High Yield Strategy | Global
06 May 2015

Collateral Damage Part I : A recovery recession

Bank of America Merrill Lynch

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

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

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

Michael Youngworth +1 646 855 6493
Quant Rel Value Strategist
MLPF&S
michael.youngworth@baml.com

The View from Above: 2014 Redux

The US economy expanded by only 0.2% in Q1. Harsh weather and 'special' factors don't seem to explain the broad weakness unlike last year. The plunge in oil prices has led to a significant decrease in equipment spending and the offset from consumer spending hasn't arrived as yet. The surge in the dollar too has been a drag on growth and will likely persist over the next few quarters. All in all, we believe the outlook for growth appears to be less rosy than thought just a few months ago. For HY the near-term bull case looks good on a relative value basis with yields still about 50bp higher than same time last year unlike in HG. That's a decent cushion even if rates continue to rise as they have in recent days.

Recovery drudgery

If our expectation for an elongated credit cycle is correct, bond holders should be just as concerned, if not more so, about recovery rates, as they are about defaults. Fundamentals in HY have not improved significantly. In addition, corporates have recently been fostering an environment where the formation of long-lasting asset wealth has been supplanted by the formation of short-term financial wealth through buybacks and dividends. This transformation will have a long lasting impact on recoveries, already corroborated by recent experience, as recovery rates have been lower-than-normal during the last several years. In this two-part series we examine the factors that determine recoveries, focusing in this piece on some of the macro variables that have traditionally been good indicators, but have diverged from realized recovery rates in recent years.

Flows: ETF fueled outflows

Outflows from US high yield funds continued last week as ETFs saw an outflow of $796mn and open-ended funds saw an outflow of $87mn, resulting in a total loss of $883mn. Non-US high yield funds reported a $301mn inflow, however, netting to a global HY outflow of $582mn.

Issuance: Slow week for new supply in high yield

Global high yield issuance slowed down last week as 8 deals for a total of $4.0bn came to market. $2.3bn came from the US and $1.8bn came from Europe. Year-to-date we now stand at $155.4bn, about $15bn ahead of last year's pace. On loans, issuance was moderate last week as $7.2bn was priced.

Performance: Loans top asset class returns

Performance lagged last week as only two asset classes posted positive returns: loans at +0.10%, and European HY at 0.07%. The biggest underperformer was EM equities, which fell 1.37% over the week.

Convertibles: Global converts post strong April returns

Global coverts saw gains in April despite weak economic data as central bank policy remained accommodative and oil prices began to stabilize. Global convertibles gained 1.71% USD in April, relative to a 2.95% USD gain for global equities.

Recent Publications

The High Yield Flow Report: ETF fueled outflows 30 April 2015

The HY Wire: Borrower, B thy name 28 April 2015

Refer to important disclosures on page 19 to 21. Analyst Certification on Page 18. COAS Certification on page 18.

Contents

The View From Above

2014 Redux

Table 1: Similar returns, yet cheaper HY market

	2015	2014
US HY		
YTD Return	3.8%	3.8%
Yield	6.0%	5.2%
OAS (bp)	451	373
HY exEnergy		
YTD Return	3.2%	3.6%
Yield	5.8%	5.3%
OAS (bp)	430	383
US HG		
YTD Return	1.2%	4.6%
Yield	3.1%	3.1%
OAS (bp)	133	114
UST		
10Y Yield	2.14%	2.58%
5Y Yield	1.50%	1.66%
S&P 500		
YTD Return	3.3%	2.4%
Index	2114	1881

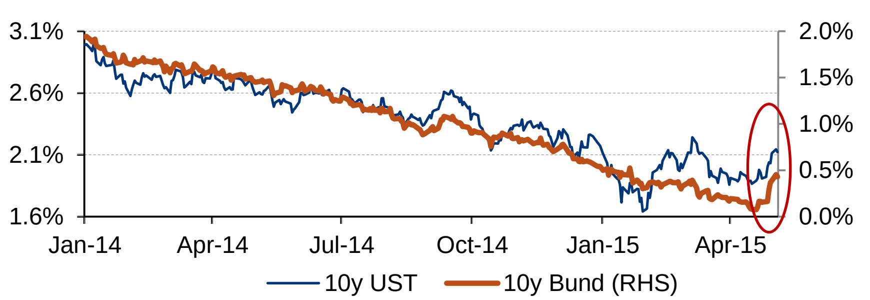
Source: BofA Merrill Lynch Global Research, Bloomberg, as of 4-May-2015 and 2-May-2014

The 1Q GDP report brought back unpleasant memories of the same quarter last year. The economy expanded only 0.2% in the first three months of this year, not very different from the first 0% estimate for Q1 2014. The latter was however eventually revised down to -2.1%. What is more worrying is that harsh weather and 'special' factors seemed like legitimate reasons to dismiss Q1 2014 as a one-off. This year though the extent of the weakness seems to surpass the case that can be made from special factors (port shutdowns and a tough winter).

Our Economists' note that the gap between their initial expectation and the actual number for Q1 was largely due to the bigger than expected impact of the plunge in oil prices (leading to very weak nonresidential structures investment, but not producing an offsetting consumer boost yet) and the strength of the dollar. While the effect of the former is likely to dissipate over the coming quarters, particularly if consumers start spending the dollars saved at the pump, currency strength may continue to remain a drag. They have accordingly revised their growth forecast for Q2 2015 to 2.5% (from 3.5%), bringing their forecast for the year to 2.4%, same as last year's pace.

The reaction of treasuries to the GDP report last week was very interesting. The string of weak data points in Q1, cemented further by the GDP report and still weak inflation has reduced the probability of even a September hike, let alone June. And yet, UST yields were up 6-8bp on the day Q1 GDP was released. The reason is something we've discussed often in these pages, that US rates particularly in the long-end are a global story now. On the same day the 10y Bund yield surged by 12bp thanks to some good data in Europe and US Treasuries followed suit (Chart 1). As we wrote recently, green shoots in Europe and the impact on US rates remains one of the lesser discussed risks among HY investors.

Chart 1: 10y treasury yields following Bunds



Source: BofA Merrill Lynch Global Research, Bloomberg

HY returns so far this year have been almost exactly the same as last year (Table 1). Strip out the Energy component though and the market is lagging by about 40bp. One thing that is definitely bullish for the asset class in the near-term is that on a relative value basis it does appear somewhat 'cheap'. HG yields are back at last May's levels but HY is still about 50bp away. That's a decent cushion even if rates continue to rise as they have in recent days.

The longer-term story continues to worry us. We've tended to focus a fair amount this year on fundamentals in the HY market which appear to be far from rosy. Weak earnings and capex growth have been particular concerns. As our

Economists note, despite a strong labor market and receding fiscal uncertainty, capital spending in this recovery has constantly disappointed expectations. One of the upshots of this trend we think has been and will likely continue to mean lower recovery rates on default. In the first of a two-part series, this piece looks at the impact of the generally less than stellar economic bounce back from the crisis and the broad implications for corporate recoveries.

Table 2: 128 HY names have reported

YoY Pct Change				QoQ Pct Change			
EBITDA	Debt	Rev	COGS	EBITDA	Debt	Rev	COGS
-11.8	12.5	-0.6	-1.5	-12.8	2.9	-5.8	-3.1

Source: BofA Merrill Lynch Global Research

Weekly Recap

As of the end of April, 128 high yield names have reported Q1 earnings. On a year-over-year basis, EBITDA is down 11.8% while debt is up 12.5% and revenues have dropped 0.6%. With less than half of companies reporting, on a quarter-over-quarter basis, revenue growth has decreased 5.8% while EBITDA growth has fallen 12.8%. Excluding energy names, year-over-year EBITDA is up 3.0%, debt is up 11.5%, and revenues are up 1.1%. Since last Friday, high yield spreads tightened 3bps from 456bps to 453bps while 5y rates increased 18bps from 1.32% to 1.50%. On flows, US high yield funds saw outflows (-$883mn) as outflows from ETFs totaled $796mn and outflows from open-ended funds totaled $87mn. US investment grade funds reported another week of strong inflows with an influx of $3.1bn. On a par weighted basis, 65% of our HY index is now trading inside a yield of 6%, down marginally from last week. US high yield issuance is about $25bn ahead of last year's pace as $2.3bn came to market last week.

Table 3: 114 HY ex-Energy names have reported

YoY Pct Change			
EBITDA	Debt	Rev	COGS
3.0	11.5	1.1	-0.9

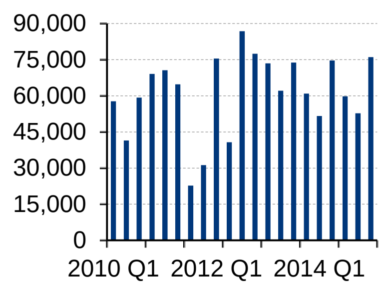
Source: BofA Merrill Lynch Global Research

Recovery drudgery

Rejoice! Low default rates

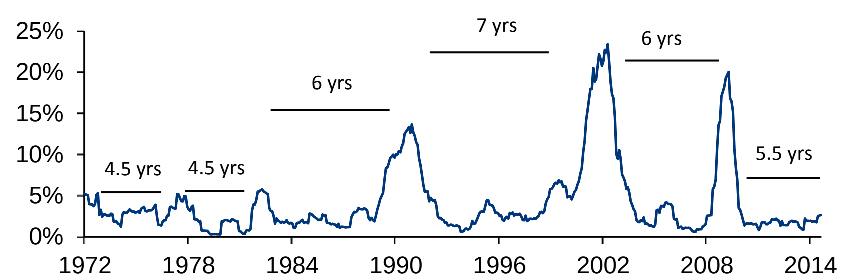
With the low-rate environment causing the extension of cheap credit to hundreds of high yield companies, we are currently bearing witness to what we believe will be an abnormally long credit cycle. As we noted last week, with default rates below historical levels, investor cash balances high, and little yield globally, Q1 saw the third most issuance in US high yield history. And with central banks continuing to provide unprecedented stimulus, with little end in sight, we don't expect a meaningful increase in defaults for several years to come. In fact, we wrote last fall that we believe this cycle will be much like that of the late 1990s, with defaults increasing to mid-single digits for a period of time before spiking significantly. Over the past 43 years, the average length of time it takes to go from the height of defaults to the lows has been about 5.5 years- the exact amount of time since the peak of bankruptcies in late 2009- but we believe there is runway for this cycle to extend several years more before we see double digit default rates.

Chart 2: Q1 Issuance ($mn) was 3rd highest ever



Source: BofA Merrill Lynch Global Research

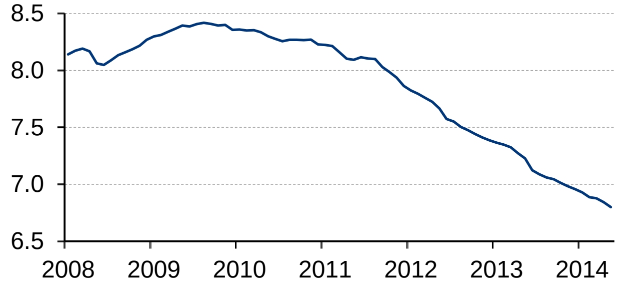
Chart 3: The average credit cycle is 5.5 years, exactly the duration of the current thus far



Source: Moody's, default rates

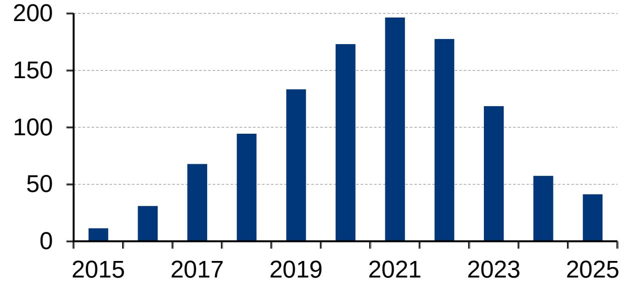
In fact, given the availability of cheap credit, the lack of an imminent maturity wall and the increase in interest coverage, high yield corporates could currently appear as a safe haven. After all, where else in the world can an investor receive a yield of nearly 6% for a 2% default rate? Consequently coupons have decreased from 8.5% to under 7% and the maturity wall has been pushed out to 2019. Note, we caution our readers to not read too much into the wall itself, as debt tends to default 12-18 months prior to maturity. The wall, therefore, *always* appears in the distant future. However, even if defaults meaningfully increase a year to a year and a half earlier, in 2017-2018, this cycle will be in line with the longest in history.

Chart 4: Coupons have decreased from 8.5% to 6.8%...



Source: BofA Merrill Lynch Global Research

Chart 5: ... and little debt ($bn) matures until 2019

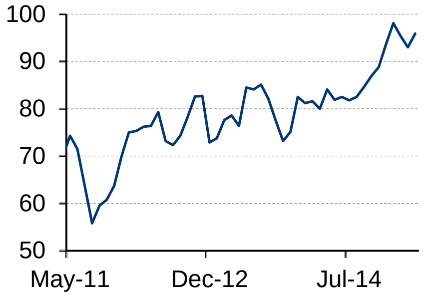


Source: BofA Merrill Lynch Global Research

But it's not necessarily all about defaults

On the surface, investors should welcome such news. However, default rates are in and of themselves not the only measure financiers should be concerned with. In fact, if our estimate is correct about an elongated cycle, we think bond holders should be just as concerned, if not more so, about recovery rates. Last year we coined the phrase "zombie companies" to characterize those issuers able to survive longer than they would otherwise be able to- either as a consequence of looser covenants or simply due to the willingness for investors to search for yield and fund nearly any high yield corporate at any cost (see above decline in coupon). In an environment where earnings and revenue are growing at a healthy clip, such reach for yield behavior could perhaps be tolerated. However, fundamentals have not improved significantly, and up until recently, clients adopted a kick the can down the road mentality. Additionally, we are in the midst of witnessing CEO decisions (buybacks/dividends) that erode value rather than create it, in our opinion, further fostering an environment where the formation of long-lasting asset wealth has been supplanted by the formation of short-term financial wealth. This transformation will have a long lasting impact on recoveries, we think, likely causing investors to recoup fewer pennies on the dollar than any time in the last 30 years.

Chart 6: UMich Consumer Confidence



Source: University of Michigan

So far recent history has corroborated this view, as recovery rates have been very low during the last several years. In this two part series we examine the many factors that determine recoveries, focusing in this publication on some of the macro variables that have traditionally been good indicators. As we will see below, however, this cycle is unlike any other; with losses given default much higher so far despite what the "literature" and conventional wisdom may otherwise imply.

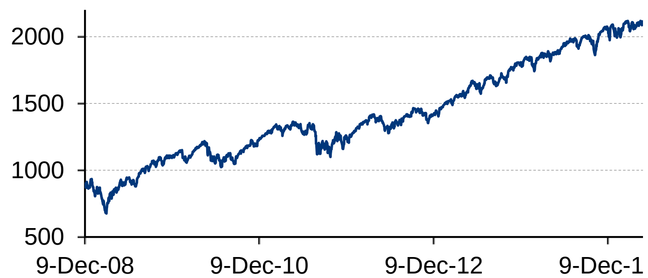
What CEOs are telling us about the economy and why that affects recovery rates

As those who read The HY Wire are keenly aware, we are far from bulls on the US economy. Our own economists have discussed at length their view that it's more the lack of fiscal austerity, in the form of sequestration, and less

Washington discord that should lead to an increase in economic growth. Couple the removal of fiscal headwinds with a consumer that should finally start to realize the benefits of lower oil prices, a healthier job market, and an increase in financial asset valuations, and the recipe is in place for a healthier economy.

The above makes plenty of sense, and may ultimately prove to be the catalysts needed to pull forward the economy to above trend growth. In fact, it is difficult to deny the recovery of the stock market or the fact that prior to last month the previous 12 months did not see one payroll report below 200,000 and averaged nearly 270,000 during that time. All of this has had the effect of lifting consumer confidence, which, in theory, should jumpstart spending.

Chart 7: S&P 500 continues to hit all-time highs…



Source: Bloomberg

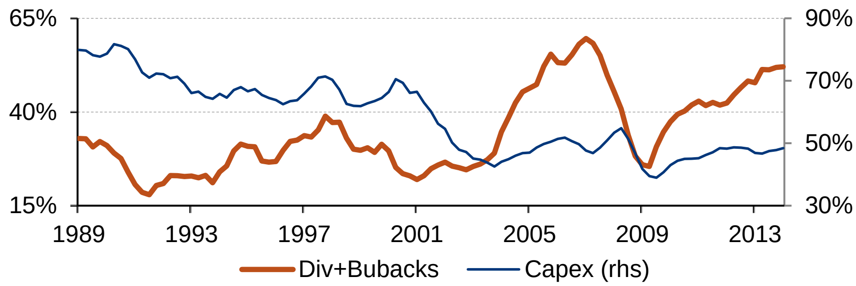
Chart 8: … while WTI has plummeted despite recent rally

Source: Bloomberg

However, we think perhaps missing from the above is the lasting psychological impact from the financial crisis. In fact we would propose that after years of stagnant income and few job prospects, the average American may be more confident, but no more willing to spend.

Perhaps a better place to see the true health of the US economy, and further see the psychological impact of the Great Recession, is by looking at the behavior of corporate CEOs. We wrote last March our expectation for CAPEX to remain deflated for the foreseeable future. Why spend on the potential for growth when you can acquire proven growth? Why increase costs when you can realize cost efficiencies through a merger? In our view the thought process behind this behavior is one of the reasons we have not had a pickup in wages and investment in the future. It also could be one of the key reasons that recovery rates are lower this cycle than during any other period in history- there is little investment in tangible assets. Furthermore, not only are CEOs not investing in growth, but by returning capital to shareholders in order to boost stock returns, they're inherently diminishing their own recovery values should the business experience trouble. As Chart 9 below shows, as a percentage of operating cash flow, S&P 500 companies today are spending at historically low levels on CAPEX while are near historical highs for dividends and buy backs.

Chart 9: Spending on dividends and buybacks (%OCF) is increasing while spending on capex (%OCF) is near historic lows



Source: Compustat, BofA Merrill Lynch US Equity & US Quant Strategy

What determines recovery rates?

Over the years there have been countless studies examining the determining factors of recovery rates. At the issuer level, one Moody's study[1] shows that seniority and security are the two most important variables followed by debt-cushion, leverage and asset tangibility. On a macro level, the paper goes on to discuss that when default rates are high, recovery values tend to be low, that recoveries are negatively correlated with spreads, and that a strong economy, as determined by strong growth and high stock market returns, tend to be positively correlated with recovery rates. Despite the findings of this and other studies, however, we see that recently recovery rates have been below normal. In our view the decrease in recoveries has less to do with some divergence between strong macro conditions and losses, but rather perhaps is an expression that the accuracy of macro variables has been obscured by loose central bank policy and record low interest rates.

Recoveries are high when default rates are low

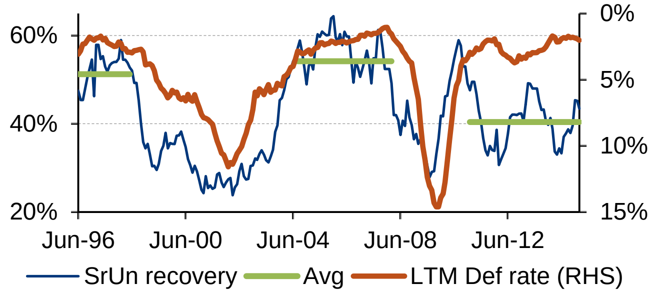
Conventional wisdom holds that with a high default rate, the market is flooded with assets for sale, creating downward pressure on prices and ultimate recovery of these companies. Additionally, the circumstances surrounding a high default environment are likely to be consistent with poor economic conditions, and subsequently lower expectations for growth, earnings, and cash flow that results in a lower value placed on assets. If these tenets hold true, then the opposite should also hold true: low defaults should mean high recoveries.

Over the last 30 years there have been 3 time periods where default rates have hovered in the 1-3% range: June 1996 - November 1998, August 2004 – July 2008 and January 2011 – March 2015[2]. Consistent with the literature, during the late 1990s losses given default (LGD) averaged about 50 cents on the dollar while in the mid-2000s LGD was an even better 45%. During the most recent low default period, however, loss given default on senior unsecured debt has jumped to 60%.

[1] Determinants of Recovery Rates on Defaulted Bonds and Loans for North American Corporate Issuers: 1983-2003

[2] Note there was a 7 month stretch from Aug 2012 through Feb 2013 where the default rate averaged 3.47%.

Chart 10: Recovery rates are low given default rates (inverse, rhs)



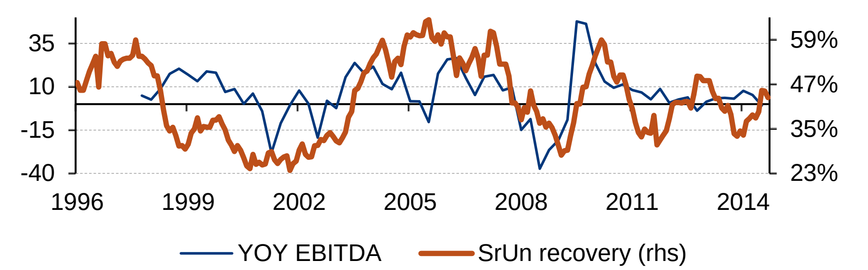
Source: BofA Merrill Lynch Global Research

Chart 11: LTM losses show that this cycle is worse than past

Source: BofA Merrill Lynch Global Research

We think the missing link between the recent low recovery rates and low default rates lies in the rationale underlying the theory. We mentioned above the circumstances surrounding a high (low) default rate environment being important; particularly expectations for growth, earnings and cash flow. Not coincidentally, if we look at YOY EBITDA growth versus senior unsecured recovery rates, there's no divergence between the two data series. In fact, the post crisis divergence seen in Chart 10 nearly completely disappears in Chart 12.

Chart 12: Expectations for earnings growth (as proxied by actual EBITDA growth) are well correlated with recovery rates



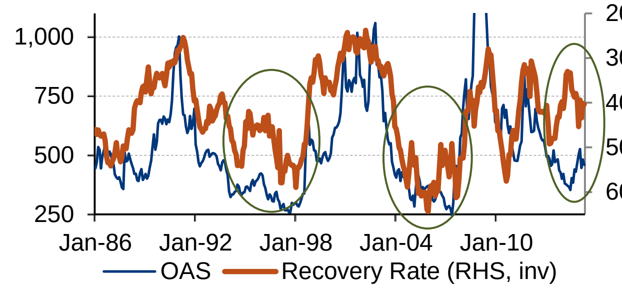
Source: BofA Merrill Lynch Global Research

We do note the spike in recovery rates at the peak of the latest default cycle in late 2009 and 2010. One explanation for this anomaly is that during the financial crisis an unusually high number of companies underwent distressed exchanges (Moody's cites 15 distressed exchanges), increasing recovery rates substantially for the universe during that time. We think this period had less to do with expectations for growth, as the YOY EBITDA figures during this time are high simply due to the low bases of 2008 and 2009.

Recoveries are negatively correlated with spreads

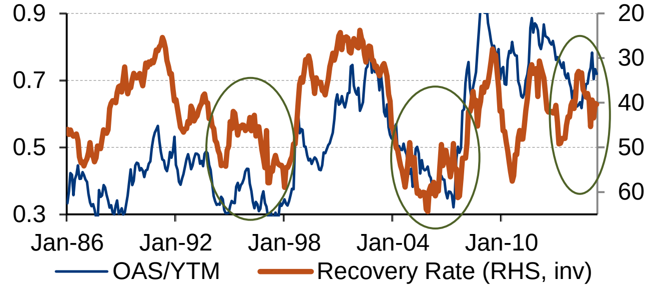
Past studies have also pointed out that spreads are negatively correlated with recovery rates. While this has held true for the most part, as Chart 12 below shows, over the last two years spreads and recovery rates have trended in the same direction. In 2013, even as spreads tightened as the Fed held off from tapering early in the year, recovery rates declined. This divergence was probably due to the market rallying as a result of continued easy monetary policy rather than an improvement in economic conditions. Come late-2014 and we see the trend reverse – wider spreads, higher recovery rate. The former was largely a result of the plunge in oil prices which wreaked havoc in the HY market. At the same time, the recovery rate does not as yet reflect defaults in the Energy sector and might in fact be expected to tick lower as those materialize.

Chart 13: Low spreads not necessarily translating into high recovery



Source: BofA Merrill Lynch Global Research

Chart 14: Perhaps because 'credit risk' is still high



Source: BofA Merrill Lynch Global Research

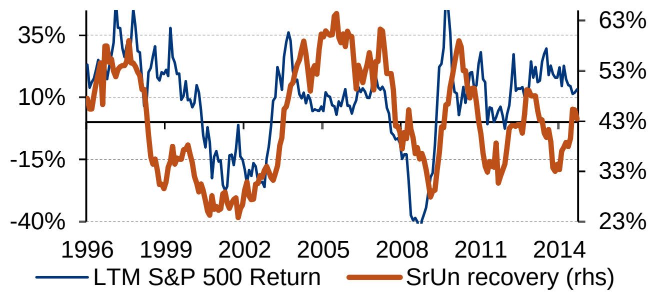
What is notable from Chart 13 is that past periods when spreads were at comparable levels did see higher recovery rates. Perhaps there is a bit of a lagged effect here as we see in the mid-90s where recovery rates wobbled a bit before increasing. But we also think the level of spreads by themselves as an absolute measure of credit risk over time may be misleading.

In Chart 14 we plot the ratio of HY spread to yield. The all-in yield is made up of two components – the risk-free rate and the spread to compensate for credit risk. The ratio then allows us to analyze the contribution that each component makes to the total yield. What Chart 14 effectively indicates is that the price of 'credit risk' within the total yield is actually quite high. In past cycles when spreads have been at similar levels, they contributed to about 30-40% of the total yield. At current levels, with rock bottom interest rates, HY spread accounts for over 70% of the yield. From that perspective, lower-than-normal recovery rates aren't all that surprising. The market has perhaps identified that credit risk, be that from defaults or recoveries and various combinations of the two hasn't really subsided as much as a time-series of spread data alone would indicate.

Recovery rates are positively correlated with stock returns

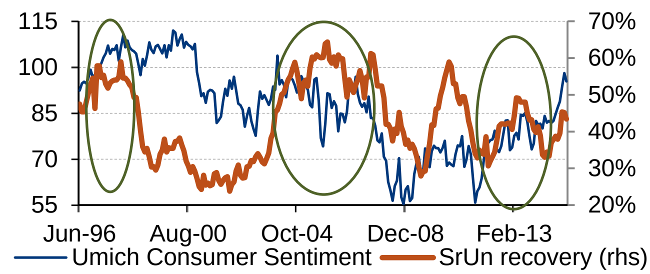
The relationship between stock returns and recovery rates is another relationship that tends to be a positively correlated one. In this case, equity investors can be viewed as pricing in a strong (weak) economy by driving up (down) corporate valuations. Chart 15 shows the last twelve month return for the S&P 500 versus recovery rates and the recent divergence between the two series. The divergence since 2Q 2013 is quite similar to the one observed above with spreads. What is more interesting we think is that while equity returns on average have been higher than in the mid-2000s and less volatile than in the late-90s, recovery rates themselves haven't attained the same level as in past cycles. In our view, this is a reflection of equity market returns reflecting buybacks and dividends, not to mention the search for yield due to unprecedented central bank liquidity more than expectations for a healthy economy.

Chart 15: LTM returns for S&P 500 vs. recovery rates



Source: BofA Merrill Lynch Global Research

Chart 16: Consumer sentiment vs. recovery rates

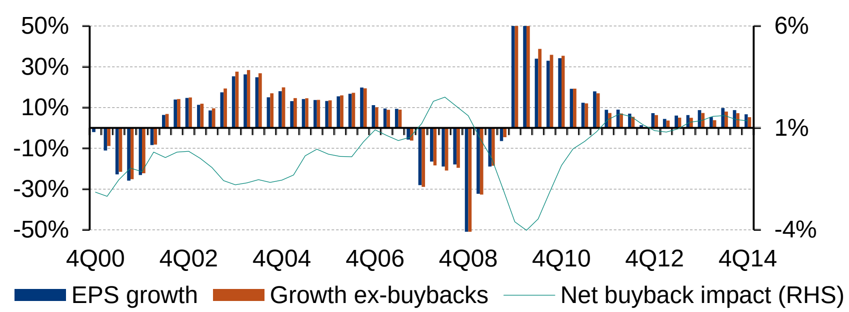


Source: BofA Merrill Lynch Global Research

As a matter of fact while equity returns by themselves may indicate higher recoveries, measures of growth expectations don't necessarily point to the same thing. For example, consumer sentiment has generally lagged the levels seen in the mid-90s and the early-to-mid-2000s (Chart 16). Low confidence, as a proxy for growth expectations, ties in with lower-than-normal recovery rates. Admittedly, since the third quarter of last year, consumer confidence has surged, but in this specific case we are a little skeptical that it points to a similar boost in growth. The recent increase in confidence is largely due to the collapse in oil prices and as we discussed earlier, that doesn't necessarily translate into imminent spending right now, in our view.

Further, equity returns have also been propped by stock buybacks post crisis. Chart 17 shows the impact of stock dividends and buybacks on earnings, specifically the difference between EPS growth ex-buybacks and actual EPS growth. Buybacks and dividends have contributed more than 1% to earnings on average over the last three years quite in contrast to being in negative territory in the pre-crisis years. EPS growth itself has been well below that seen in the early-2000s, not unlike in the HY universe. In addition to that, it has been boosted in recent years not by investment in growth, but through buybacks. This phenomenon points towards lower recoveries both now and through this cycle.

Chart 17: Adjusting EPS for stock buybacks, S&P 500



Source: BofA Merrill Lynch Global Research

In our view the macro environment clearly suggests that past variables used to measure recovery may no longer be relevant. In fact, we would argue that the current studies on recovery rates may be too simplistic at a macro level; not addressing accurately the underlying reasons for the variables to exist in the first place. In Part 2 of this series we believe we will be able to make a sound argument as to why recovery rates are likely to remain low well into the future given firm specific variables and the decisions made by CEOs and CFOs over the last several years.

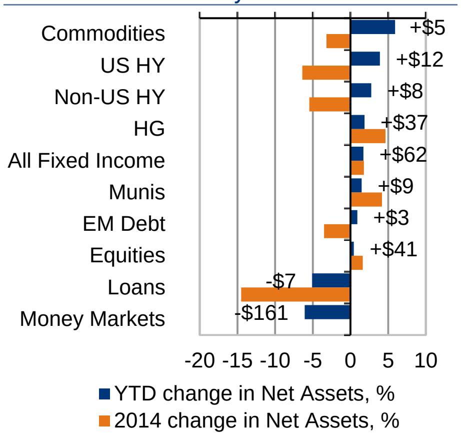
This is an excerpt from last night: The High Yield Flow Report: ETF fueled outflows 30 April 2015

Flows

Outflows from US high yield funds continued last week as ETFs saw an outflow of $796mn and open-ended funds saw an outflow of $87mn, resulting in a total loss of $883mn. Non-US high yield funds reported a $301mn inflow, however, netting to a global HY outflow of $582mn. Similarly, US loan funds lost $161mn.

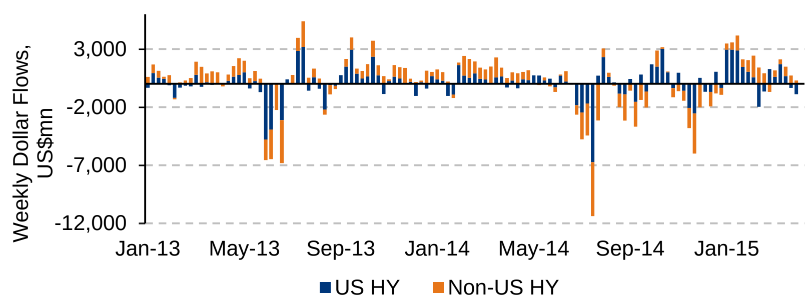
Other than high yield and loans, all other asset classes reported inflows last week, led by US investment grade which added $3.1bn. Following IG was equities (+$2.2bn) and EM bonds (+$967mn). Within EM, hard-currency funds added $798mn, blended-currency funds added $256mn, and local-currency funds lost $87mn. Other asset classes to report inflows last week include commodities (+$661mn) and munis (+$440mn).

Chart 18: Annual flows by asset class



Source: BofA Merrill Lynch Global Research, EPFR Global

Chart 19: Global HY flows distributed between US-domiciled and non US-domiciled funds



Source: BofA Merrill Lynch Global Research, EPFR Global

New Issue Roundup

Bonds

Global high yield issuance slowed down last week as 8 deals for a total of $4.0bn came to market. $2.3bn came from the US and $1.8bn came from Europe. Of the $4.0bn issued last week, $1.7bn was rated BB, $1.1bn was B, and the remaining $1.3bn was CCC or not rated. At month-end, we saw a total of $44.7bn come to market in April, while year-to-date we now stand at $155.4bn, about $15bn ahead of last year's pace. For comparison, last year at this time we had seen $140.6bn of issuance globally. The US is about $25bn ahead of last year's pace, while Europe is about $13bn behind.

Table 4: Global issuance over time ($bn)

	Global	United States	Europe	BB	B	CCC/NR
WTD May 01	4.0	2.3	1.8	1.7	1.1	1.3
Wk Apr 24	14.0	4.6	6.7	6.7	2.9	4.5
Wk Apr 17	14.3	10.0	3.6	0.8	11.2	2.3
Wk Apr 10	8.5	5.5	3.0	0.7	7.8	0.0
MTD Apr	44.7	24.4	16.5	12.0	24.2	8.5
March	47.3	36.5	10.0	19.6	22.8	4.9
February	38.1	25.4	10.0	14.8	16.3	7.0
January	25.4	14.1	10.5	5.5	18.7	1.3
YTD 2015	155.4	100.5	47.0	51.9	81.9	21.6
YTD 2014	140.6	75.7	59.5	44.4	75.2	21.1
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
2012	365.7	280.5	65.5	103.6	198.3	63.8

Source: BofA Merrill Lynch Global Research

A further analysis shows that most of the issuance (about 41%) was rated BB, while 32% was CCC and 27% was B. In terms of seniority, 86% of new issues were senior unsecured last week, while the remaining 14% were secured. Finally, all deals last week were private placements, 91% without reg rights and 9% with reg rights. Private placements have consistently outpaced public deals.

Table 5: New issue breakdown by month, last 3 months

		Ratings				Currency (US$mn equivalents)				Seniority			Deal Type		
	Total	BB	B	CCC	NR	USD	EUR	GBP	CAD	Secured	Senior	Sub	144a w RR	144a w/o RR	Public
01/23/2015	6,531	1,127	4,704	700		4,800	1,504	227		1,340	5,192		3,492	2,640	400
01/30/2015	10,596	1,287	8,746	564		8,075	2,234	287		5,571	5,025		4,060	5,886	650
02/06/2015	9,054	825	7,026	875	328	7,100	1,954			1,179	7,875		4,366	4,188	500
02/13/2015	14,790	9,329	1,885	2,450	1,126	11,085	3,166			9,018	4,907	865	1,411	11,319	2,060
02/20/2015	7,067	1,967	4,100	1,000		6,450		617		950	6,067	50	1,200	4,367	1,500
02/27/2015	7,153	2,650	3,275	660	568	6,585	568			2,703	4,450		2,000	3,978	1,175
03/06/2015	10,572	4,550	3,950	730	1,342	8,390	2,182			3,725	6,847		1,480	7,442	1,650
03/13/2015	18,643	4,030	14,102	250	261	15,457	2,925	261		2,958	15,685		2,737	13,806	2,100
03/20/2015	7,779	2,375	3,076	1,800	528	4,430	2,574	775		1,594	5,985	200	3,527	3,324	928
03/27/2015	8,763	7,138	1,625			7,315	1,448			2,279	6,484		4,434	2,579	1,750
04/03/2015	5,303	3,658	1,230	415		3,685	1,618			2,957	2,346		1,636	3,092	575
04/10/2015	8,510	700	7,810			8,510				1,400	7,110		4,710	3,300	500
04/17/2015	14,347	850	11,190	1,719	588	10,750	2,833	297		3,378	10,968		9,203	2,590	2,554
04/24/2015	14,033	6,689	2,872	2,172	2,300	10,615	3,418			6,614	7,419		2,334	10,342	1,357
05/01/2015	4,016	1,658	1,098	1,260		2,810	1,206			550	3,466		350	3,666	

Source: BofA Merrill Lynch Global Research

At the single name level, the largest last week was the $1.0bn two-part offering from Micron Technology Inc. Both tranches are unsecured, and one pays a 5.625% coupon and one pays a 5.25% coupon. Proceeds from the deal will be used to repay existing debt, including its convertible notes. Other large deals last week include the $658mn offering from Crown European Holdings SA and the $550mn offering from Anthem Rentals Inc.

Table 6: New issues April 24th – April 30th

Pricing Dt	Name	Size ($)	Snr	Cpn	Maturity	Price	Yield	Moody's	S&P	Type	Sector	Region
4/30/2015	Ahern Rentals Inc	550	Sr Sec Nts	7.74	15-May-23	100.00	7.38	B3	B	144A for Life	Commercial Services	United States
4/29/2015	JLL/ Delta Dutch Pledgeco BV (DPX Holdings)	550	Sr Nts	8.75	1-May-20	100.00	8.75	Caa2	CCC+	144A for Life	Pharmaceuticals	Europe
4/29/2015	Global Cash Access LLC	350	Sr Nts	10.00	15-Jan-22	91.46	11.88	Caa1	CCC+	144A w/RR	Commercial Services	United States
4/28/2015	Crown European Holdings SA	658	Sr Nts	3.38	15-May-25	100.00	3.38	Ba2	BB	144A for Life	Packaging&Containers	Europe
4/28/2015	Cirsa Funding Luxembourg Sa	548	Sr Nts	5.88	15-May-23	99.21	6.00	B3	B+	144A for Life	Leisure Time	Europe
4/28/2015	21st Century Oncology Inc	360	Sr Nts	11.00	1-May-23	100.00	11.00	Caa2	CCC	144A for Life	Healthcare-Services	United States
4/27/2015	Micron Technology Inc	450	Sr Nts	5.63	15-Jan-26	100.00	5.63	Ba3	BB	144A for Life	Semiconductors	United States
4/27/2015	Micron Technology Inc	550	Sr Nts	5.25	15-Jan-24	100.00	5.25	Ba3	BB	144A for Life	Semiconductors	United States
4/24/2015	Rapid Holdings (Senvion)	435	Sr Sec Nts	6.63	15-Nov-20	100.00	6.63	B2	B+	144A w/RR	Electrical Compo&Equip	Europe
4/24/2015	ZF North America Capital, Inc (ZF Friedrichshafen AG)	1500	Sr Nts	4.75	29-Apr-25	99.02	4.88	Ba2	BB	144A for Life	Auto Parts&Equipment	Europe
4/24/2015	ZF North America Capital, Inc (ZF Friedrichshafen AG)	1000	Sr Nts	4.50	29-Apr-22	99.26	4.63	Ba2	BB	144A for Life	Auto Parts&Equipment	Europe
4/24/2015	ZF North America Capital, Inc (ZF Friedrichshafen AG)	1000	Sr Nts	4.00	29-Apr-20	99.44	4.13	Ba2	BB	144A for Life	Auto Parts&Equipment	Europe
4/24/2015	Techniplas LLC	175	Sr Sec Nts	10.00	1-May-20	100.00	10.00	Caa1	B	144A for Life	Miscellaneous Manufactur	United States
4/24/2015	Optimas OE Solutions Holding LLC	225	Sr Sec Nts	8.63	1-Jun-21	100.00	8.63	B3	B-	144A for Life	Metal Fabricate/Hardware	United States
4/24/2015	Horizon Pharma plc	475	Sr Nts	6.63	1-May-23	100.00	6.63	B2	B-	144A for Life	Holding Companies-Divers	United States

Source: BofA Merrill Lynch Global Research

Loans

Global loan issuance was moderate last week as $7.2bn was priced. Most of the new supply, about $4.8bn, was BB-rated while the remaining $2.4bn was B-rated. Cov-lite issuance totaled $5.0bn while there was no new 2nd lien issuance. At April month-end, we saw total of $29.5bn come to market while year-to-date we have seen a total of $85.7bn. Last year at this time, we had already seen $174.2bn of new supply.

Table 7: Global loan issuance over time ($bn)

	Global	BB	B	CCC/NR	Cov lite	2nd lien
WTD May 01	7.2	4.8	2.4	0.0	5.0	0.0
Wk Apr 24	6.7	2.5	4.0	0.3	3.3	0.3
Wk Apr 17	4.8	1.1	3.6	0.0	3.2	0.0
Wk Apr 10	6.9	4.1	2.5	0.3	6.4	0.3
MTD Apr	29.5	14.8	14.0	0.7	21.7	0.7
March	23.6	13.9	9.6	0.1	10.7	0.5
February	15.0	6.8	7.5	0.7	10.9	0.9
January	17.6	5.2	10.3	2.1	11.9	0.9
YTD 2015	85.7	40.7	41.4	3.6	55.2	3.0
YTD 2014	174.2	49.9	100.3	24.0	125.1	16.3
2014	379.4	109.5	218.3	51.6	267.1	36.6
2013	454.9	152.8	261.7	40.4	279.1	28.9
2012	295.3	105.0	161.9	28.4	97.5	17.2

Source: BofA Merrill Lynch Global Research, S&P Capital IQ

Breaking last week's new supply down further, about 67% of new issues were BB-rated and 33% were B-rated. About 70% of new supply was cov-lite and all was term loan B.

Table 8: New issue breakdown by month, last 3 months

		Ratings						
	Total	BB	B	CCC	NR	TLb	2nd Lien	Cov Lite
01/23/2015	4,552		3,252	1,300		4,552		1,370
01/30/2015	5,030	4,450	580			5,030		5,030
02/06/2015	2,718	820	1,783	115		2,603	115	1,695
02/13/2015	9,101	4,300	4,236	565		8,536	565	8,052
02/20/2015	1,306	700	606			1,226	80	691
02/27/2015	1,839	979	860			819	170	460
03/06/2015	4,387	2,988	1,399			4,012	375	2,942
03/13/2015	7,004	4,419	2,585			7,004		1,415
03/20/2015	6,477	4,541	1,936			6,477		3,026
03/27/2015	3,390	1,415	1,975			3,390		1,920
04/03/2015	6,375	2,865	3,208	302		6,073	302	5,115
04/10/2015	6,851	4,070	2,486	295		6,556	295	6,434
04/17/2015	4,755	1,125	3,630			4,755		3,230
04/24/2015	6,732	2,459	4,003	270		6,462	270	3,288
05/01/2015	7,205	4,825	2,380			7,205		5,045

Source: BofA Merrill Lynch Global Research, S&P Capital IQ

At the single-name level, the largest deal last week was the $2.0bn offering from Level 3 Communications Inc. The loan is a cov-lite TLb and is priced to yield 275bps above Libor with a 75bps floor. Proceeds from the deal will be used for refinancing. Other deals last week include the $1.05bn offering from Sterigenics International and the $1.0bn offering from Royalty Pharma Finance Trust.

Table 9: Top 10 largest new issues, April 24th – April 30th

Launch Dt	Issuer	Deal Name	Deal Size ($)	New Institutional Money ($)	Moody's	S&P	Asset Backed	Cov Lite	Proceeds	Sector	Region
4/30/2015	Level 3 Communications Inc	Level 3 Financing (5/15)	2000	2000	Ba2	BB	No	Yes	Refinancing	Telecom	United States
4/27/2015	Sterigenics International	Sterigenics (TL 5/15)	1050	1050	B1	B	No	Yes	LBO	Healthcare	United States
4/27/2015	Royalty Pharma Finance Trust	Royalty Pharma (Add-on 5/15)	1000	1000	Baa2	BBB-	No	No	Refinancing	Services & Leasing	United States
4/30/2015	Quintiles Transnational Corp	Quintiles (TLb 5/15)	500	500	Ba3	BB+	No	Yes	Refinancing	Services & Leasing	United States
4/27/2015	Houghton Mifflin Harcourt Publishing Co	Houghton Mifflin (5/15)	500	500	B1	BB	No	No	Acquisition	Printing & Publishing	United States
4/29/2015	A. Schulman Inc	A. Schulman (US TL 5/15)	425	425	Ba3	BB-	No	Yes	Acquisition	Chemicals	United States
4/28/2015	Acrisure LLC	Acrisure (5/15)	485	410	B2	B	No	No	Acquisition	Insurance	United States
4/28/2015	Black Knight Financial Services	Black Knight (TLb 5/15)	400	400	Ba2	BB	No	Yes	Bridge to IPO	Computers & Electronics	United States
4/28/2015	National Surgical Hospitals Inc	National Surgical (TL 5/15)	405	365	B1	B	No	Yes	Acquisition	Healthcare	United States
4/24/2015	Bioplan	Bioplan (TL 5/15)	283	283	B2	B+	No	Yes	Acquisition	Manufacturing & Machinery	United States

Source: BofA Merrill Lynch Global Research, S&P Capital IQ

Performance Summary

Performance lagged last week as only two asset classes posted positive returns: loans, which added +0.10%, and European HY, which added 0.07% (Table 10). US high yield declined 0.15%, CDX HY dropped 0.15%, and the S&P lost 0.44%. The biggest underperformer was EM equities, which fell 1.37% over the week.

Despite the weakness in HY (and just about all asset classes for that matter), CCCs and distressed debt managed to outperform (Chart 20). CCC names advanced 0.24% and distressed gained 0.50%. On sectors, performance was mostly negative with only 4 of 18 high yield sectors gaining on the week (Chart 21). Energy led, adding 0.36%, followed by Consumer Products (+0.29%) and Food (+0.12%). Autos underperformed the most with a loss of 0.73%.

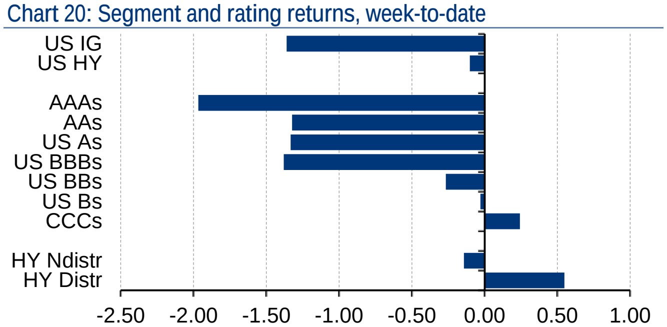
Sabine Oil and Gas led top performers last week with a gain of 30.4% off the low price base of 16.75. The company recently missed an interest payment on its second-lien term loan, and last week its lenders cut its line of credit by 25%. Other top names were also energy companies: Cliffs, Seventy Seven Energy, Energy XXI Gulf, SandRidge, etc (Table 11). On the other hand, bottom performers were led by the Alpha Natural 6's, which declined 34.5% after reporting a larger than expected loss in Q1 (Table 12).

Table 10: Total returns across asset classes

Ticker	Name	WTD (%)	MTD (%)	YTD (%)
MXEF	EM Eqty	-1.37	-0.17	9.38
C0A0	US IG	-1.36	-0.44	1.26
G0QI	TIPs	-1.01	-0.46	1.65
GA05	5yr TRSY	-0.83	-0.31	1.28
EMGB	EM Govts	-0.76	-0.22	3.02
U0A0	Municipals	-0.56	-0.15	0.42
EMIB	EM IG	-0.51	-0.25	2.64
SPX	S&P 500	-0.44	1.09	2.40
M0A0	Mortgages	-0.36	-0.16	0.89
CDXHY	CDX.HY	-0.15	0.14	1.83
H0A0	US HY	-0.10	0.02	3.79
CDXIG	CDX.IG	-0.07	0.03	0.47
EMHB	EM HY	0.00	-0.03	7.10
HE00	EU HY	0.07	0.02	3.58
LCDI/ALL	Lev Loans	0.10	0.00	3.07

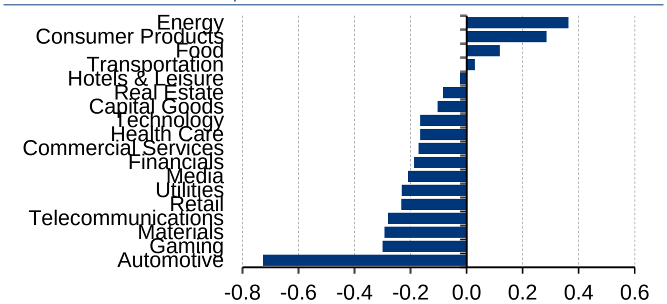
Source: BofA Merrill Lynch Global Research

Chart 20: Segment and rating returns, week-to-date



Source: BofA Merrill Lynch Global Research

Chart 21: Sector returns, week-to-date



Source: BofA Merrill Lynch Global Research

Table 11: Top 10 performers April 24th – May 1st

Issue	Rating	Price	Yield (%)	ZSpread	Px Change	Px Change (%)	Volume
SOGC 9.75 '17	C	16.75	164.46	16245	3.9	30.4	33
CLF 4.8 '20	CCC1	58.50	16.78	1508	5.7	10.7	8
SSE 6.5 '22	B3	58.22	16.68	1481	5.3	9.9	28
EXXI 7.75 '19	CCC1	50.00	29.52	2805	3.1	6.6	15
BAS 7.75 '22	B2	82.89	11.20	929	5.0	6.4	17
EXXI 7.5 '21	CCC2	42.22	26.44	2466	2.5	6.2	40
EXXI 8.25 '18	CCC2	80.50	17.39	1623	3.9	5.1	18
SD 8.13 '22	B3	70.21	14.88	1299	2.7	4.0	24
BAS 7.75 '19	B2	86.78	12.22	1084	3.3	4.0	45
MCP 10 '20	CCC1	49.82	29.77	2819	1.8	3.6	10

Source: BofA Merrill Lynch Global Research

Table 12: Bottom 10 performers April 24th – May 1st

Issue	Rating	Price	Yield (%)	ZSpread	Px Change	Px Change (%)	Volume
ANR 6 '19	CCC3	20.98	59.20	5769	-11.1	-34.5	23
BTU 6.25 '21	B2	59.57	16.63	1481	-5.4	-8.3	22
BTU 6.5 '20	B2	61.87	17.83	1618	-5.6	-8.2	30
BTU 6 '18	B2	78.10	14.09	1276	-4.3	-5.2	46
GM 6.25 '43	BB1	119.41	4.97	247	-4.9	-3.9	17
GM 5.2 '45	BB1	105.23	4.87	234	-4.2	-3.9	10
AMD 7.75 '20	B3	81.72	12.62	1096	-3.2	-3.8	66
AMD 6.75 '19	B3	87.01	11.00	962	-3.3	-3.6	14
AMD 7.5 '22	B3	82.49	11.06	917	-2.5	-2.9	26
GM 5 '35	BB1	103.40	4.73	228	-3.1	-2.9	7

Source: BofA Merrill Lynch Global Research

Rating Actions

There were numerous ratings actions on high yield issuers last week split fairly evenly between upgrades and downgrades, and there was one default. Moody's lifted Hot Topic Inc's senior secured debt from B2 to B1 and HT Intermediate Holdings Corp's unsecured debt from Caa2 to Caa1. The ratings agency said the upgrade reflects the company's enhanced liquidity following the announced sale of Torrid and its improved credit metrics as a result of strong operating performance. Moody's also lifted Regency Energy Partners LP's unsecured debt to investment grade (from Ba3 to Baa3). The upgrade followed the closing of Energy Transfer Partner's acquisition of the company and guarantee of its debt.

On downgrades, S&P dropped Penn National Gaming Inc from BB- to B+ due to their expectation that the incremental debt the company will incur to fund their acquisition of Tropicana Las Vegas will result in minimal to negative free cash flow through 2016. Also on downgrades, Moody's lowered Avon Products Inc's unsecured debt from Ba1 to Ba3 due to their prediction that the company's free cash flow will decline "meaningfully" this year following its earnings miss on April 30th.

Finally, we saw one default last week as S&P listed Halcon Resources in selective default in response to the company's announcement of a distressed exchange. The company has come to an agreement with some unsecured bondholders that will allow them to exchange their notes for common stock.

Table 13: Ratings actions on HY issuers

Date	Action	Company Name	Rating Type	Agency	Curr Rtg	Last Rtg
4/27/2015	Upgrade	Extended Stay America Inc	LT Local Issuer Credit	S&P	BB-	B+
4/27/2015	Upgrade	Ikaria Inc	LT Local Issuer Credit	S&P	BB-	B-
4/29/2015	Upgrade	Hughes Satellite Systems Corp	LT Local Issuer Credit	S&P	BB-	B+
4/29/2015	Upgrade	Sprouts Farmers Market Inc	LT Local Issuer Credit	S&P	BB	BB-
4/30/2015	Upgrade	Goodyear Tire & Rubber Co/The	LT Local Issuer Credit	S&P	BB	BB-
4/30/2015	Upgrade	Diamond Resorts Corp	Senior Secured Debt	Moody's	B1	B2
5/1/2015	Upgrade	Marina District Development Co LLC	LT Local Issuer Credit	S&P	B+	B
5/1/2015	Upgrade	Standard Pacific Corp	LT Local Issuer Credit	S&P	BB-	B+
5/1/2015	Upgrade	Hot Topic Inc	Senior Secured Debt	Moody's	B1	B2
5/1/2015	Upgrade	HT Intermediate Holdings Corp	Senior Unsecured Debt	Moody's	Caa1	Caa2
5/1/2015	Upgrade	Regency Energy Partners LP	Senior Unsecured Debt	Moody's	Baa3	Ba3 *+
4/27/2015	Initiated	Sterigenics-Nordion Holdings LLC	LT Local Issuer Credit	S&P	B	
4/27/2015	Initiated	ESH Hospitality Inc	Senior Unsecured Debt	Moody's	B3	
4/28/2015	Initiated	A Schulman Inc	LT Local Issuer Credit	S&P	BB-	
4/28/2015	Initiated	Acrisure LLC	LT Local Issuer Credit	S&P	B	
4/28/2015	Initiated	Houghton Mifflin Harcourt Co	LT Local Issuer Credit	S&P	B+	
4/28/2015	Initiated	A Schulman Inc	Senior Unsecured Debt	Moody's	B3	
4/29/2015	Initiated	Aria Energy Operating LLC	LT Local Issuer Credit	S&P	B	
4/29/2015	Initiated	Script Relief LLC	LT Local Issuer Credit	S&P	B+	
4/30/2015	Initiated	Horizon Global Corp	LT Local Issuer Credit	S&P	B	

Table 13: Ratings actions on HY issuers

Date	Action	Company Name	Rating Type	Agency	Curr Rtg	Last Rtg
4/30/2015	Initiated	Royal Holdings Inc	LT Local Issuer Credit	S&P	B-	
4/30/2015	Initiated	TouchTunes Interactive Networks Inc	LT Local Issuer Credit	S&P	B	
5/1/2015	Initiated	PBF Logistics LP	Senior Unsecured Debt	Moody's	B3	
5/4/2015	Initiated	PBF Logistics LP	LT Local Issuer Credit	S&P	B+	
4/28/2015	Downgrade	Claire's Stores Inc	LT Local Issuer Credit	S&P	CCC	B-
4/29/2015	Downgrade	Penn National Gaming Inc	LT Local Issuer Credit	S&P	B+	BB-
4/29/2015	Downgrade	Alta Mesa Holdings LP	Senior Unsecured Debt	Moody's	Caa1 *-	B3
4/29/2015	Downgrade	DFC Finance Corp	Senior Secured Debt	Moody's	B3 *-	B2
4/30/2015	Downgrade	CKX Entertainment Inc	LT Local Issuer Credit	S&P	CCC+	B *-
4/30/2015	Downgrade	Comstock Resources Inc	LT Local Issuer Credit	S&P	B-	B
4/30/2015	Downgrade	EXCO Resources Inc	LT Local Issuer Credit	S&P	B-	B
4/30/2015	Downgrade	PetroQuest Energy Inc	LT Local Issuer Credit	S&P	B-	B
4/30/2015	Downgrade	Royal Holdings Inc/IN	LT Local Issuer Credit	S&P	B-	B
5/1/2015	Downgrade	Avon Products Inc	Senior Unsecured Debt	Moody's	Ba3	Ba1
5/1/2015	Downgrade	Weight Watchers International Inc	LT Local Issuer Credit	S&P	B-	B
4/27/2015	Dropped	Allied Nevada Gold Corp	LT Local Issuer Credit	S&P	NR	D
4/28/2015	Dropped	Baker & Taylor Acquisitions Corp	LT Local Issuer Credit	S&P	NR	B-
4/28/2015	Dropped	Baker & Taylor Inc	LT Local Issuer Credit	S&P	NR	B-
4/28/2015	Dropped	Ikaria Inc	LT Local Issuer Credit	S&P	NR	BB-
4/29/2015	Dropped	Sprouts Farmers Markets Holdings LLC	LT Local Issuer Credit	S&P	NR	BB-
5/1/2015	Dropped	Townsquare Radio LLC	LT Local Issuer Credit	S&P	NR	B
5/4/2015	Dropped	Marquette Transportation Co LLC	Senior Secured Debt	Moody's	WR	B3
5/1/2015	Defaulted	Halcon Resources Corp	LT Local Issuer Credit	S&P	SD	CCC+

Source: BofA Merrill Lynch Global Research

Relative Value

Cash v. CDS

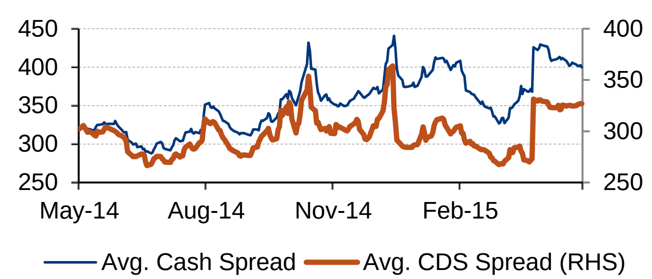
Our HY cash index tightened last week while CDX HY widened. The former tightened 3bps, while the latter widened 5bps. In contrast, HG cash widened 1bp versus a 2bp widening for CDX IG (Table 14). The average cash-CDS basis for the CDX HY issuers we track became more positive (Chart 23). The average basis now stands at -73bps, about 8bp wider over the week.

Table 14: CDX vs. ML Cash Indices

Index	Spread	1W-Chng	1M-Chng	3M-Chng
CDX IG	63	2	0	-8
HG Cash	133	1	-4	-20
CDX HY	338	5	-3	-73
HY Cash	453	-3	-33	-73

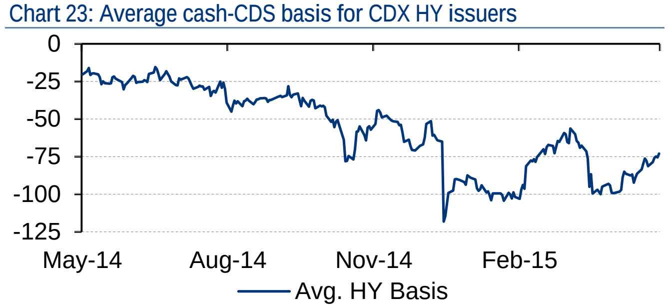
Source: BofA Merrill Lynch Global Research, 5y spreads for CDX, OAS for cash

Chart 22: 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 23: Average cash-CDS 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

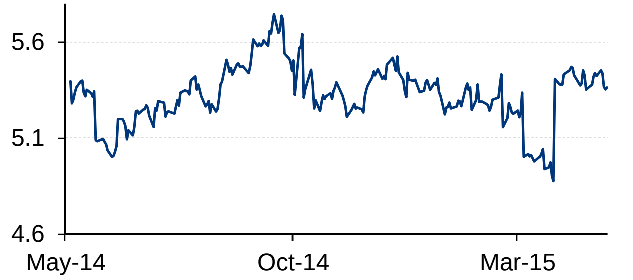
US CDS indices were wider on the week while European CDS indices tightened (Table 15). As aforementioned, CDX IG and HY widened 2bps and 5bps respectively, while their European counterparts each tightened 2bps. Skews were positive for CDX IG and CDX HY, but were negative for iTraxx Main and Crossover. The ratio between HY and IG decreased slightly and now stands at 5.36 (Chart 24). The XO-HY spread differential was 6bps lower over the week and now stands at -67bps (Chart 25).

Table 15: 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	63	2	0	-8	65	0	-3	-14	-1	2	2	6
CDX HY	338	5	-3	-73	335	3	0	-68	3	1	-3	-5
iTraxx Main	60	-2	3	-6	59	-1	2	-7	1	-1	1	1
iTraxx XO	271	-2	10	-57	277	-1	0	-53	-6	-1	10	-4

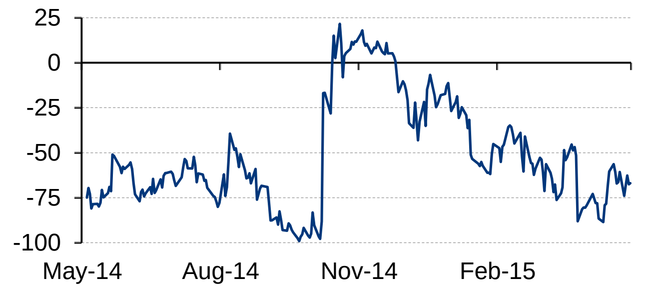
Source: BofA Merrill Lynch Global Research

Chart 24: HY/IG



Source: BofA Merrill Lynch Global Research

Chart 25: XO-HY

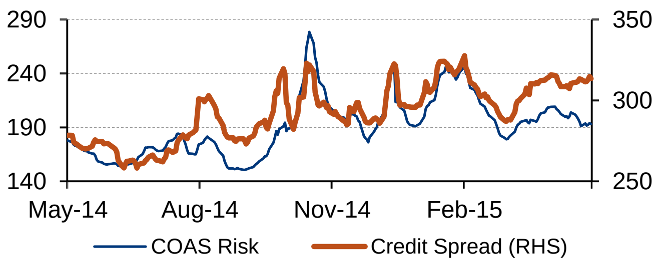


Source: BofA Merrill Lynch Global Research

Credit v. Equities

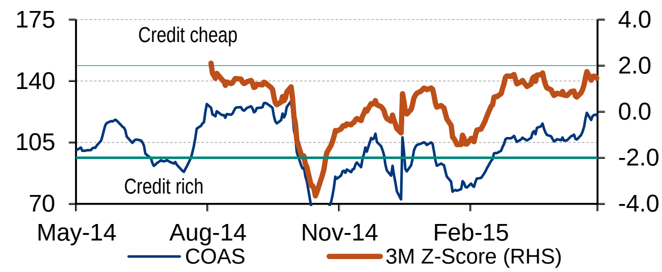
Average spread for our HY universe was unchanged compared to a 2bps rise in the equity implied credit risk (Chart 26). The US HY COAS value declined over the week and its 3m z-score is now at 1.46 indicating that credit appears cheap relative to equities (Chart 27).

Chart 26: US HY COAS Risk vs. Spread



Source: BofA Merrill Lynch Global Research

Chart 27: US HY COAS & Z-Score



Source: BofA Merrill Lynch Global Research

Convertibles

Global coverts saw gains in April despite moderately weak economic data as central bank policy remained accommodative and oil prices began to stabilize. Global convertibles gained 1.71% USD in April, relative to a 2.95% USD gain for global equities. The best performing region in USD terms was Asia-ex Japan (VR40), which gained 8.7% USD, followed by EM (VEMG), which added 2.7% USD. However, gains in all of our regions were heavily impacted by currency effects as the dollar weakened a bit during April. Most notable is Europe, which gained 2.4% USD but declined 1.4% on a local-currency basis.

Table 16: Global convert performance, USD

Index Name	Apr '15 USD	YTD USD	Index Code
G300	1.7%	3.9%	VG00
G300 (ex US)	4.0%	4.6%	VG2I
G300 (ex Japan)	1.7%	3.8%	VGXJ
US	0.7%	3.8%	VXA0
Japan	1.9%	6.9%	VR20
Europe	2.4%	-0.8%	VR30
Asia ex-Japan	8.7%	16.0%	VR40
Emerging Markets	2.7%	8.5%	VEMG

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.

Important Disclosures

BofA Merrill Lynch Credit Opinion Key

The BofA Merrill Lynch Global Research Credit Opinion Key is designed to allow BofA Merrill Lynch Global Credit Research to provide recommendations on an issuer's bonds, capital securities, equity preferreds and CDS as described below. An issuer level recommendation may also be provided in respect of 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 all bonds of the issuer except bonds specifically referenced in the report with a different credit recommendation. Where there is no issuer credit recommendation, only individual bonds with specific recommendations are covered.

Issuer credit recommendations do not cover equity preferreds or CDS related to the issuer. Issuer credit recommendations do not cover capital securities of the issuer unless a statement to that effect is provided in the relevant research report.

CDS Recommendations: CDS are recommended on an individual basis under the Credit Opinion Key. Issuer credit recommendations do not apply to CDS.

Capital Securities: Capital securities are recommended individually unless the research report specifically states that the issuer credit recommendation applies to such securities. In cases where the issuer credit recommendation applies to capital securities of the issuers, it is not applicable to capital securities that we classify as equity preferreds.

Equity Preferreds: Equity preferreds are recommended on an individual basis under the Credit Opinion Key. Issuer credit recommendations do not apply to equity preferreds.

Recommendation	Investor Action Points (Cash and/or CDS)	Primary Investment Return Driver
Overweight-100%	Up to 100% Overweight of investor's guidelines	Compelling spread tightening potential
Overweight-70%	Up to 70% Overweight of investor's guidelines	Carry, plus some spread tightening expected
Overweight-30%	Up to 30% Overweight of investor's guidelines	Good carry, but little spread tightening expected
Underweight-30%	Down to 30% Underweight of investor's guidelines	Unattractive carry, but spreads unlikely to widen
Underweight-70%	Down to 70% Underweight of investor's guidelines	Expected spread underperformance
Underweight-100%	Down to 100% Underweight of investor's guidelines	Material spread widening expected

Time horizon – our recommendations have a 3 month trade horizon

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 revenues.

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): Merrill Lynch (France): Merrill Lynch Capital Markets (France) SAS; Merrill Lynch (Frankfurt): Merrill Lynch International Bank Ltd., 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 (Dubai): Merrill Lynch International, Dubai 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 (Dubai) is authorized and regulated by the Dubai Financial Services Authority (DFSA). Research reports prepared and issued by Merrill Lynch (Dubai) are prepared and issued in accordance with the requirements of the DFSA conduct of business rules.

Merrill Lynch (Frankfurt) distributes this report in Germany. Merrill Lynch (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://www.ml.com/media/43347.pdf.

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:

 This research report is prepared for the use of BofA Merrill Lynch clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of BofA Merrill Lynch. BofA Merrill Lynch Global Research reports are distributed simultaneously to internal and client websites and other portals by BofA Merrill Lynch and are not publicly-available materials. Any unauthorized use or disclosure is prohibited. Receipt and review of this research report constitutes your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this report (including any investment recommendations, estimates or price targets) without first obtaining express permission from an authorized officer of BofA Merrill Lynch.

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 companies 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, defendants, co-defendants or co-plaintiffs with or involving companies 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 company(ies) 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 a company or issuer prior to making an investment decision.

In some cases, a company or 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 company or 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.