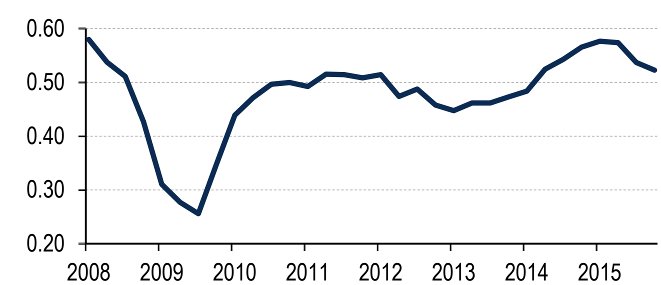
To begin with, EBITDA and Adjusted EBITDA ignore working capital requirements and can even exclude rent (EBITDAR). For companies (like retail firms) who depend on building inventory and paying rent, investors can't ignore the impact of funding these activities. In fact, to ignore working capital requirements is like ignoring the costs to maintain a car or home; hopefully not an analysis most do prior to purchasing one of these assets. Additionally, just as non-cash expenses are added back, non-cash revenue can also be included in EBITDA (say contracts booked forward, for example), which also can inflate a company's cash flow. Couple "1-off" adjustments and the difference between EBITDA and Adjusted EBITDA since the beginning of 2015 has plummeted; suggesting that "1-off" adjustments have increased significantly in just the last year. And as we further work backwards, from Adjusted EBITDA to EBITDA to EBIT, we see that since the beginning of 2015 the add-back of depreciation and amortization has begun to have a meaningful impact to this flawed calculation of cash flow as well.

Chart 7: Adjusted EBITDA as percentage of EBITDA (ex-commodities)



Source: BofA Merrill Lynch Global Research, Bloomberg

Chart 8: EBIT to EBITDA (ex-commodities)

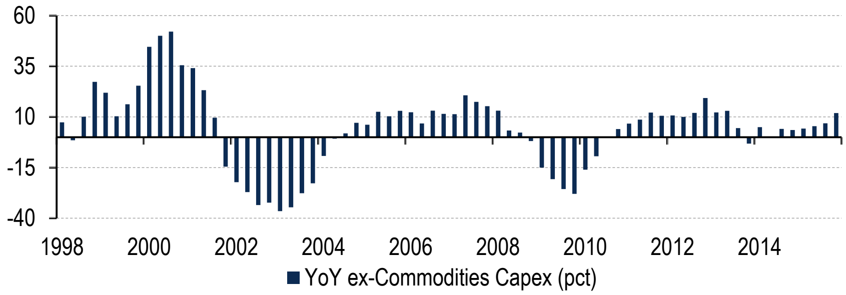


Source: BofA Merrill Lynch Global Research, Bloomberg

Asset value: tangible versus intangible

For asset heavy firms, where equipment eventually needs to be replaced, we view adding back non-cash items as dangerous. It assumes the funding for these items will not only be readily available, but that the cost to do so doesn't affect cash flow. To this end, we would further argue that tangible assets are more important than total assets when evaluating corporate health as tangible assets need to be maintained and replaced. Particularly in a world where capex has been anemic and the upkeep and replacement of aging equipment has been miniscule we find it very problematic that high yield companies stress EBITDA, but haven't invested in the requisite tools to grow organically. At some point, new investments will have to be made on equipment, and as we are beginning to see based on the recent pickup in capex, that time appears to be now. We believe the financial health of these companies will prove to be poor; and their inability to acquire financing coupled with accounting conventions that are inadequate could cause a further decline in bond values and a pickup in defaults.

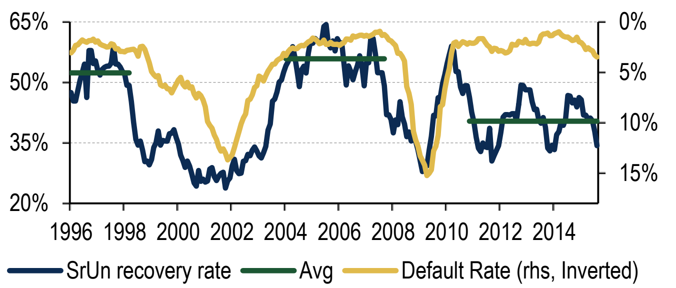
Chart 9: YoY ex-commodities capex (%)



Source: BofA Merrill Lynch Global Research, Bloomberg

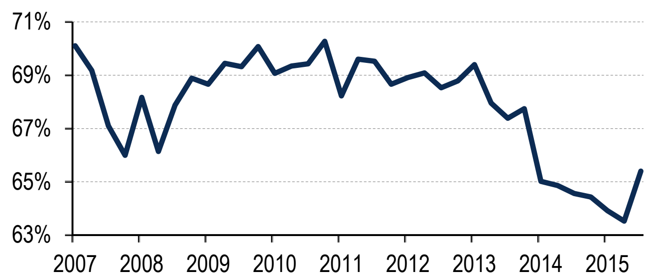
As we consider the lack of organic growth and investment in tangible assets, we don't think it is a coincidence that in the post crisis years we have seen recovery rates averaging 10 percentage points lower than in similar default rate periods in history. In addition to a plethora of firms surviving the Great Recession that otherwise shouldn't have - as QE allowed unhealthy companies the ability to refinance and kick the can down the road - there has been a steady decline in the ratio of tangible assets to total assets since 2010. To us, this trend could mean several things, from firms "writing up" the value of IP, patents and other soft assets; to make up for the lack of growth in tangible asset value; to a shift in the type of high yield companies that exist today, from more manufacturing based firms to service type industries. In either case, we would argue that the significant decline in the ratio of tangible assets to total assets is troubling and will continue to lead to low recovery rates, higher yields and at some point, a negative surprise to cash flow.

Chart 10: Recovery rates are anemic in the post crisis years



Source: BofA Merrill Lynch Global Research, Moody's

Chart 11: Tangible assets to total assets (ex-commodities) has fallen

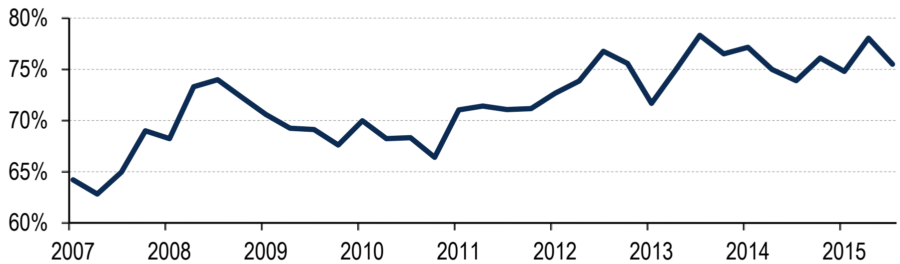


Source: BofA Merrill Lynch Global Research, Bloomberg

Higher debt and impairments

Not only has the ratio of tangible to intangible assets fallen markedly since 2013, but by further adding back "1-off" impairments to EBITDA, companies are inflating cash flow while also not taking into account the decreases in asset values that have direct consequences to the value of the firm. Because the ability of a company to finance itself through debt markets is (or at least should be) a function of the firm's value in addition to its cash flow, the amount of debt a corporation has relative to its tangible assets becomes more and more important as the credit cycle wanes. In fact, as we are seeing from the commodities sector today, as well as some other idiosyncratic businesses that have recently run into trouble, debt to asset value is as important a measure as any when a firm realizes problems and needs to liquidate holdings. And the trend in total debt to tangible assets has been troubling, as companies have increased debt on asset values that have stagnated or begun to decline.

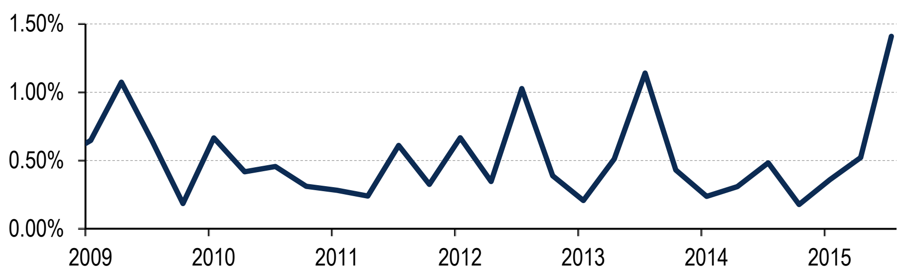
Chart 12: Total debt to tangible assets (ex-commodities)



Source: BofA Merrill Lynch Global Research, Bloomberg

The increase in debt to tangible assets concerns us particularly when we see situations like Valeant Pharmaceutical, an example of a company where the value of its assets will prove pivotal to its ability to tap capital markets and ultimately service nearly $30bn in debt. The go-to story for Valeant has been the strength of its properties, namely Jublia and Bausch and Lomb, as the firm has been able to fall back on the idea that should its debt become too onerous, selling off assets to pay down a large capital structure would not be a problem. Should Valeant begin to write down some of the value of these assets, not only would these charges be added back to its Adjusted EBITDA, inflating its cash generation, but would also limit its ability to pay back its debt. Although just an example, this scenario can be applied to any number of companies in high yield. For this reason, as we look at tangible assets, impairment charges can't be ignored when determining the underlying health of a business. And as we consider this crucial input that is often ignored by high yield investors, we see troubling signs of fundamental corporate deterioration as the amount of asset impairments to tangible assets (ex-commodity) for US high yield has increased sharply since reaching a low in March of 2015.

Chart 13: Impairments as a percentage of tangible assets (ex-commodities) has jumped



Source: BofA Merrill Lynch Global Research, Bloomberg

Free cash flow… not a pretty picture

Given our aversion to EBITDA as a measure of a company's ability to service debt and our belief that discounting asset impairments as an anomaly makes little sense, we prefer to look at free cash flow plus cash minus debt maturities as a measure of liquidity. Though not exactly Free Cash Flow to Equity, this measure provides a quick and easy way for an investor to determine the ability of a high yield company to finance both operations and principal payments absent asset sales. We have also run the analysis where we factor in varying levels of liquidation value of tangible assets given the real-world reality that a corporate's ability to finance itself is largely determined by the value of its assets (hence the importance of looking at impairments). Importantly, rather than comment on specific issuers (though for those interested, we are happy to supply all the underlying issuer data), we look to see what percentage of firms realize a negative value under this methodology over the next 1 year, 2 years and 3 years (assuming cash and free cash flow remain constant and no new near-term debt is issued).

Bearing these assumptions in mind, when considering our universe of 397 high yield issuers we find that 79 or 20% of them are unlikely to generate enough cash to service their 2016 bond and loan payments, when also taking into account a company's cash on hand. Expanding this analysis into 2017 and 2018, we find that 27% and 38% would potentially be unable to meet all upcoming debt maturities. While it is true that roughly 62% of these companies are commodity-related, that still leaves 14% of our ex-Commodity universe that absent asset sales or new debt financing would not be able to make all debt payments between now and 2018.

Of course, companies can find alternative methods to generate liquidity such as accessing the capital markets and selling assets on their balance sheet. However, if all companies were to sell 20% of their tangible assets at 75% of book value, 6% will still have negative cash generation by the end of 2016 and 27% by the end of 2018. What's more, given the constant need to invest and grow through capex, likely requiring investment rather than divestiture, any company that is forced to sell 20% of the assets on its balance sheet to meet debt obligations will simply be kicking the can down the road and eroding bond holder value. Though negative cash flow is in and of itself not a reason for default, and in fact many companies for a variety of reason chose to run their business negative for a period of time, in an environment where asset values are declining and access to capital markets is difficult, we think the large negative numbers could be concerning. Given the high percentage of companies continuing to burn a quickly diminishing stockpile of cash, we believe investors should be more concerned about the possibility for significantly wider spreads on new issue (and hence secondary paper) as investors allow the firm to buy time so they can realize the value of the assets, or at worst, end up in default.

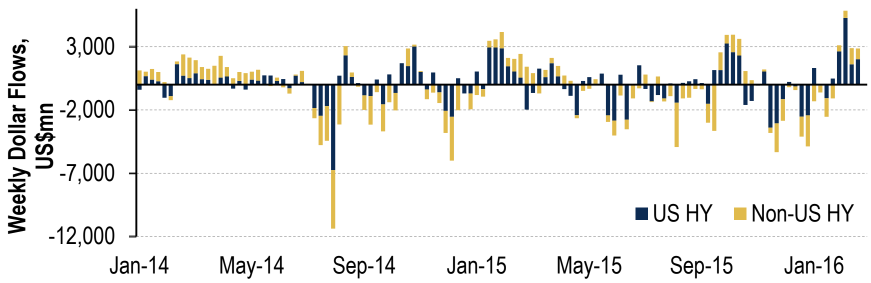
Flows

This is an excerpt from our recently published report: The High Yield Flow Report: Luck o' the inflows 17 March 2016

US HY recorded another impressive +$2.01bn (+1.0%) net inflow last week, their 5th consecutive time in the green. Over the last 4 weeks, US HY has gained a net $11.52bn from retail flows, the largest ever in a 4 week span for the asset class. Given the 40% increase in WTI prices since February 11th, improving economic data, and dovish support from the ECB, it is not surprising to us that retail has piled into risk assets and by extension US HY lately. However, given that the fundamental backdrop has not changed and defaults are in fact increasing, we believe these inflows are an over-reaction to transitory tailwinds. In fact, we think the recent rally has limited staying power as yesterday's acknowledgement by Chair Yellen of stresses in financial markets, combined with a weaker consumer and poor Q4 earnings season should have created renewed fears of a growth slowdown in the US, in our view.

Other risk assets benefited from last week's continued risk-on rally as well. Non-US high yield added $852mn (+0.4%), their 4th consecutive inflow after the Draghi bazooka to begin purchasing corporate bonds. Loans added $155mn (+0.2%), EM Debt gained $772mn (+0.3%), and high grade increased their AUM by $2.237bn (+0.2%). Money markets on the other hand lost $33.33bn (-1.3%) for their largest outflow in almost a year.

Chart 14: Global HY flows distributed between US-domiciled and non US-domiciled funds



Source: BofA Merrill Lynch Global Research, EPFR Global

New Issue Roundup

Bonds

DM high yield issuance has picked up from its slow start to the year with $2.3bn priced last week, bringing MTD and YTD totals to $7.1bn and $22.8bn, respectively (Table 2). Declining volatility, improving secondary performance, and strong retail inflows have all contributed to the pickup in primary high yield activity, though a small investor risk appetite has caused all of the new issuance to come from the double and single B rated buckets.

Although we have seen primary activity increase from the start of the year, we remain at historically low levels. As we are currently 55% of the way through March and have seen $7.1bn priced thus far, at the current pace we would conclude the month with $12.9bn in new issuance, below the historical monthly average of $15.9bn.

Table 2: DM issuance summary ($bn)

	DM	United States	Europe	BB	B	CCC/NR
WTD Mar 18	2.3	2.1	0.2	0.8	1.1	0.4
Wk Mar 11	2.8	2.8	0.0	0.9	1.9	0.0
Wk Mar 04	3.7	3.7	0.0	2.0	0.0	1.7
Wk Feb 26	2.0	2.0	0.0	1.5	0.3	0.3
MTD Mar	7.1	6.9	0.2	3.6	3.0	0.4
February	10.1	9.4	0.8	3.7	3.7	2.7
January	5.7	5.2	0.2	3.6	1.8	0.3
December	6.0	5.0	0.6	4.0	2.0	0.0
YTD 2016	22.8	21.4	1.1	10.9	8.4	3.5
YTD 2015	96.6	65.8	26.7	30.5	54.7	11.4
2015	308.6	215.8	75.2	117.8	152.2	38.5
2014	376.0	238.8	119.5	129.9	186.8	59.2
2013	378.3	270.3	91.5	128.8	172.4	77.2

Source: BofA Merrill Lynch Global Research

Table 3: Month-to-date DM high yield new issues

Pricing Dt	Name	Size ($)	Snr	Cpn	Maturity	Price	Yield	Moody's	S&P	Type	Sector	Region
3/16/2016	Kraton Polymers LLC	440	Sr Nts	10.50	4/15/2023	90.00	12.41	B3	CCC+	144A for Life	Chemicals	United States
3/16/2016	Cinemark USA Inc	225	Sr Nts	4.88	6/1/2023	99.00	5.04	B2	BB	144A w/RR	Entertainment	United States
3/15/2016	Dry Mix Solutions (Parex) Sas	166	Sr Sec Nts	550.00	3/15/2023	99.00	0.00	B1	B	144A w/RR	Building Materials	Europe
3/15/2016	Radian Group Inc	325	Sr Nts	7.00	3/15/2021	100.00	7.00	Ba3	B+	SEC	Insurance	United States
3/14/2016	Clean Harbors, Inc.	250	Sr Nts	5.13	6/1/2021	100.25	5.07	Ba2	BB+	144A w/RR	Environmental Control	United States
3/14/2016	CNH Capital LLC	500	Sr Nts	4.88	4/1/2021	99.45	5.00	Ba1	BB	SEC	Machinery-Diversified	United States
3/14/2016	Avis Budget Car Rental LLC/Finance Inc	350	Sr Nts	6.38	4/1/2024	100.00	6.38	B1	B+	144A w/RR	Commercial Services	United States
3/11/2016	ESH Hospitality Inc	800	Sr Nts	5.25	5/1/2025	98.50	5.46	B3	BB-	144A w/RR	REITS	United States
3/9/2016	Sinclair Television Group inc	350	Sr Nts	5.88	3/15/2026	100.00	5.88	B1	B+	144A w/RR	Media	United States
3/9/2016	First Data Corporation	900	Sr Sec Nts	5.00	1/15/2024	99.50	5.08	B1	BB	144A for Life	Software	United States
3/8/2016	Level 3 Financing Inc.	775	Sr Nts	5.25	3/15/2026	100.00	5.25	B1	B	144A w/RR	Telecommunications	United States
3/4/2016	GameStop Corp	475	Sr Nts	6.75	3/15/2021	100.00	6.75	Ba1	BB+	144A w/RR	Retail	United States
3/1/2016	HCA Inc	1500	Sr Sec Nts	5.25	6/15/2026	100.00	5.25	Ba1	BBB-	SEC	Healthcare-Services	United States

Source: BofA Merrill Lynch Global Research

Last week's $2.3bn came from 7 different issuers, with $166mn stemming from Europe and the remaining $2.09bn out of the United States. 2 of the deals ($750mn) were double-B rated, 4 ($1.06bn) were single-B, and 1 pricing ($440mn) was rated triple-C. None of the deals were particularly large in size, the biggest issuance being a $500mn offering from CNH Capital LLC. These 5-year, BB Sr Nts offer a coupon of 4 $^{7}/_{8}$%, and were issued at a 0.55% discount to yield 5.00%. The diversified machinery manufacturer plans to use the proceeds for general corporate purposes. Also issuing paper last week was Kraton Polymers LLC, which brought $440mn to market for the 1st CCC deal of the month. The seven-year, 144A for life notes offer a coupon of 10 1/2 % but were issued at a 10% discount to par to yield 12.413%. Proceeds from the financing will be used to help fund the acquisition of Arizona Chemical Holdings Corp.

Table 4: New issue breakdown by week, last 15 weeks

	Ratings					Currency (US$mn)				Seniority			Deal Type		
	Total	BB	B	CCC	NR	USD	EUR	GBP	CAD	Secured	Senior	Sub	144a w RR	144a w/o RR	Public
11/20/2015	5,486	4,506	980			5,486				1,030	3,706	750	1,980		3,506
11/27/2015	300		300			300					300		300		
12/4/2015	5,196	3,515	1,681			3,600	1,165	431		431	4,765		5,196		
12/11/2015	791	462	329			225	566			566	225		791		
1/8/2016	450		450			450					450		450		
1/15/2016	512		512			350	162				512		512		
1/22/2016	1,300	775	525			1,300					1,300		525	775	
1/29/2016	3,400	2,800	300	300		3,400				300	3,100		3,400		
2/5/2016	4,283	735	2,792	756		3,515	768			1,011	3,271		4,283		
2/12/2016	260		260			260				260			260		
2/19/2016	1,850	1,500	350			1,850					1,850		350	1,000	500
2/26/2016	2,000	1,500	250	250		2,000					2,000		500		1,500
3/4/2016	3,705	1,975		1,730		3,705				1,500	2,205		2,205		1,500
3/11/2016	2,825	900	1,925			2,825				900	1,925		1,925	900	
3/18/2016	2,256	750	1,066	440		2,090	166			166	2,090		991	440	825

Source: BofA Merrill Lynch Global Research

Loans

Global loan issuance has also seen a sharp pickup since the beginning of the year with $6.1bn priced last week, the most in 13 sessions. To date, we have seen $9.1bn in new supply for March and $33.5bn for the year. This is 28% behind last year's pace, although when considering just United States loan supply we are in line with last year's pace. Similar to the high yield primary market, all of the activity has been concentrated in higher rated double and single-B buckets, with no new supply coming from triple-C issuers in 6 weeks. Year to date, we have seen just 2 triple-C issuers bring a combined $585mn to market, 79% behind last year's $2.9bn. Double-B issuance, on the other hand, is only 13% behind last year's pace with $18.5bn priced in 2016 compared to $22.5bn at this point in 2015.

Table 5: Global loan issuance over time ($bn)

	Global	US	BB	B	CCC/NR	Cov lite
WTD Mar 18	6.1	6.1	5.0	1.0	0.0	4.3
Wk Mar 11	0.1	0.1	0.0	0.1	0.0	0.0
Wk Mar 04	4.5	4.5	3.7	0.8	0.0	2.2
Wk Feb 26	1.9	1.9	1.6	0.3	0.0	1.4
MTD Mar	9.1	9.1	7.2	1.9	0.0	6.5
February	8.6	8.6	5.0	3.6	0.1	3.5
January	15.7	15.7	6.3	9.0	0.5	11.4
December	6.6	6.3	4.8	1.7	0.1	5.8
YTD 2016	33.5	33.5	18.5	14.4	0.6	21.4
YTD 2015	46.8	34.9	21.4	22.5	2.9	29.2
2015	257.9	214.7	119.6	127.2	11.0	186.4
2014	379.4	320.7	109.5	218.3	51.6	267.1
2013	454.9	389.9	152.8	261.7	40.4	279.1

Source: BofA Merrill Lynch Global Research, S&P LCD

Table 6: New issue breakdown by month, last 3 months

		Ratings						
	Total	BB	B	CCC	NR	TLb	2nd Lien	Cov Lite
11/27/2015	80	0	80			80		
12/4/2015	6,521	5,046	1,385	90		6,431	90	5,761
12/11/2015	490	100	390			465	25	380
12/18/2015	0	0				0		
1/8/2016	5,800	1,035	4,265	500		5,300	500	4,765
1/15/2016	3,810	1,600	2,210			3,810		2,645
1/22/2016	2225	2035	190			2225		2035
1/29/2016	3,905	1,605	2,300			3,905		1,930
2/5/2016	1,752	1,189	478	85		1,667	85	
2/12/2016	2,483	0	2,483			2,483		2,015
2/19/2016	990	675	315			990		165
2/26/2016	1,925	1600	325			1,925		1,350
3/4/2016	4,450	3,700	750			4,450		2,200
3/11/2016	95	0	95			95		
3/18/2016	6,054	5049	1,005			6,054		4,280

Source: BofA Merrill Lynch Global Research, S&P LCD

Last week we saw 7 new issues for a combined $6.05bn in new money. 3 pricings ($1.0bn) were single-B rated while the remaining 4 ($5.0bn) were rated double-B, with no new triple-C supply.

Table 7: Month-to-date leveraged loan new issues

Launch Dt	Issuer	Deal Name	Size ($)	New Inst. Money ($)	Moody's	S&P	Asset Backed	Cov Lite	Proceeds	Sector	Country
3/16/2016	Sensus Ltd	Sensus USA (4/16)	700	625	B2	B	No	No	Refinancing	Computers & Electronics	United States
3/15/2016	DYK Automotive LLC	DYK Automotive (4/16)	164	134	NR	NR	No	No	LBO	Retail	United States
3/15/2016	API Technologies Corp	API Technologies (4/16)	145	115	NR	NR	No	No	LBO	Computers & Electronics	United States
3/15/2016	Blount International Inc	Blount (US 4/16)	375	300	B1	B+	No	No	LBO	Manufacturing & Machinery	United States
3/14/2016	Windstream Corp	Windstream (Add-on 4/16)	600	600	B1	BB	No	No	Refinancing	Telecom	United States
3/10/2016	Travel Leaders Group	Travel Leaders (Add-on 4/16)	25	25	B1	B+	No	No	Acquisition	Entertainment & Leisure	United States
3/8/2016	Survey Sampling Inc	Survey Sampling (Add-on 4/16)	30	30	B1	B	No	No	Acquisition	Services & Leasing	United States
3/8/2016	PDC Brands	PDC Brands (Add-on 4/16)	40	40	B2	B	No	No	Acquisition	Consumer Nondurables	United States
3/8/2016	PDC Brands	PDC Brands (Add-on 4/16)	40	40	B2	B	No	No	Acquisition	Consumer Nondurables	United States
3/3/2016	Sears Holdings Corp	Sears Holdings (Add-on ABL TL 4/16)	750	750	Ba3	B	Yes	No	Refinancing	Retail	United States
3/3/2016	ON Semiconductor Corp	ON Semiconductor (TL 4/16)	2200	2200	Ba1	BB	No	Yes	Acquisition	Computers & Electronics	United States

Source: BofA Merrill Lynch Global Research

Performance Summary

Market performance was positive and broad-based last week as all asset classes finished in the green. Higher risk assets outperformed with EM equities (+3.31%), US equities (+2.56%), and CDX HY (+1.49%) finishing at the top of the leaderboard. On the other hand, higher quality assets benefited to a lesser extent from the week's risk-on rally as Munis (+0.21%), Mortgages (+0.31%) and the 5yr treasury (+0.34%) delivered the week's worst performances. US HY returned 1.24%, placing it in 4th place and bringing its YTD total to +2.99%.

Not surprisingly, higher beta ratings buckets outperformed. Triple-Cs were the best performing bucket (+2.49%), followed by BBBs (+1.27%) and BBs (+1.24%). Similarly, the distressed portion of high yield returned 2.95%, well above the +0.82% from non-distressed HY.

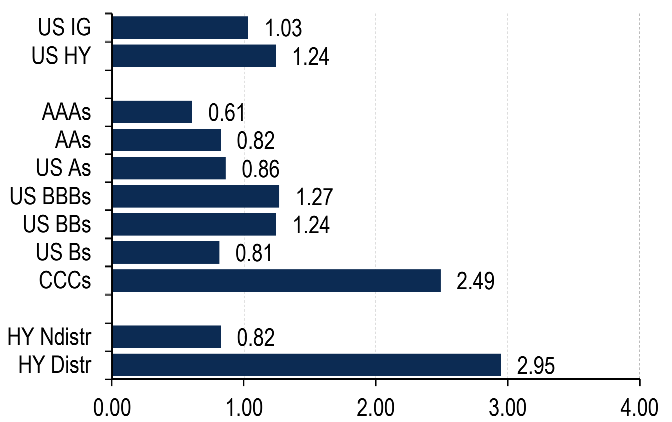
17 out of our 18 HY credit sectors posted positive returns last week, with Health Care (-1.03%) being the lone negative performer after VRX cut its 2016 forecast, reported a weak 4th quarter, and said it was at risk of breaching some of its debt agreement. Energy (+4.08%) outperformed off the back of a 6.3% increase in oil prices, followed by Materials (+1.76%) and Commercial Services (+1.71%).

Table 8: Total returns across asset classes

Ticker	Name	WOW (%)	MTD (%)	YTD (%)
U0A0	Municipals	0.21	-0.10	1.09
M0A0	Mortgages	0.31	0.04	1.68
GA05	5yr TRSY	0.34	-0.69	2.05
CDXIG	CDX.IG	0.37	1.19	0.50
EMIB	EM IG	0.69	1.44	2.72
LCDI/ALL	Lev Loans	0.71	2.05	0.85
EMHB	EM HY	0.87	3.19	3.14
EMGB	EM Govts	0.92	1.94	3.85
G0QI	TIPs	1.00	0.28	3.11
C0A0	US IG	1.03	1.41	2.60
HE00	EU HY	1.10	3.27	1.24
H0A0	US HY	1.24	4.16	2.99
CDXHY	CDX.HY	1.49	4.19	2.91
SPX	S&P 500	2.56	5.61	-0.16
MXEF	EM Eqty	3.31	10.34	2.87

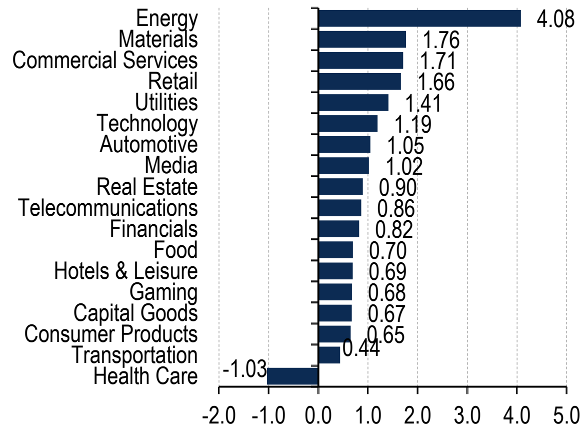
Source: BofA Merrill Lynch Global Research

Chart 15: Segment and rating returns, week-on-week (WoW)



Source: BofA Merrill Lynch Global Research

Chart 16: Sector returns, week-on-week (WoW)



Source: BofA Merrill Lynch Global Research

Top performers

LINE bonds dominated this week's list of top performers, taking the top 5 spots thanks to 5-6pt movements higher across the curve. Also showing strong gains were the BBEP 7 $^{7}/_{8}$'s and the $8^{5}/_{8}$'s, which were up 3.1pts and 2.5pts respectively. This week's top performers were dominated by the E&P space, all led higher by WTI which settled above $40/bbl on Thursday for the first time this year. The only non-Energy bond to make the leaderboard was the BTU 6 ¼'s, which gained 1.5pts despite the company's missed interest payments on their 10's and 6 ½'s earlier this week.

Table 9: Top 10 performers, March 10th – March 17th

Issue	Rating	Price	Yield	ZSpread	Px Change	Pct Change	Volume
LINE 7.75 '21	CC	11.04	90.15	8878	6.0	117.6	62
LINE 8.63 '20	CC	10.29	110.83	10934	5.0	93.1	91
LINE 6.25 '19	CC	10.27	105.27	10389	4.8	88.8	34
LINE 6.5 '21	CC	11.11	76.51	7517	5.1	85.2	21
LINE 6.5 '19	CC	10.26	119.39	11816	4.0	64.0	19
BBEP 7.88 '22	CCC2	9.42	92.21	9066	3.1	49.5	23
LINE 6.38 '22	CCC3	17.49	50.18	4878	4.2	32.0	20
BBEP 8.63 '20	CCC2	10.45	102.29	10078	2.5	30.8	21
BTU 6.25 '21	CC	6.75	103.52	10208	1.5	28.3	19
VNR 7.88 '20	CCC3	14.54	84.77	8338	2.7	23.3	22

Source: BofA Merrill Lynch Global Research

Bottom performers

Most of last week's bottom performers came from the Telecom sector, though Energy and Media bonds snuck their way into the list as well. INTEL bonds fell 2-3pts across the curve, with 5 of their outstandings making it into the bottom performers list. Also underperforming were the SD 7 ½'s (-9.2%), the KOROIL 6 $^{7}/_{8}$'s (-5.3%), and the IHRT 10's (-3.5%).

Table 10: Bottom 10 performers, March 10th – March 17th

Issue	Rating	Price	Yield	ZSpread	Px Change	Pct Change	Vol
SD 7.5 '21	C	5.00	157.99	15650	-0.5	-9.2	14
INTEL 7.75 '21	CCC2	26.56	45.84	4451	-2.5	-8.7	39
INTEL 6.63 '22	CCC1	57.47	17.67	1622	-3.3	-5.5	65
KOROIL 6.88 '17	CCC2	61.24	44.51	4341	-3.4	-5.3	12
INTEL 5.5 '23	B2	63.87	13.36	1185	-2.6	-3.9	79
IHRT 10 '18	CC	34.10	89.93	8850	-1.2	-3.5	5
INTEL 7.5 '21	B2	67.62	17.43	1613	-2.4	-3.4	33
XCO 8.5 '22	C	18.50	57.96	5653	-0.5	-2.8	13
INTEL 7.25 '20	B2	67.82	17.85	1658	-1.9	-2.7	75
OUTR 5.88 '21	B2	76.35	12.11	1078	-2.0	-2.6	11

Source: BofA Merrill Lynch Global Research

Rating Actions

Last week we saw a sizable number of ratings actions on high yield issuers. Downgrades outnumbered upgrades by a ratio of 3.8 to 1 and we saw 2 rising stars, 8 fallen angels, and 5 defaults. 5 of last week's fallen angels came from the Telecom sector while the remaining 3 were Energy related companies. 3 of last week's defaults were due to missed interest payments (Linn Energy, Berry Petroleum, Foresight Energy), one because of a Chapter 11 filing (Aspect Software), and 1 because of a distressed exchange (Nuverra Environmental Solutions Inc).

On upgrades, Spirit AeroSystems Inc and Radian Guaranty Inc were both upgraded to investment grade status by S&P. The ratings agency noted that Spirit AeroSystems has shown markedly improved profitability and cash flow over the past 2 years stemming from its improved operating efficiency, lower-cost structure, and the divestiture of its unprofitable business jet programs. Similarly, Radian was upgraded due to the company's financial flexibility and sufficient access to the capital markets.

A number of companies were downgraded to high yield status by S&P and Moody's stemming from the Telecom and Energy sectors. Newfield Exploration Co, SESI LLC, and Superior Energy Services Inc, were the 3 Energy companies downgraded due to revised EBITDA and cash flow estimates that incorporate actual 2015 results. Meanwhile, Centel Capital Corp, Embarq Corp, Mountain States Telephone & Telegraph Co, Northwestern Bell Telephone, and Qwest Corp were the 5 Telecom companies downgraded by Moody's, reflecting downward pressure on revenues and cash flows due to the secular decline of the wireline business, lower-margin strategic services replacing higher-margin legacy revenues, and growing competition.

Table 11: Rating actions on high yield issuers, last 7 days

Date	Action	Company Name	Rating Type	Agency	Curr Rtg	Last Rtg
03/17/2016	Upgrade	SandRidge Energy Inc	LT Local Issuer Credit	S&P	CCC-	D
03/17/2016	**Upgrade**	**Spirit AeroSystems Inc**	**LT Local Issuer Credit**	**S&P**	**BBB-**	**BB**
03/16/2016	Upgrade	Coeur Mining Inc	LT Local Issuer Credit	S&P	B+	B
03/15/2016	Upgrade	Party City Holdings Inc	LT Local Issuer Credit	S&P	B+	B
03/15/2016	Upgrade	TRI Pointe Group Inc	LT Local Issuer Credit	S&P	BB-	B+
03/15/2016	Upgrade	Visteon Corp	LT Local Issuer Credit	S&P	BB-	B+
03/14/2016	**Upgrade**	**Radian Guaranty Inc**	**LT Local Issuer Credit**	**S&P**	**BBB-**	**BB+**
03/10/2016	Upgrade	Prospect Holding Co LLC	LT Local Issuer Credit	S&P	CCC-	SD
03/10/2016	Upgrade	Town Sports International Holdings Inc	LT Local Issuer Credit	S&P	CCC+	SD
03/16/2016	Upgrade	Aircastle Ltd	Senior Unsecured Debt	Moody's	Ba1	Ba2
03/15/2016	Initiated	Blount International Inc	LT Local Issuer Credit	S&P	B+	
03/10/2016	Initiated	Global Payments Inc	LT Local Issuer Credit	S&P	BB+	
03/16/2016	Dropped	Pacific Architects & Engineers Inc	LT Local Issuer Credit	S&P	NR	B+ *
03/14/2016	Dropped	Whiting Canadian Holding Co ULC	LT Local Issuer Credit	S&P	NR	BB
03/11/2016	Dropped	Cirrus Logic Inc	LT Local Issuer Credit	S&P	NR	B+
03/10/2016	Dropped	Script Relief LLC	LT Local Issuer Credit	S&P	NR	B+
03/10/2016	Dropped	Audatex North America Inc	Senior Unsecured Debt	Moody's	WR	B1 *-
03/17/2016	Downgrade	Azure Midstream Energy LLC	LT Local Issuer Credit	S&P	B-	B
03/17/2016	Downgrade	Hudson Products Holdings Inc	LT Local Issuer Credit	S&P	CCC+	B-
03/17/2016	**Downgrade**	**Newfield Exploration Co**	**LT Local Issuer Credit**	**S&P**	**BB+**	**BBB- *-**
03/17/2016	Downgrade	TGGT Holdings LLC	LT Local Issuer Credit	S&P	B-	B
03/15/2016	Downgrade	Blount Inc	LT Local Issuer Credit	S&P	B+	BB- *-
03/11/2016	Downgrade	Bonanza Creek Energy Inc	LT Local Issuer Credit	S&P	CCC	B-
03/11/2016	Downgrade	Gastar Exploration USA Inc	LT Local Issuer Credit	S&P	CCC-	CCC+
03/11/2016	Downgrade	GrafTech International Ltd	LT Local Issuer Credit	S&P	CCC+	B
03/11/2016	Downgrade	Gulfmark Offshore Inc	LT Local Issuer Credit	S&P	CCC	B-
03/11/2016	**Downgrade**	**SESI LLC**	**LT Local Issuer Credit**	**S&P**	**BB**	**BBB-**
03/11/2016	Downgrade	Stone Energy Corp	LT Local Issuer Credit	S&P	CCC-	CCC+
03/11/2016	**Downgrade**	**Superior Energy Services Inc**	**LT Local Issuer Credit**	**S&P**	**BB**	**BBB-**
03/10/2016	Downgrade	Optima Specialty Steel Inc	LT Local Issuer Credit	S&P	CCC	CCC+
03/17/2016	Downgrade	Monitronics International Inc	Senior Unsecured Debt	Moody's	Caa2	Caa1
03/17/2016	Downgrade	Sandy Creek Energy Associates LP	Senior Secured Debt	Moody's	B2	Ba3
03/17/2016	Downgrade	Vanguard Natural Resources LLC	Senior Unsecured Debt	Moody's	Ca	Caa2 *-
03/16/2016	Downgrade	Berry Petroleum Co LLC	Senior Unsecured Debt	Moody's	Ca	Caa2
03/16/2016	Downgrade	Linn Energy LLC	Senior Unsecured Debt	Moody's	C	Caa3
03/15/2016	**Downgrade**	**Centel Capital Corp**	**Senior Unsecured Debt**	**Moody's**	**Ba1**	**Baa3**
03/15/2016	Downgrade	CenturyLink Inc	Senior Unsecured Debt	Moody's	Ba3	Ba2
03/15/2016	**Downgrade**	**Embarq Corp**	**Senior Unsecured Debt**	**Moody's**	**Ba1**	**Baa3**
03/15/2016	**Downgrade**	**Mountain States Telephone & Telegraph Co**	**Senior Unsecured Debt**	**Moody's**	**Ba1**	**Baa3**
03/15/2016	**Downgrade**	**Northwestern Bell Telephone**	**Senior Unsecured Debt**	**Moody's**	**Ba1**	**Baa3**
03/15/2016	**Downgrade**	**Qwest Corp**	**Senior Unsecured Debt**	**Moody's**	**Ba1**	**Baa3**
03/15/2016	Downgrade	Valeant Pharmaceuticals International Inc	Senior Unsecured Debt	Moody's	B2 *-	B1 *-
03/14/2016	Downgrade	Archrock Partners LP	Senior Unsecured Debt	Moody's	B3	B1 *-
03/14/2016	Downgrade	Aspect Software Inc	Senior Unsecured Debt	Moody's	C	Caa3
03/14/2016	Downgrade	Cloud Peak Energy Resources LLC	Senior Unsecured Debt	Moody's	Caa1	B3 *-
03/14/2016	Downgrade	CONSOL Energy Inc	Senior Unsecured Debt	Moody's	Caa1	B3 *-
03/14/2016	Downgrade	Forum Energy Technologies Inc	Senior Unsecured Debt	Moody's	B2	Ba3 *-
03/14/2016	Downgrade	KLX Inc	Senior Unsecured Debt	Moody's	B2	Ba3
03/14/2016	Downgrade	Natural Resource Partners LP	Senior Unsecured Debt	Moody's	Caa2	B3 *-
03/14/2016	Downgrade	SEACOR Holdings Inc	Senior Unsecured Debt	Moody's	Caa1	Ba3 *-
03/14/2016	Downgrade	Weatherford International LLC	Senior Unsecured Debt	Moody's	Ba3	Ba1 *-
03/11/2016	Downgrade	Oasis Petroleum Inc	Senior Unsecured Debt	Moody's	Caa1	B2 *-
03/10/2016	Downgrade	Basic Energy Services Inc	Senior Unsecured Debt	Moody's	Ca	Caa2
03/10/2016	Downgrade	Jones Energy Holdings LLC	Senior Unsecured Debt	Moody's	Caa2	B3 *-

Table 11: Rating actions on high yield issuers, last 7 days

Date	Action	Company Name	Rating Type	Agency	Curr Rtg	Last Rtg
03/17/2016	Default (selective)	Nuverra Environmental Solutions Inc	LT Local Issuer Credit	S&P	SD	CCC-
03/17/2016	Default	Foresight Energy LP	LT Local Issuer Credit	S&P	D	CCC-
03/15/2016	Default	Berry Petroleum Co LLC	LT Local Issuer Credit	S&P	D	CCC
03/15/2016	Default	Linn Energy LLC	LT Local Issuer Credit	S&P	D	CCC
03/10/2016	Default	Aspect Software Inc	LT Local Issuer Credit	S&P	D	CCC-

Source: BofA Merrill Lynch Global Research

Relative Value

Cash v. CDS

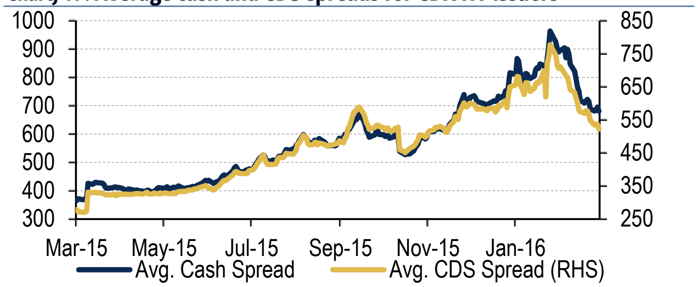
CDX HY outperformed cash on the week (Table 12). While our HY cash index tightened by 22bps, CDX HY spreads fell by 34bps. Accordingly, the average basis became more negative i.e. CDS spreads outperformed cash on an issuer matched level (Chart 18). The average basis for CDX HY issuers we track now stands at -159bps, about 11bps lower over the week.

Table 12: CDX vs. ML Cash Indices

Index	Spread	1W-Chng	1M-Chng	3M-Chng
CDX IG	83	-7	-37	-12
HG Cash	178	-10	-39	5
CDX HY	429	-34	-135	-84
HY Cash	682	-22	-139	-19

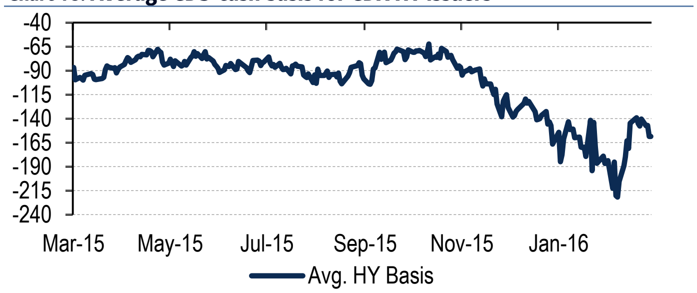
Source: BofAML Global Research, 5y spreads for CDX, OAS for cash

Chartj 17: Average cash and CDS spreads for CDX HY issuers



Source: BofA Merrill Lynch Global Research, Average spreads for a selection of issuers in the On The Run CDX HY index. Currently includes 82 HY20 constituents.

Chart 18: Average CDS-cash basis for CDX HY issuers



Source: BofA Merrill Lynch Global Research, Average basis for a selection of issuers in the On The Run CDX HY index. Currently includes 82 HY20 constituents.

CDS Indices

CDS indices in the US and Europe tightened over the week (Table 13). Single-names generally lagged index performance as skews turned more negative, though for US IG the skew remained unchanged at -14bps. The HY/IG spread ratio is now at 5.14, 10bps lower from last week meaning high yield outperformed investment grade. The XO-HY spread increased 7bps to -117bps, though remains 10bps below levels seen at the beginning of the month.

Table 13: CDS Indices – spread, intrinsic and skew

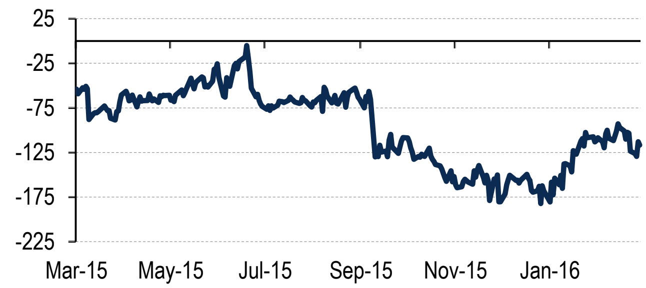
Index	5y Spread	1W-Chng	1M-Chng	3M-Chng	5y Intrinsic	1W-Chng	1M-Chng	3M-Chng	Skew	1W-Chng	1M-Chng	3M-Chng
CDX IG	83	-7	-37	-12	98	-7	-41	-11	-14	0	4	-1
CDX HY	429	-34	-135	-84	496	-27	-120	-33	-68	-7	-14	-52
iTraxx Main	72	-12	-42	-9	85	-10	-35	1	-13	-2	-7	-10
iTraxx XO	312	-47	-144	-21	350	-34	-119	-3	-37	-13	-25	-18

Source: BofA Merrill Lynch Global Research

Chart 19: HY/IG

Source: BofA Merrill Lynch Global Research

Chart 20: XO-HY

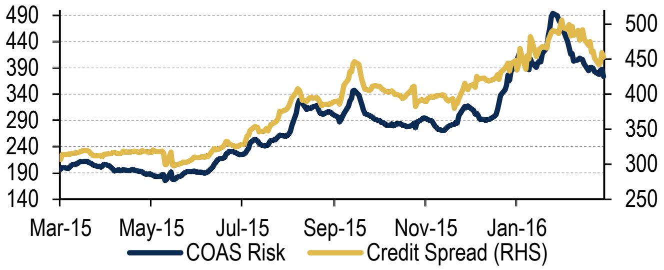


Source: BofA Merrill Lynch Global Research

Credit v. Equities

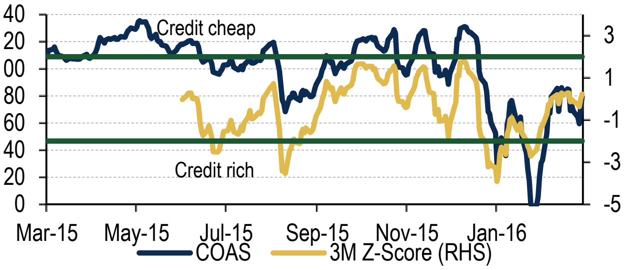
The average spread for our HY universe fell by 8bp compared to a 15bp decrease in the equity implied credit risk (Chart 21). The US HY COAS value accordingly widened by 7bp and its 3m z-score is now at 0.22 indicating that credit looks fairly valued relative to its equity implied risk (Chart 22).

Chart 21: US HY COAS Risk vs. Spread



Source: BofA Merrill Lynch Global Research

Chart 22: US HY COAS & Z-Score



Source: BofA Merrill Lynch Global Research

Analyst Certification

I, Michael Contopoulos, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

COAS Certification

To the extent that any of the views expressed in this report have been produced as a result of the application of the Credit OAS quantitative proprietary model, the BofA Merrill Lynch Global Research Lighthouse Portfolio group certifies that (1) the views expressed in this report accurately reflect the Credit OAS quantitative model as to the securities and companies mentioned in the report and (2) no part of the firm's compensation from any company mentioned in this report was, is or will be, directly or indirectly, related to the views or results produced by the Credit OAS quantitative model. The projections or other information generated by Credit Option Adjusted Spread (COAS) and Lighthouse regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results. Results generated by COAS and Lighthouse vary with each use and over time. For a description of the Credit OAS proprietary credit evaluation model, including the data input into the model, please see Introduction to Lighthouse: Credit Option Adjusted Spread, Portfolio Analytics and Data Analysis, dated 07 January 2014.

Disclosures

Important Disclosures

BofA Merrill Lynch Credit Opinion Key

BofA Merrill Lynch Global Research provides recommendations on an issuer's bonds (including corporate and sovereign external debt securities), capital securities, equity preferreds and CDS as described below. Convertible securities are not rated. An issuer level recommendation may also be provided for an issuer as explained below. BofA Merrill Lynch Global Research credit recommendations are assigned using a three-month time horizon.

Issuer Recommendations: If an issuer credit recommendation is provided, it is applicable to bonds and capital securities of the issuer except bonds and capital securities specifically referenced in the report with a different credit recommendation. Where there is no issuer credit recommendation, only individual bonds and capital securities with specific recommendations are covered. CDS and equity preferreds are rated separately and issuer recommendations do not apply to them.

BofA Merrill Lynch Global Research credit recommendations are assigned using a three-month time horizon:
Overweight: Spreads and /or excess returns are likely to outperform the relevant and comparable market over the next three months.
Marketweight: Spreads and/or excess returns are likely to perform in-line with the relevant and comparable market over the next three months.
Underweight: Spreads and/or excess returns are likely to underperform the relevant and comparable market over the next three months.

BofA Merrill Lynch Global Research uses the following rating system with respect to **Credit Default Swaps (CDS):**
Buy Protection: Buy CDS, therefore going short credit risk.
Neutral: No purchase or sale of CDS is recommended.
Sell Protection: Sell CDS, therefore going long credit risk.

BofA Merrill Lynch Research Personnel (including the analyst(s) responsible for this report) receive compensation based upon, among other factors, the overall profitability of Bank of America Corporation, including profits derived from investment banking. The analyst(s) responsible for this report may also receive compensation based upon, among other factors, the overall profitability of the Bank's sales and trading businesses relating to the class of securities or financial instruments for which such analyst is responsible.
BofA Merrill Lynch Global Credit Research analysts regularly interact with sales and trading desk personnel in connection with their research, including to ascertain pricing and liquidity in the fixed income markets.

Other Important Disclosures

This report may refer to fixed income securities that may not be offered or sold in one or more states or jurisdictions. Readers of this report are advised that any discussion, recommendation or other mention of such securities is not a solicitation or offer to transact in such securities. Investors should contact their BofA Merrill Lynch representative or Merrill Lynch Financial Global Wealth Management financial advisor for information relating to fixed income securities
Rule 144A securities may be offered or sold only to persons in the U.S. who are Qualified Institutional Buyers within the meaning of Rule 144A under the Securities Act of 1933, as amended.
SECURITIES DISCUSSED HEREIN MAY BE RATED BELOW INVESTMENT GRADE AND SHOULD THEREFORE ONLY BE CONSIDERED FOR INCLUSION IN ACCOUNTS QUALIFIED FOR SPECULATIVE INVESTMENT.
Recipients who are not institutional investors or market professionals should seek the advice of their independent financial advisor before considering information in this report in connection with any investment decision, or for a necessary explanation of its contents.
The securities discussed in this report may be traded over-the-counter. Retail sales and/or distribution of this report may be made only in states where these securities are exempt from registration or have been qualified for sale.
Officers of MLPF&S or one or more of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.
This report, and the securities discussed herein, may not be eligible for distribution or sale in all countries or to certain categories of investors.
Information relating to Affiliates of MLPF&S and Distribution of Affiliate Research Reports:
BofA Merrill Lynch includes Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S") and its affiliates. Investors should contact their BofA Merrill Lynch representative or Merrill Lynch Global Wealth Management financial advisor if they have questions concerning this report. "BofA Merrill Lynch" and "Merrill Lynch" are each global brands for BofA Merrill Lynch Global Research.
MLPF&S distributes, or may in the future distribute, research reports of the following non-US affiliates in the US (short name: legal name): BAMLI Paris: Bank of America Merrill Lynch International Limited, Paris Branch; BAMLI Frankfurt: Bank of America Merrill Lynch International Limited, Frankfurt Branch; Merrill Lynch (South Africa): Merrill Lynch South Africa (Pty) Ltd.; Merrill Lynch (Milan): Merrill Lynch International Bank Limited; MLI (UK): Merrill Lynch International; Merrill Lynch (Australia): Merrill Lynch Equities (Australia) Limited; Merrill Lynch (Hong Kong): Merrill Lynch (Asia Pacific) Limited; Merrill Lynch (Singapore): Merrill Lynch (Singapore) Pte Ltd.; Merrill Lynch (Canada): Merrill Lynch Canada Inc; Merrill Lynch (Mexico): Merrill Lynch Mexico, SA de CV, Casa de Bolsa; Merrill Lynch (Argentina): Merrill Lynch Argentina SA; Merrill Lynch (Japan): Merrill Lynch Japan Securities Co., Ltd.; Merrill Lynch (Seoul): Merrill Lynch International Incorporated (Seoul Branch); Merrill Lynch (Taiwan): Merrill Lynch Securities (Taiwan) Ltd.; DSP Merrill Lynch (India): DSP Merrill Lynch Limited; PT Merrill Lynch (Indonesia): PT Merrill Lynch Indonesia; Merrill Lynch (Israel): Merrill Lynch Israel Limited; Merrill Lynch (Russia): OOO Merrill Lynch Securities, Moscow; Merrill Lynch (Turkey I.B.): Merrill Lynch Yatirim Bank A.S.; Merrill Lynch (Turkey Broker): Merrill Lynch Menkul Değerler A.Ş.; Merrill Lynch (DIFC): Merrill Lynch International (DIFC Branch); MLPF&S (Zurich rep. office): MLPF&S Incorporated Zurich representative office; Merrill Lynch (Spain): Merrill Lynch Capital Markets Espana, S.A.S.V.; Merrill Lynch (Brazil): Bank of America Merrill Lynch Banco Multiplo S.A.; Merrill Lynch KSA Company, Merrill Lynch Kingdom of Saudi Arabia Company.
This research report has been approved for publication and is distributed in the United Kingdom to professional clients and eligible counterparties (as each is defined in the rules of the Financial Conduct Authority and the Prudential Regulation Authority) by Merrill Lynch International and Bank of America Merrill Lynch International Limited, which are authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, and is distributed in the United Kingdom to retail clients (as defined in the rules of the Financial Conduct Authority and the Prudential Regulation Authority) by Merrill Lynch International Bank Limited, London Branch, which is authorised by the Central Bank of Ireland and subject to limited regulation by the Financial Conduct Authority and Prudential Regulation Authority - details about the extent of our regulation by the Financial Conduct Authority and Prudential Regulation Authority are available from us on request; has been considered and distributed in Japan by Merrill Lynch Japan Securities Co., Ltd., a registered securities dealer under the Financial Instruments and Exchange Act in Japan; is distributed in Hong Kong by Merrill Lynch (Asia Pacific) Limited, which is regulated by the Hong Kong SFC and the Hong Kong Monetary Authority is issued and distributed in Taiwan by Merrill Lynch Securities (Taiwan) Ltd.; is issued and distributed in India by DSP Merrill Lynch Limited; and is issued and distributed in Singapore to institutional investors and/or accredited investors (each as defined under the Financial Advisers Regulations) by Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd. (Company Registration No.'s F 06872E and 198602883D respectively). Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd. are regulated by the Monetary Authority of Singapore. Bank of America N.A., Australian Branch (ARBN 064 874 531), AFS License 412901 (BANA Australia) and Merrill Lynch Equities (Australia) Limited (ABN 65 006 276 795), AFS License 235132 (MLEA) distributes this report in Australia only to 'Wholesale' clients as defined by s.761G of the Corporations Act 2001. With the exception of BANA Australia, neither MLEA nor any of its affiliates involved in preparing this research report is an Authorised Deposit-Taking Institution under the Banking Act 1959 nor regulated by the Australian Prudential Regulation Authority. No approval is required for publication or distribution of this report in Brazil and its local distribution is made by Bank of America Merrill Lynch Banco Múltiplo S.A. in accordance with applicable regulations. Merrill Lynch (DIFC) is authorized and regulated by the Dubai Financial Services Authority (DFSA). Research reports prepared and issued by Merrill Lynch (DIFC) are prepared and issued in accordance with the requirements of the DFSA conduct of business rules.

BAMLI Frankfurt distributes this report in Germany. BAMLI Frankfurt is regulated by BaFin.
This research report has been prepared and issued by MLPF&S and/or one or more of its non-US affiliates. MLPF&S is the distributor of this research report in the US and accepts full responsibility for research reports of its non-US affiliates distributed to MLPF&S clients in the US. Any US person receiving this research report and wishing to effect any transaction in any security discussed in the report should do so through MLPF&S and not such foreign affiliates.

General Investment Related Disclosures:

Taiwan Readers: Neither the information nor any opinion expressed herein constitutes an offer or a solicitation of an offer to transact in any securities or other financial instrument. No part of this report may be used or reproduced or quoted in any manner whatsoever in Taiwan by the press or any other person without the express written consent of BofA Merrill Lynch.

This research report provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other financial instrument or any derivative related to such securities or instruments (e.g., options, futures, warrants, and contracts for differences). This report is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Any decision to purchase or subscribe for securities in any offering must be based solely on existing public information on such security or the information in the prospectus or other offering document issued in connection with such offering, and not on this report.

Securities and other financial instruments discussed in this report, or recommended, offered or sold by Merrill Lynch, are not insured by the Federal Deposit Insurance Corporation and are not deposits or other obligations of any insured depository institution (including, Bank of America, N.A.). Investments in general and, derivatives, in particular, involve numerous risks, including, among others, market risk, counterparty default risk and liquidity risk. No security, financial instrument or derivative is suitable for all investors. In some cases, securities and other financial instruments may be difficult to value or sell and reliable information about the value or risks related to the security or financial instrument may be difficult to obtain. Investors should note that income from such securities and other financial instruments, if any, may fluctuate and that price or value of such securities and instruments may rise or fall and, in some cases, investors may lose their entire principal investment. Past performance is not necessarily a guide to future performance. Levels and basis for taxation may change.

BofA Merrill Lynch is aware that the implementation of the ideas expressed in this report may depend upon an investor's ability to "short" securities or other financial instruments and that such action may be limited by regulations prohibiting or restricting "shortselling" in many jurisdictions. Investors are urged to seek advice regarding the applicability of such regulations prior to executing any short idea contained in this report.

This report may contain a trading idea or recommendation which highlights a specific identified near-term catalyst or event impacting a security, issuer, industry sector or the market generally that presents a transaction opportunity, but does not have any impact on the analyst's particular “Overweight” or “Underweight” rating (which is based on a three month trade horizon). Trading ideas and recommendations may differ directionally from the analyst's rating on a security or issuer because they reflect the impact of a near-term catalyst or event.

Foreign currency rates of exchange may adversely affect the value, price or income of any security or financial instrument mentioned in this report. Investors in such securities and instruments effectively assume currency risk.

UK Readers: The protections provided by the U.K. regulatory regime, including the Financial Services Scheme, do not apply in general to business coordinated by BofA Merrill Lynch entities located outside of the United Kingdom. BofA Merrill Lynch Global Research policies relating to conflicts of interest are described at http://go.bofa.com/coi.

Officers of MLPF&S or one or more of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.

MLPF&S or one of its affiliates is a regular issuer of traded financial instruments linked to securities that may have been recommended in this report. MLPF&S or one of its affiliates may, at any time, hold a trading position (long or short) in the securities and financial instruments discussed in this report.

BofA Merrill Lynch, through business units other than BofA Merrill Lynch Global Research, may have issued and may in the future issue trading ideas or recommendations that are inconsistent with, and reach different conclusions from, the information presented in this report. Such ideas or recommendations reflect the different time frames, assumptions, views and analytical methods of the persons who prepared them, and BofA Merrill Lynch is under no obligation to ensure that such other trading ideas or recommendations are brought to the attention of any recipient of this report.

In the event that the recipient received this report pursuant to a contract between the recipient and MLPF&S for the provision of research services for a separate fee, and in connection therewith MLPF&S may be deemed to be acting as an investment adviser, such status relates, if at all, solely to the person with whom MLPF&S has contracted directly and does not extend beyond the delivery of this report (unless otherwise agreed specifically in writing by MLPF&S). MLPF&S is and continues to act solely as a broker-dealer in connection with the execution of any transactions, including transactions in any securities mentioned in this report.

Copyright, User Agreement and other general information related to this report:

Materials prepared by BofA Merrill Lynch Global Research personnel are based on public information. Facts and views presented in this material have not been reviewed by, and may not reflect information known to, professionals in other business areas of BofA Merrill Lynch, including investment banking personnel. BofA Merrill Lynch has established information barriers between BofA Merrill Lynch Global Research and certain business groups. As a result, BofA Merrill Lynch does not disclose certain client relationships with, or compensation received from, such issuers in research reports. To the extent this report discusses any legal proceeding or issues, it has not been prepared as nor is it intended to express any legal conclusion, opinion or advice. Investors should consult their own legal advisers as to issues of law relating to the subject matter of this report. BofA Merrill Lynch Global Research personnel's knowledge of legal proceedings in which any BofA Merrill Lynch entity and/or its directors, officers and employees may be plaintiffs, issuers mentioned in this report is based on public information. Facts and views presented in this material that relate to any such proceedings have not been reviewed by, discussed with, and may not reflect information known to, professionals in other business areas of BofA Merrill Lynch in connection with the legal proceedings or matters relevant to such proceedings.

This report has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of any securities. None of MLPF&S, any of its affiliates or their research analysts has any authority whatsoever to make any representation or warranty on behalf of the issuer(s). BofA Merrill Lynch Global Research policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis.

Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

The information herein (other than disclosure information relating to BofA Merrill Lynch and its affiliates) was obtained from various sources and we do not guarantee its accuracy. This report may contain links to third-party websites. BofA Merrill Lynch is not responsible for the content of any third-party website or any linked content contained in a third party website. Content contained on such third-party websites is not part of this report and is not incorporated by reference into this report. The inclusion of a link in this report does not imply any endorsement by or any affiliation with BofA Merrill Lynch. Access to any third-party website is at your own risk, and you should always review the terms and privacy policies at third-party websites before submitting any personal information to them. BofA Merrill Lynch is not responsible for such terms and privacy policies and expressly disclaims any liability for them.

All opinions, projections and estimates constitute the judgment of the author as of the date of the report and are subject to change without notice. Prices also are subject to change without notice. BofA Merrill Lynch is under no obligation to update this report and BofA Merrill Lynch's ability to publish research on the subject issuer(s) in the future is subject to applicable quiet periods. You should therefore assume that BofA Merrill Lynch will not update any fact, circumstance or opinion contained in this report.

Certain outstanding reports may contain discussions and/or investment opinions relating to securities, financial instruments and/or issuers that are no longer current. Always refer to the most recent research report relating to an issuer prior to making an investment decision.

In some cases, an issuer may be classified as Restricted or may be Under Review or Extended Review. In each case, investors should consider any investment opinion relating to such issuer (or its security and/or financial instruments) to be suspended or withdrawn and should not rely on the analyses and investment opinion(s) pertaining to such issuer (or its securities and/or financial instruments) nor should the analyses or opinion(s) be considered a solicitation of any kind. Sales persons and financial advisors affiliated with MLPF&S or any of its affiliates may not solicit purchases of securities or financial instruments that are Restricted or Under Review and may only solicit securities under Extended Review in accordance with firm policies.

Neither BofA Merrill Lynch nor any officer or employee of BofA Merrill Lynch accepts any liability whatsoever for any direct, indirect or consequential damages or losses arising from any use of this report or its contents.