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RESEARCH QUARTERLY

Second Quarter 2014

RESEARCH REPORT

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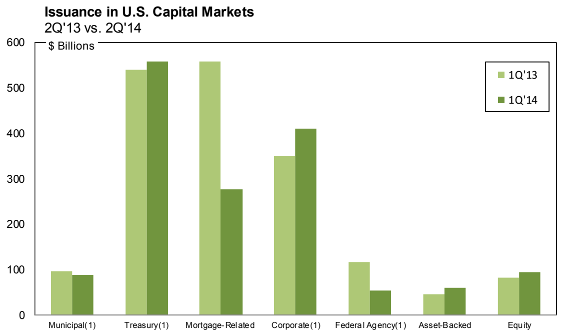
CAPITAL MARKETS OVERVIEW



Note: Includes long-term issuance only
Source: Thomson Reuters, U.S. Treasury, U.S. Federal Agencies

Issuance Highlights - Year-Over-Year[(1)]

$ Billions	2014:Q2	2013:Q2	% Change
Municipal	88.1	95.6	-7.8%
Treasury	559.0	539.0	3.7%
Mortgage-Related	276.2	558.3	-50.5%
Corporate	409.6	349.4	17.2%
Federal Agency	53.3	116.1	-54.1%
Asset-Backed	59.2	45.6	29.8%
Equity	93.1	80.3	15.9%

Issuance Highlights - Quarter-Over-Quarter(1)

$ Billions	2014:Q2	2014:Q1	% Change
Municipal	88.1	63.5	38.7%
Treasury	559.0	564.3	-0.9%
Mortgage-Related	276.2	270.6	2.0%
Corporate	409.6	375.1	9.2%
Federal Agency	53.3	93.8	-43.2%
Asset-Backed	59.2	54.4	8.9%
Equity	93.1	62.9	48.0%

(1) Includes long-term issuance only

Total Issuance Rises Slightly in 2Q'14

Long-term securities issuance totaled $1.45 trillion in 2Q'14, a 2.1 percent increase from $1.42 trillion in 1Q'14 but a 14.1 percent decrease from $1.69 trillion in 2Q'13. Issuance rose across four asset classes: Treasury, corporate bonds, federal agency, and asset-backed securities (ABS), while municipal bonds, mortgage-related issuance, and equity underwriting recorded declines.

Long-term municipal issuance volume totaled $88.1 billion in the second quarter of 2014, a increase of 38.7 percent quarter-over-quarter (q-o-q) (from $63.5 billion) and a decline of 7.8 percent year-over-year (y-o-y) ($95.6 billion).

Total gross issuance of Treasury bills and coupons, including cash management bills (CMBs), was $1.71 trillion in 2Q'14, a 3.6 percent decrease from $1.77 trillion issued in 1Q'14 and a 12.3 percent decrease from 2Q'13's issuance of $1.95 trillion. The U.S. Treasury net issuance including CMBs decreased significantly to a net redemption of $64.5 billion in the second quarter, a much different outcome than net issuance of $264.7 billion in the previous quarter but a similar result 2Q'13's redemption of $10.7 billion in securities.

Federal agency long-term debt (LTD) issuance was $53.3 billion in the second quarter, compared to $93.8 billion in 1Q'14.

Issuance of mortgage-related securities, including agency and non-agency passthroughs and collateralized mortgage obligations (CMOs), totaled $276.2 billion in the second quarter, a 2.0 percent increase from 1Q'14 ($270.6 billion) and a 50.5 percent decline y-o-y ($558.3 billion).

Asset-backed securities (ABS) issuance totaled $59.2 billion in the second quarter, an increase of 29.8 percent and 8.9 percent respectively, q-o-q ($54.4 billion) and y-o-y ($29.8 billion).

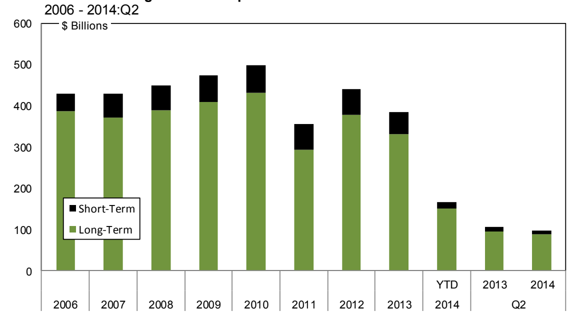
Corporate bond issuance totaled $411.15 billion in 2Q'14, 9.6 percent up from the $375.1 billion issued in 1Q'14 and 21.1 percent below 2Q'13's issuance of $339.6 billion.

Equity underwriting increased to $93.6 billion in the second quarter, 48.8 percent above the $62.8 billion in 1Q'14 and a 16.5 percent increase from the $80.3 billion in 2Q'13. Secondary market issuance increased to $55.0 billion on 237 deals in 2Q'14 from $42.2 billion on 254 deals in 1Q'14 (an increase of 30.5 percent in volume but a decrease of 6.7 percent in number of deals). "True" initial public offerings, which exclude closed-end mutual funds, increased in 2Q'14 to $22.9 billion on 89 deals, an 89.1 percent increase from $12.1 billion and a 18.7 percent increase from 75 deals in the previous quarter.

The Fed reaffirmed that the exceptionally low range for the target Fed Funds rate of 0-0.25 percent will remain appropriate. With the unemployment rate nearing 6.5 percent, changes to the target range for the federal funds rate will be determined based on the progress, both realized and expected toward the Committee's objectives of maximum employment and 2 percent inflation.

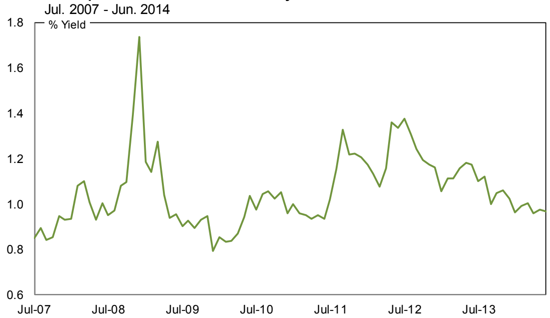
MUNICIPAL BOND MARKET

Short-[1] and Long-Term Municipal Issuance
2006 - 2014:Q2



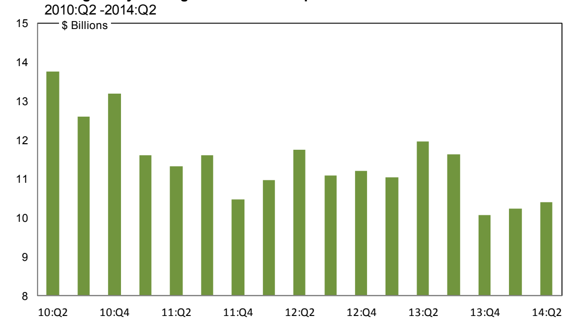
[1]Includes maturities of 13 months or less
Source: Thomson Reuters

Municipal GO AAA and 10-Yr Treasury Ratio
Jul. 2007 - Jun. 2014



Source: Bloomberg, MMA

Average Daily Trading Volume of Municipal Securities[1]
2010:Q2 -2014:Q2



[1]Includes both dealer-to-dealer and customer-to-dealer transactions.
Source: Municipal Securities Rulemaking Board

Long-term public municipal issuance volume totaled $83.4 billion in the second quarter of 2014, an increase of 38.8 percent from the prior quarter ($60.1 billion) but a decline of 6.2 percent y-o-y ($88.9 billion). Year to date ending June, issuance figures reached $143.5 billion, well below the 10-year average of $190.7 billion due to light supply in the first quarter. Including private placements ($4.7 billion), long-term municipal issuance for 2Q'14 was $88.1 billion.

Tax-exempt issuance totaled $74.0 billion in 2Q'14, an increase of 38.9 percent but a decline of 0.2 percent q-o-q and y-o-y, respectively. Taxable issuance totaled $6.5 billion in 2Q'14, an increase of 19.4 percent q-o-q but a decline of 48.7 percent y-o-y. AMT issuance was $2.9 billion, a twofold increase q-o-q and a 39.3 percent increase y-o-y.

By use of proceeds, general purpose led issuance totals in 2Q'14 ($19.2 billion), followed by primary & secondary education ($17.1 billion), and water & sewer facilities ($6.7 billion), identical rankings as the prior quarter.

Refunding volumes as a percentage of issuance rose slightly from the prior quarter, with 52.7 percent of issuance compared to 48.8 percent in 1Q'14.

Yields, Inflows, and Total Return

Ratios of 10-year tax-exempt AAA GOs and similar-maturity Treasuries fell further in the second quarter, ending at 93.6 percent end-June from 93.7 percent end-March.

According to the Investment Company Institute (ICI), second quarter net flow into long-term municipal funds was positive, with $6.8 billion of inflow, compared to $3.4 billion of inflow in the prior quarter and $19.2 billion of outflow y-o-y.

Tax-exempt money market funds reported a decline in assets in 2Q'14, reporting $255.4 billion in assets under management at the end of June, a decrease of $15.1 billion, or 5.6 percent of assets, from end-March 2014. Year-over-year, assets at tax-exempt money market funds fell by $6.3 billion.

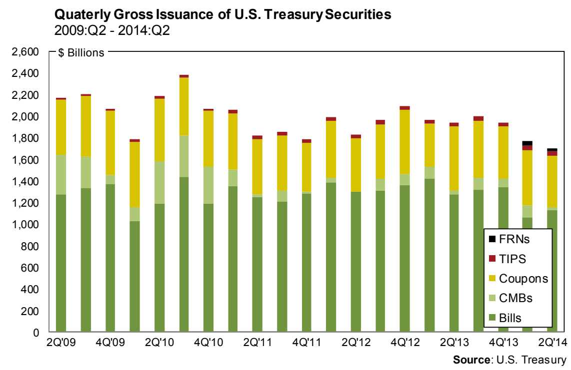
According to Bank of America-Merrill Lynch indices, municipals gained 2.7 percent in the second quarter of 2014. Build America Bonds (BABs) recovered similarly in the first quarter as well, posting a 4.8 percent gain in total return compared to 2.4 percent from similarly-rated corporates.

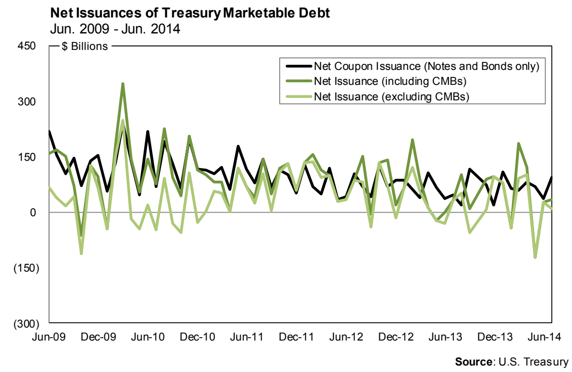
Trading Activity

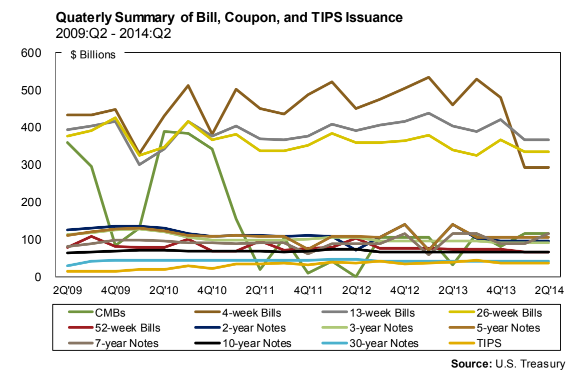
Trading activity increased q-o-q to $10.4 billion daily in 2Q'14, a 1.6 percent increase from 1Q'14 ($10.2 billion) but a decline of 13.0 percent from 2Q'13 ($12.0 billion). By number of trades, however, trading activity declined 9.4 percent and 16.5 percent, respectively, q-o-q and y-o-y.

Holdings of municipal bonds by broker-dealers rose slightly to $21.1 billion in 1Q'14, a 13.4 percent and 11.1 increase, respectively, from 4Q'13 and y-o-y. A preliminary examination of primary dealer data from the New York Fed suggests that municipal volume inventory in 2Q'14 has risen further.

TREASURY MARKET







Gross Issuance of U.S. Treasury Securities Continues to Decrease

Total gross issuance of Treasury bills and coupons, including cash management bills (CMBs), was $1.71 trillion in 2Q'14, a 3.6 percent decrease from $1.77 trillion issued in 1Q'14 and a 12.3 percent decrease from 2Q'13's issuance of $1.95 trillion. The U.S. Treasury net issuance including CMBs decreased significantly to a net redemption of $64.5 billion in the second quarter, a much different outcome than net issuance of $264.7 billion in the previous quarter but a similar result 2Q'13's redemption of $10.7 billion in securities. Second quarter net redemption was 17.3 percent smaller than the Treasury's April 2014 issuance estimate of net redemption of $78.0 billion.[1]

Excluding CMBs, total net redemption of U.S. Treasury securities was $89.5 billion in 2Q'14, a 159.8 percent decrease from the issuance of $149.7 billion in the prior quarter and a 120.0 percent lower than the net redemption of $$40.7 billion in 2Q'13.

CMBs issuance stood at $25.0 billion in 2Q'14, 78.3 percent decrease from $115.0 billion issued in 1Q'14 and 16.7 percent below the 2Q'13's issuance of $30 billion.

Approximately $546.0 billion in Treasury coupons, Floating Rate Notes (FRNs) and Treasury Inflation-Protected Securities (TIPS) were issued in the second quarter, down 7.9 percent from $593.1 billion issued in the prior quarter and 14.4 percent below the issuance of $638.0 billion in 2Q'13[2].

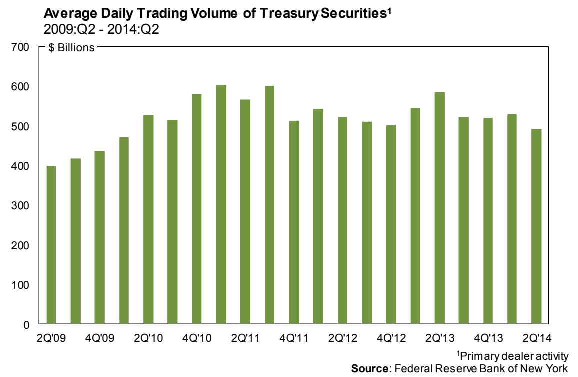
Excluding TIPS and FRNs, total gross issuance of Treasury marketable coupon securities was $480.0 billion, a 6.8 percent decrease from $515.1 billion issued in 1Q'14 and 20.0 percent below the $600.0 billion issued in 2Q'13. Net coupon issuance for the second quarter of 2014 was $199.5 billion, a 2.5 percent decrease from 1Q'14s $204.7 billion and down 5.2 percent y-o-y.

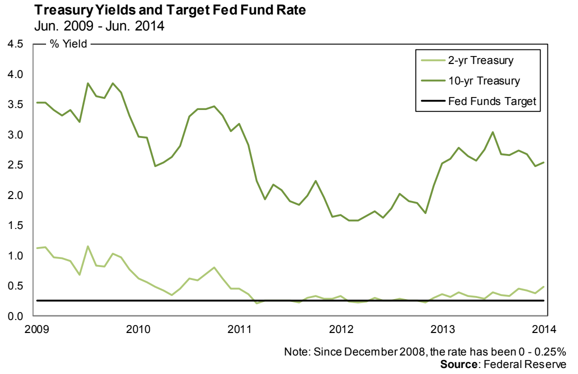
In the second quarter, $41.0 billion in FRNs were issued, flat from the $41.0 billion issued in the first quarter of 2014 (the first time that the FRNs were offered). After the inaugural FRN auction in January 2014, the demand for FRNs remain high with the average bid-to-cover ratio of 4.9 so far in 2014.

As the Treasury transitioned from bill to coupon financing, the percentage of nominal coupons in the Treasury's portfolio has been steady during the last six months. As of March 31st 2014, the weighted average maturity of the Treasury portfolio was approximately 66.7 months, flat from 66.7 months at the March TBAC meeting but well above the three decade average of 58.1 months. By 2023, the maturity of the Treasury's portfolio is expected to reach 80 months.[3]

Gross issuance of bills, excluding CMBs, was $1.13 trillion in 2Q'14, a 7.0 percent increase from previous quarter's $1.06 trillion but a 11.2 percent decrease from $1.28 trillion issued during the same year-ago period.

[1] Treasury's April's borrowing estimates can be found here.
[2] Treasury started issuing Floating Rate Notes in January 2014.
[3] Minutes of the Meeting of the TBAC of SIFMA, April 29, 2014.





Trading Volume Decreses

Daily trading volume of Treasury securities by primary dealers averaged $492.0 billion in 2Q'14, a 7.3 percent decrease from $530.6 billion in the previous quarter and a 15.9 percent decrease from the $585.0 billion traded daily in 2Q'13. The 5-year average of daily trading volume of Treasuries increased to $531.1 billion from $527.2 billion in the prior quarter.

Treasury Yields Increase

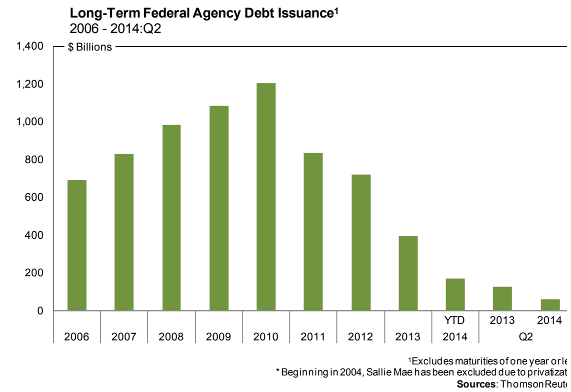
In 2Q'14, the Treasury yields increased for 2-year notes and decreased across all other maturities: two-year rates increased to 0.47 percent at the end of June from 0.44 percent in March 2014; 5-year yields decreased to 1.62 percent in 2Q'14 from 1.73 percent in the end of March; 10-year yields decreased to 2.53 from 2.73 percent in 1Q'14, and 30-year yields decreased to 3.34 percent in June 2014 from 3.56 percent in March. SIFMA Government Issuance and Rates Survey respondents forecast benchmark yields to increase across all maturities in the third quarter and through the fourth quarter of 2014. The 2-year Treasury yields are expected to increase steeply to 0.60 percent by September 2014 and then increase further to 0.80 percent by December 2014; similarly 5-year yields are projected to increase to finish 3Q'14 at 1.90 percent and then further to 2.25 in 4Q'14. For long-term maturities, survey responders expect a gradual increase of yields as well. The 10-year rates are forecasted to increase to 2.75 percent and 3.00 percent at the end of September and December, respectively, while 30-year yields are expected to finish 3Q'14 at 3.50 percent and 4Q'14 at 3.65 percent.

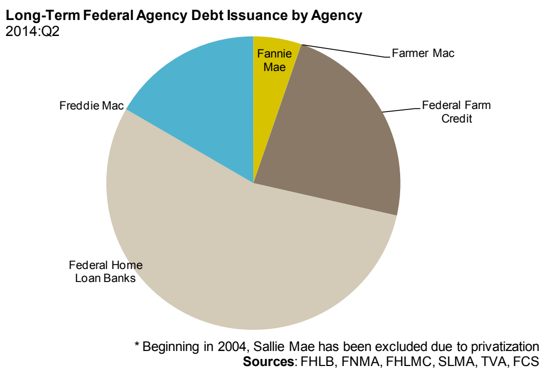
FOMC Meeting Summary

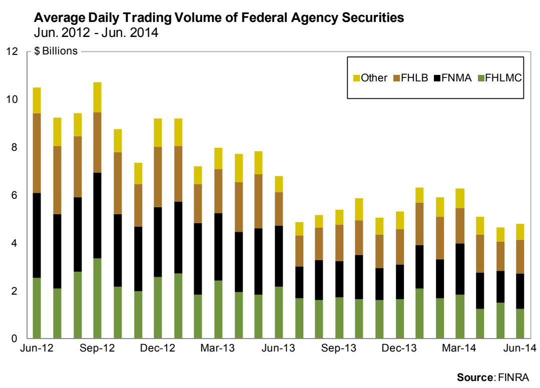
During the most recent FOMC meeting in June 2014, the Committee judged that there was sufficient underlying strength in the broader economy to support ongoing improvement in labor market conditions. Based on the progress toward the maximum employment and the improvement in the outlook for labor market conditions the FOMC Committee decided to further reduce the pace of its asset purchases. As noted in the minutes from the meeting: " Beginning in July, the Committee will add to its holdings of agency mortgage-backed securities at a pace of $15 billion per month rather than $20 billion per month, and will add to its holdings of longer-term Treasury securities at a pace of $20 billion per month rather than $25 billion per month. The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction."[4]

[4] Statement from the FOMC Meeting, June 17-18, 2014.

FEDERAL AGENCY DEBT MARKET







Federal agency long-term debt (LTD) issuance was $63.6 billion in the second quarter, compared to $108.4 billion in 1Q'14. Overall, average daily trading volume of agency securities in the second quarter was $4.9 billion, down slightly from $6.2 billion traded in 1Q'14. The 12 Federal Home Loan Banks issued $47.1 billion in LTD in the second quarter, a decrease of 7.7 percent from 1Q'14. A little more than $1.1 trillion in short-term debt (STD) was issued in 2Q'14. Total FHLB LTD outstanding was $477.1 billion at quarter-end, down slightly from the $486.3 billion outstanding at the end of the first quarter and down y-o-y from $483.1 billion. Discount notes increased to $322.9 billion at the end of 2Q'14 from $267.5 billion in 1Q'14 and increased from $221.4 billion in 2Q'13.

Fannie Mae's 2Q'14 gross debt issuance, both STD and LTD, totaled $65.1 billion, up 71.8 percent from 1Q'14 ($37.9 billion); STD issuance increased to $60.0 billion while LTD issuance decreased to $5.1 billion. Fannie Mae had $90.9 billion in STD outstanding at the end 2Q'14, up from $65.5 STD outstanding as of 1Q'14, and $390.6 billion LTD outstanding, a decrease from $420.8 billion in 1Q'14.

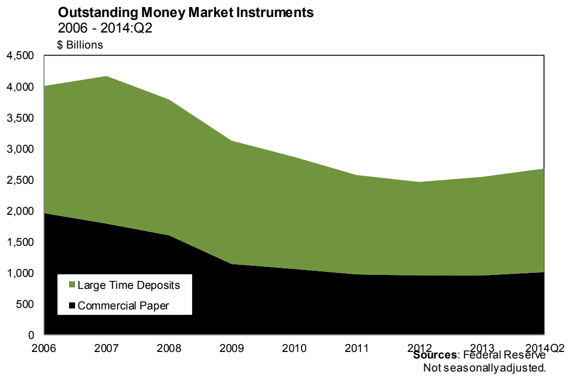
Freddie Mac's second quarter gross debt issuance totaled $70.2 billion, an increase from 1Q'14 ($63.5 billion). As of quarter-end, Freddie Mac had $110.1 billion STD and $336.1 billion LTD outstanding, in comparison to the $114.8 billion STD and $342.0 billion in LTD in the prior quarter.

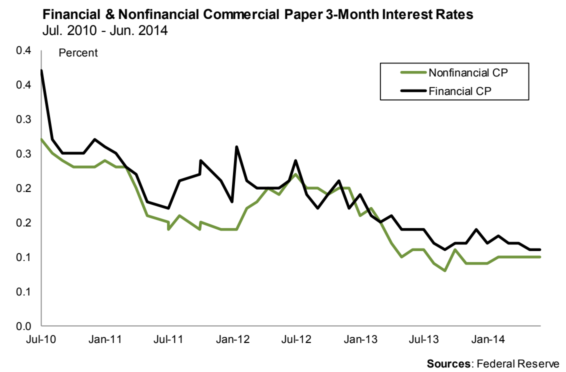
Total Farm Credit System gross debt issuance for the end of 2Q'14 totaled $88.5 billion. Total debt outstanding ended the first quarter at $211.6 billion, of which $23.0 billion was short-term and $188.6 billion was long-term.

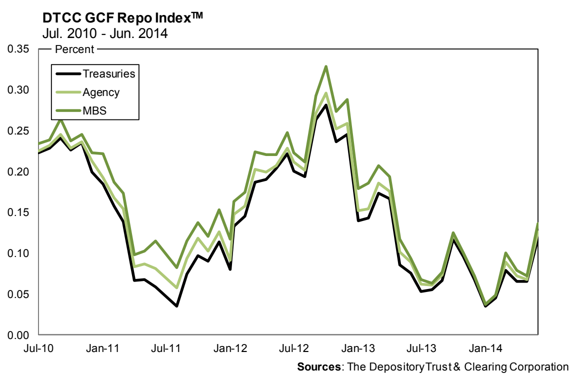
Primary dealers polled by SIFMA in the Third Quarter Government Forecast survey expected gross coupon issuance for the four largest Federal agencies (FHLB, Fannie Mae, Freddie Mac, and the Farm Credit Systems) to reach $138.2 billion in the third quarter of 2014.[5] By agency, gross coupon issuance was expected to be $29.8 billion for Fannie Mae, $2.8 billion for Freddie Mac, $9.2 billion for the FHLBs, and $12.4 billion for the Farm Credit System.

[5] See SIFMA's U.S. Government Forecast 3Q'14.

FUNDING AND MONEY MARKET INSTRUMENTS







Total Repurchase Activity Increased in the Second Quarter[6]

The average daily amount of total repurchase (repo) and reverse repo agreement contracts outstanding was $4.26 trillion in 2Q'14, representing an increase of 0.6 percent from 1Q'14's average of $4.23 trillion and a 13.1 percent decrease y-o-y.

Daily average outstanding repo transactions totaled $2.42 trillion in 2Q'14, a slight increase of 0.4 percent from 1Q'14. Reverse repo transactions in 2Q'14 averaged $1.84 trillion, also a slight increase (0.9 percent) from 1Q'14.

Treasuries, Agency and MBS Repo Rates Rose in Second Quarter

In 2Q'14 DTCC general collateral finance (GCF) repo rates increased for Treasuries, agency debt, and MBS. Specifically, the average repo rate for Treasuries (30-year and less) rose to 8.23 basis points (bps) from 1Q'14's average rate of 5.31 bps. The average agency repo rate increased to 8.85 bps from 5.81 bps from 1Q'14 and the average MBS repo rate also rose to 9.56 bps from 6.23 bps.

Total CP Outstanding Climbs Higher

The outstanding volume of total money market instruments (MMI), including commercial paper (CP) and large time deposits, stood at $2.68 trillion at the end of the second quarter, a 1.3 percent increase from the $2.64 trillion in 1Q'14 and 5.7 percent higher y-o-y. CP outstanding totaled approximately $1.01 trillion, a 1.3 percent increase from the $992.2 billion in 1Q'14 and a 1.9 percent increase y-o-y. Large time deposits outstanding totaled $1.67 trillion in 2Q'14, an increase of 1.3 percent from 1Q'14, and a 8.1 percent increase y-o-y.

Financial and Nonfinancial 3-Month CP Interest Rates Mixed

Interest rates f6or nonfinancial CP remained steady in the second quarter of 2014 at 1 bps from end-March to end-June 2014. Financial CP fell by 1 bps to 11 bps from 12 bps at the end of 2Q'14 from 1Q'14.

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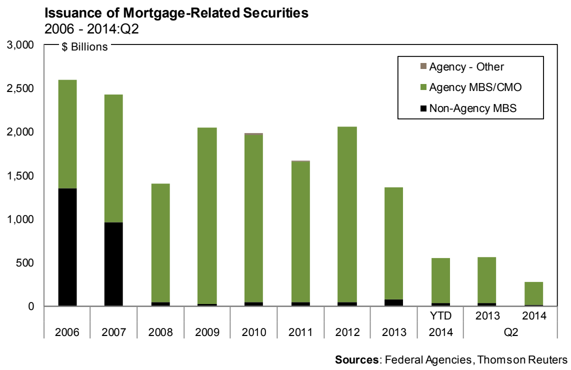
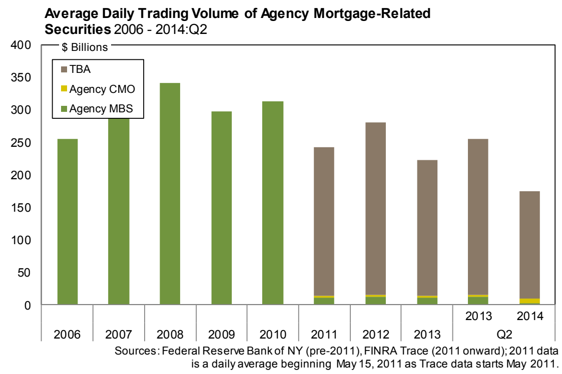
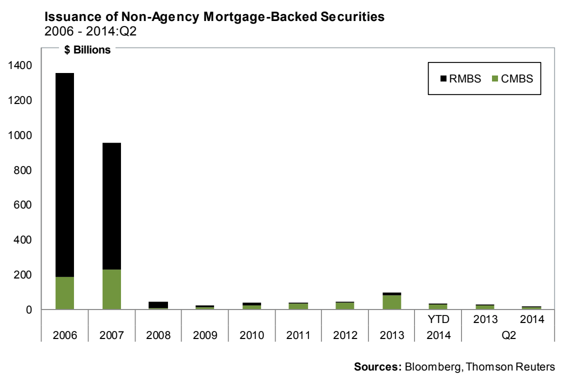
[6] As a reminder, repo data is provided by the primary dealers only: http://www.newyorkfed.org/markets/gsds/search.cfm. For a breakdown of tri-party repo data, please refer to the Federal Reserve Bank of New York's Tri-party Repo Reform website here: http://www.newyorkfed.org/banking/tpr_infr_reform.html.

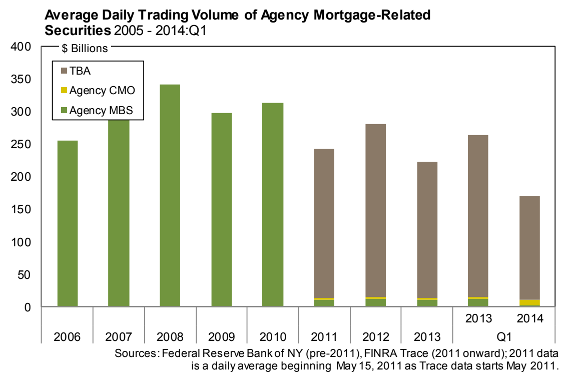
[2] The tri-party repo data collected by the Federal Reserve Bank of New York starting from April 1, 2013 revised the way they structured their survey.

MORTGAGE-RELATED SECURITIES









Issuance in Mortgage-Related Market Increases

Issuance of mortgage-related securities, including agency and non-agency passthroughs and collateralized mortgage obligations (CMOs), totaled $276.2 billion in the second quarter, a 2.0 percent increase from 1Q'14 ($270.6 billion) but a 49.0 percent decline y-o-y ($541.5 billion). Increases were due to the increase in agency issuance.

Overall, the agency share of issuance rose slightly, rising to 96.1 percent in 2Q'14 from 92.7 percent in the prior quarter.

According to Freddie Mac, average rates on conventional 30-year fixed-rate mortgages declined 14 bps in the second quarter of 2013 to 4.23 percent from 4.36 percent in the first quarter of 2014.

Agency Issuance and Outstanding

Agency mortgage-related issuance totaled $265.4 billion in 2Q'14, an increase of 5.8 percent q-o-q but a 50.0 percent decline y-o-y. Agency MBS outstandings increased by 0.04 percent in 2Q'14 from the prior quarter.

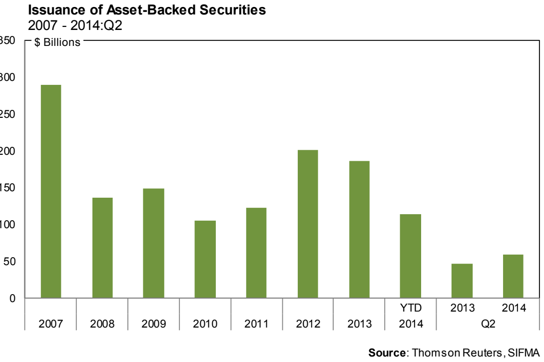
Non-Agency Issuance and Outstanding

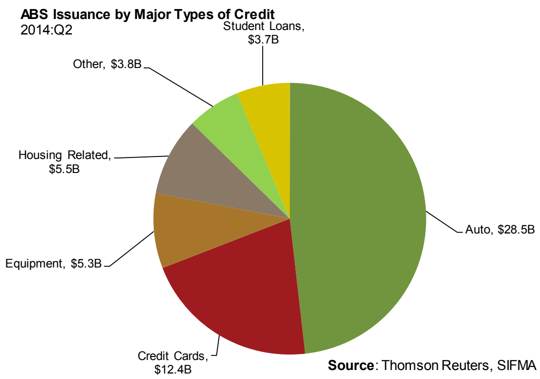
Non-agency issuance totaled $10.8 billion in 2Q'14, a decline of 45.4 percent and 60.5 percent, respectively, from 1Q'14 ($19.7 billion) and 2Q'13 ($27.3 billion).

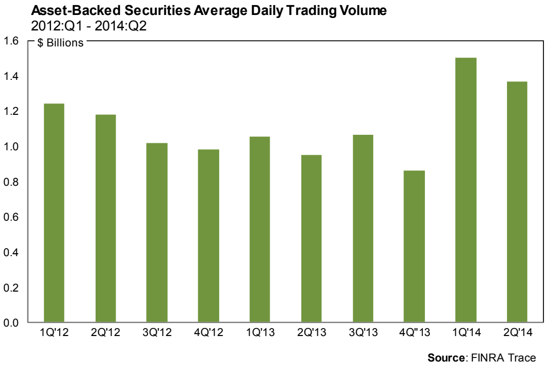
Trading Activity

Daily trading volumes for mortgage-related securities, both agency- and non-agency, increased in the second quarter, primarily due to the pickup in agency trading. Average daily trading volume of agency mortgage-related securities, including passthroughs, CMOs, and TBA, was $174.9 billion in 2Q'14, an increase of 2.3 percent from 1Q'14 but a 31.4 percent decline y-o-y. Average daily trading volumes of non-agency CMBS and RMBS, however, were $2.0 billion and $1.8 billion, respectively, a decline of 0.8 percent q-o-q for CMBS and a decline of 12.8 percent q-o-q for RMBS; altogether trading volumes for non-agency securities declined 6.9 percent q-o-q and 23.0 percent y-o-y.

ASSET-BACKED SECURITIES







Asset-Backed Market Issuance Rises In Second Quarter

Asset-backed securities (ABS) issuance totaled $59.2 billion in the second quarter, an increase of 8.9 percent and 29.8 percent respectively, q-o-q ($54.4 billion) and y-o-y ($45.6 billion). The auto sector continued to lead issuance totals with $28.5 billion (48.2 percent of total issuance in 2Q'14), followed by credit cards ($12.4 billion, or 20.9 percent).

Issuance declined in credit cards and student loans q-o-q, while increases were experienced in all remaining categories. The housing-related sector, which includes servicer advance deals, agency credit risk deals, and rental ABS, continues to remain robust as both agencies continue issuing from their risk-sharing program. The 'other' category saw 79.5 percent growth q-o-q, as the relatively fledging consumer loan category continued to pick up.

Trading Activity Declines

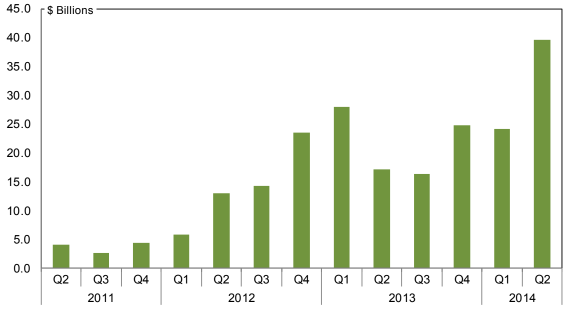
Daily average trading activity in ABS declined in the second quarter to $1.36 billion daily, a decline of 9.2 percent q-o-q but an increase of 43.3 percent y-o-y.

Global Collateralized Debt Obligations (CDO) Issuance Rises

According to Thomson Reuters, global funded CDO issuance totaled $38.8 billion in 2Q'14, an increase of 48.0 percent q-o-q ($26.2 billion) and nearly double y-o-y. U.S. CLO issuance continues to drive most of new global CDO volume in 2014, although several European CLO deals were brought to market.

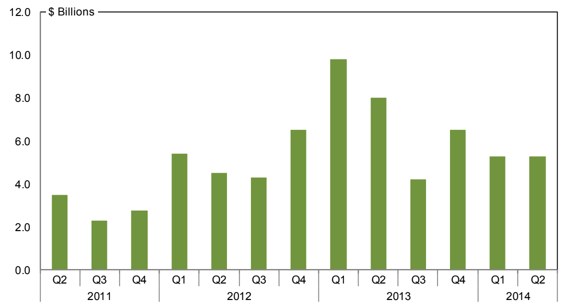
U.S. COLLATERALIZED LOAN OBLIGATIONS[7]

Primary US CLO issuance volumes
2011:Q2 - 2014:Q2



Source: Creditflux, CLO-i

Secondary US CLO Trading Volumes
2011:Q2 - 2014:Q2



Source: Creditflux, CLO-i

Current Rank	Previous Rank	Manager	$ Billion	# Deals
1	1	GSO Capital Partners	21.45	45
2	2	Carlyle Group	18.46	41
3	5	Credit Suisse Asset Management	13.48	26
4	3	Ares Management	13.46	30
5	6	Alcentra	13.19	31
6	4	Apollo Global Management	13.12	21
7	7	Highland Capital Management	12.60	24
8	15	KKR Financial Advisors	12.36	20
9	8	CIFC Asset Management	12.27	30
10	10	Babson Capital Management	10.40	26

Current Rank	Arranger	$ Billion	# Deals
1	Citi	6.93	14
2	JP Morgan	5.50	8
3	Morgan Stanley	5.11	8
4	Bank of America Merrill Lynch	4.51	8
5	Deutsche Bank	3.66	6
6	Wells Fargo	3.41	8
7	Credit Suisse	3.38	6
8	Goldman Sachs	2.21	4
9	BNP Paribas	2.21	4
10	Barclays	1.60	3

Record-breaking $39.6 billion of issuance means that 2.0s now dominate the CLO market

The CLO market has become bigger than ever - in more ways than one – after a record breaking $39.6 billion of issuance in the U.S. during the second quarter of 2014. This volume was spread across 72 individual CLOs and represents the most productive quarter of CLO issuance since the crisis after surpassing the first quarter of 2013, when $27.5 billion of CLO paper priced.

2Q'14 produced a landmark as the volume of 2.0 CLOs (deals launched since January 2010) finally overtook the 1.0 CLO market. According to Creditflux data, there were $216.7 billion of 2.0 CLOs outstanding at the end of June compared to $200 billion of legacy CLOs.[8]

In one of the defining moments of the second quarter, Apollo Credit Management produced a $1.5 billion CLO, ALM XIV, which is the largest CLO launched in the last seven years. In general CLO deal sizes grew substantially in the second quarter as arrangers up-sized deals to meet demand from investors.

The average deal size in 2Q'14 was $549 million, which is an 11.8 percent on the $484 million average during the previous quarter.

CLO triple-A spreads tighten to 140 bps thanks to NYL Investors CLO

CLO issuance was likely boosted by the strong demand for CLO triple-A tranches as the buyer base for these assets expanded from traditional bank and insurance company investors to include asset managers and hedge funds. This caused triple-A spreads to tighten from 158 bps over Libor at the start of April to around 147 bps over the benchmark by the end of June.

For many reasons, the standout deal from the last quarter was Flatiron CLO 2014-1, which was issued by NYL Investors. The transaction was structured by Bank of America Merrill Lynch and printed triple-A CLO spreads at 140 bps over Libor in early June. This was the tightest senior CLO print in nine months.

Secondary CLO volumes stay flat despite bumper figures in primary market

Volumes in the secondary CLO market were flat as $5.3 billion – exactly the same as in the first quarter. Usually when primary CLO volumes spike, secondary market volumes also increase as the overall size of the CLO market grows. However, a number of legacy CLOs were redeemed in the second quarter and existing 1.0 CLO holders appeared content to hang on to their positions with further CLO calls likely to occur in the next few months.

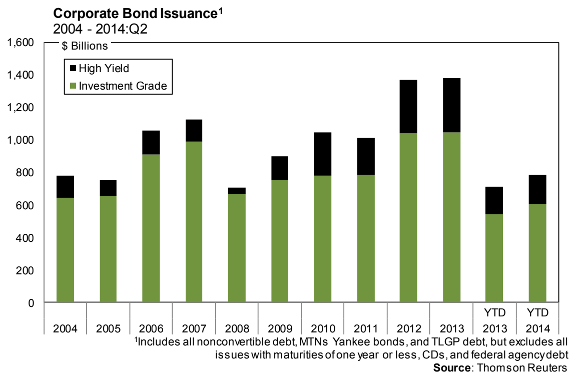
Market leaders GSO and Citi top CLO rankings

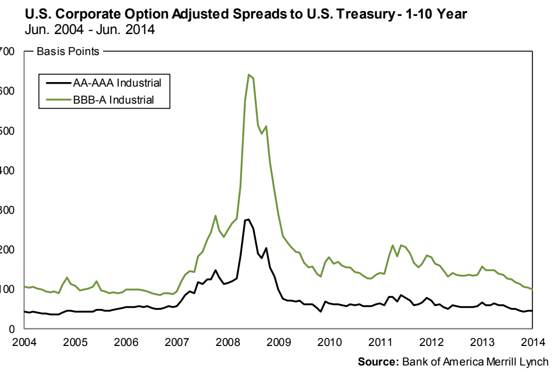
GSO Capital priced four CLOs in the quarter to maintain its position as the largest CLO manager globally. Second-placed Carlyle however, has closed the gap on GSO to within $3 billion.

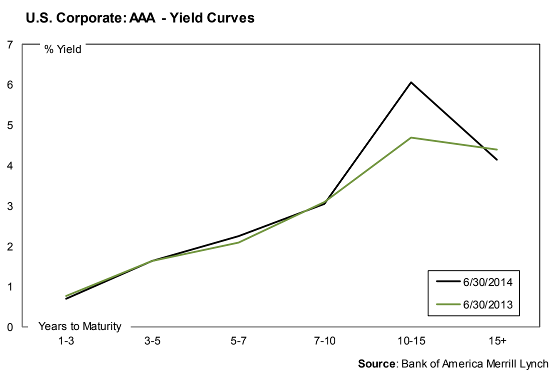
The leading CLO arranger Citi also maintained its position as number one by structuring 14 deals – almost twice as many as second placed Morgan Stanley.

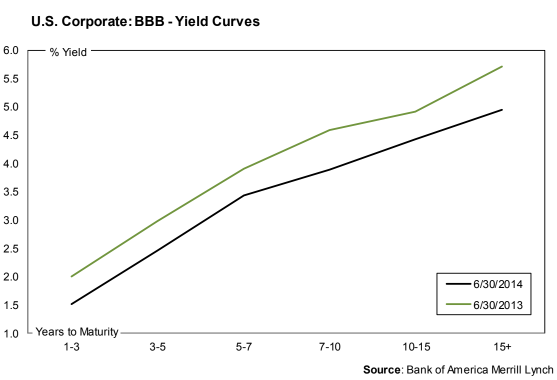
[7] The author of the CLO section is Sayed Kadiri, Creditflux. For any questions, please contact Sayed Kadiri at sayed.kadiri@creditflux.com.
[8] For the full report, see CLO 2.0s overtake legacy market (Creditflux).

CORPORATE BOND MARKET









Corporate Bond Issuance Increases

Corporate bond issuance totaled $411.15 billion in 2Q'14, 9.6 percent up from the $375.1 billion issued in 1Q'14 and 21.1 percent below 2Q'13's issuance of $339.6 billion. The quarterly increase was driven solely by the activity in the high yield (HY) sector while the investment grade (IG) sector's issuance stayed flat.

IG bond issuance decreased to $303.4 billion, down 0.1 percent from $303.7 billion in the previous quarter and a 18.5 percent increase y-o-y. Financial companies remained the leading industry in IG debt issuance, representing over half of all IG issuance (53.7 percent, up from 52.1 percent in 1Q'14). Consumer staples and energy and power were the only other industries with the IG issuance share in double digits (22.3 percent and 11.7 percent).

Issuance of HY bonds increased to $107.8 billion in 2Q'14, a 50.9 percent increase from 1Q'14's issuance of $71.4 billion and a 28.8 percent increase from $83.7 billion in 2Q'13. High yield issuance by dollar amount was the largeston record, largely due to increased growth in the U.S. economy. Four sectors made up more then 60 percent of total HY issuance in the second quarter: energy and power (23.6 percent), followed by media and entertainment (14.0 percent), financials (12.5 percent), and industrials (11.2 percent). By use of proceeds, general corporate purposes were $65.8 billion, a 61.4 percent increase q-o-q and a 69.8 percent increase y-o-y, and refinancing at $4.9 billion, a decrease of 20.4 percent q-o-q and a decrease of 37.9 percent y-o-y.

Bond Spreads Narrow; U.S. Default Rate Decreases

According to S&P, the composite spread for IG bonds narrowed in the first quarter of 2014, while HY bonds remained flat. Spreads of IG bond spreads finished the quarter at decreased to 142 bps at the end of June 2014 from 150 bps at the end of March 2014 (a 5.0 percent decline) and from 192 bps at the end of 2Q'13 (a 26.0 percent decline). IG bonds spreads are 26.0 percent below the five-year average of 192 bps. HY bond spreads remained flat in the second quarter of 2014, finishing at 394 bps, 23.8 percent below 525 bps at the end of 2Q'13.

S&P's Global Fixed Income Research reported the global corporate default tally to be 10 issuers in 2Q'14, all from the U.S. Defaults from the U.S. doubled from 5 defaults during the last quarter but were below 11 defaults in 2Q'13. The 10 U.S. defaults in the second quarter. The U.S. trailing 12-month speculative-grade corporate default rate slightly increased to 1.6 percent on June 30, 2014 from 1.5 percent on March 31, 2014. The U.S. corporate trailing-12-month speculative-grade default rate is expected to modestly increase to 2.3 percent by March 2015.[9]

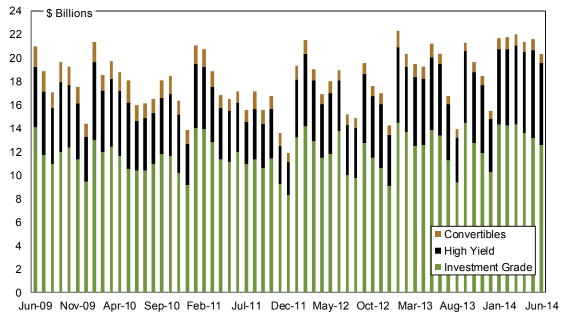
[9] Standard & Poor's Rating Services, The U.S. Speculative-Grade Corporate Default Rate, July 11, 2014.

S&P US Corporate Rating Actions

	2014:Q2	2014:Q1	2013:Q2	2014YTD	2013YTD
Upgrades	80	55	74	135	129
Downgrades	79	62	87	141	149

Source: S&P Fixed Income Research

TRACE Average Daily Trading Volume - Corporate Bonds
Jun. 2009 - Jun. 2014



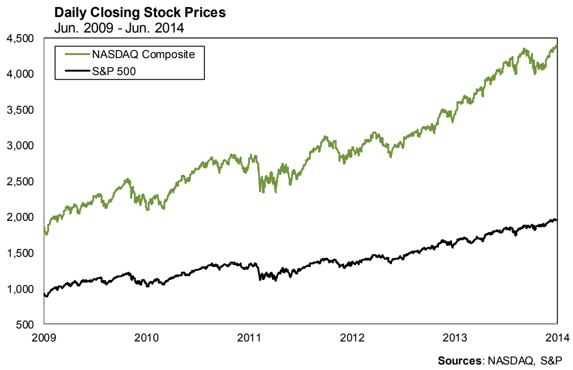
Source: FINRA

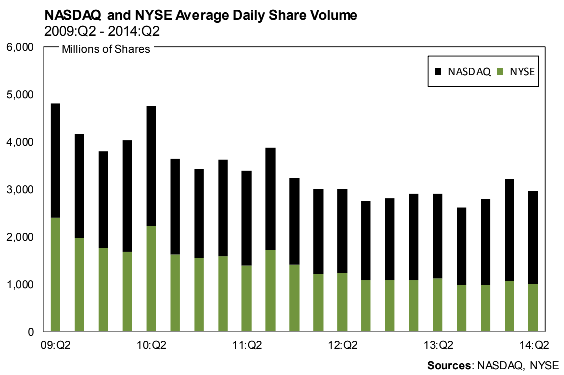
In 2Q'14, S&P Ratings Services downgraded 79 and upgraded 80 U.S. issuers, a slightly better outcome than in the previous quarter, when there were 62 downgrades versus 55 upgrades. The ratio of downgrades to upgrades decreased to 0.99 in 2Q'14 from 1.13 in 1Q'14.

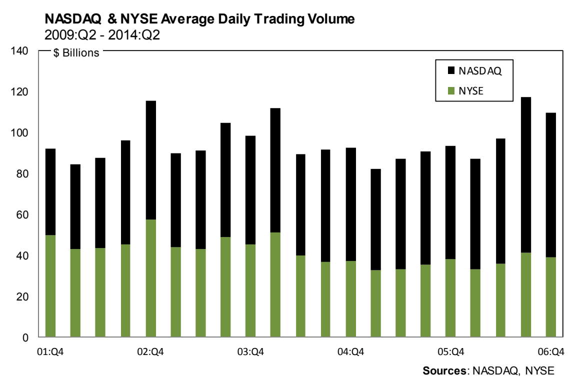
Trading Volume Increases

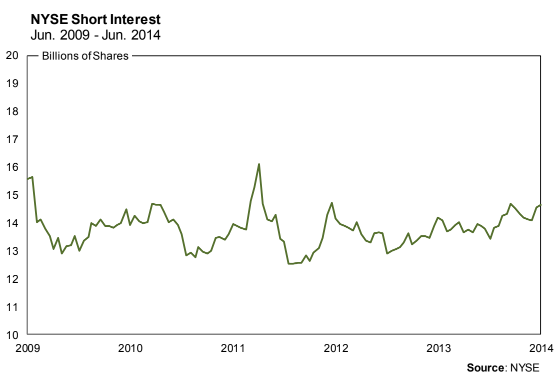
According to the FINRA TRACE data, trading volumes for IG and convertible bonds (CVs) decreased in the second quarter, while HY bond trading volume increased. IG average daily trading volume decreased to $13.1 billion, down 8.2 percent from $14.3 billion in 1Q'14 and down 1.2 percent from $13.2 billion in 2Q'13. The average daily trading volume of CV bonds decreased as well in 2Q'14 to $0.9 billion, 13.5 percent below 1Q'14's $0.8 billion and 18.0 percent lower than $1.0 billion a year ago. HY average daily trading volume was $7.75 billion in 2Q'14, a 8.5 percent increase from $6.6 billion in the first quarter and a 19.0 percent increase from $6 billion in the same year-earlier period.

EQUITY AND OTHER MARKETS









The S&P 500 closed the second quarter at 1,960.23, a 4.7 percent increase from the prior quarter and 22.0 percent up y-o-y. The S&P 500 passed the 1,900 level for the first time on May 23, 2014 and has been hovering around 1,950 since then. The NASDAQ Composite Index finished 2Q'14 at 4,408.18, a 5.0 percent gain from 1Q'13 and a 29.5 percent increase y-o-y. The Dow Jones Industrial Average (DJIA) increased as well, finishing 2Q'14 at 16,826.60, a 2.2 percent gain q-o-q and a 12.9 percent increase from 2Q'13. Equity investors recorded modest gains as U.S. GDP growth increased to an annual rate of 4.0 percent in 2Q'14, a big improvement from the contraction of 2.1 percent in 1Q'14.

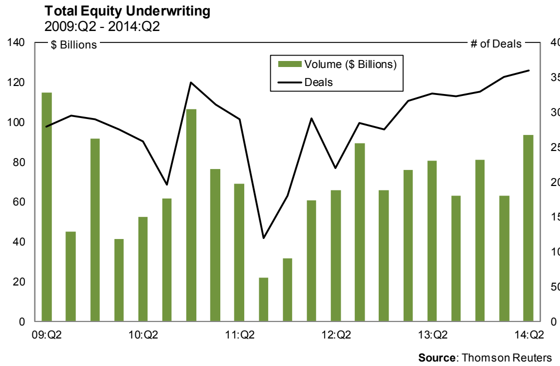
NYSE and NASDAQ's Daily Share and Dollar Volume Decreases

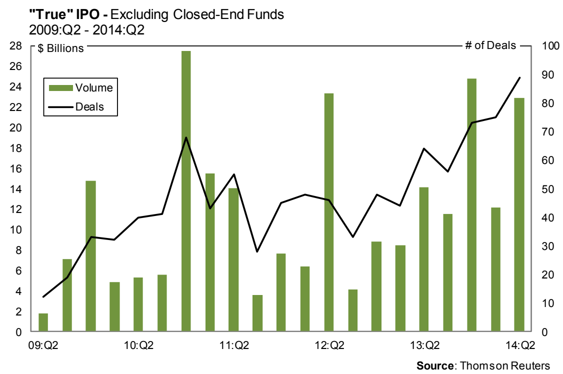
The New York Stock Exchange's (NYSE) 2Q'14 average daily share volume decreased to 996.5 million shares, a 5.2 percent decrease from the previous quarter's 1.05 billion and 11.0 percent below 1.12 billion in 2Q'13. The NYSE's average daily dollar volume decreased as well; average dollar volume stood at $39.1 billion in 2Q'14, 5.4 percent below the previous quarter's $41.3 billion but 3.0 percent higher than 2Q'13's $37.9 billion.

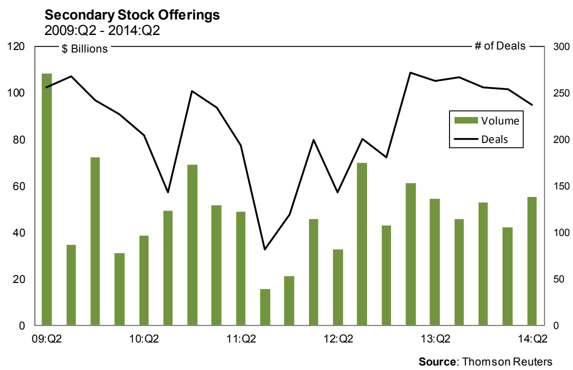
NASDAQ's average daily share volume decreased by 9.2 percent to 2.0 billion shares in 2Q'14 but increased by 10.5 percent y-o-y. The dollar trading volume decreased to $70.6 billion in 2Q'14, down 7.3 percent from $76.2 billion in 1Q'13 but increased by 26.8 percent above the 2Q'13's $55.7 billion.

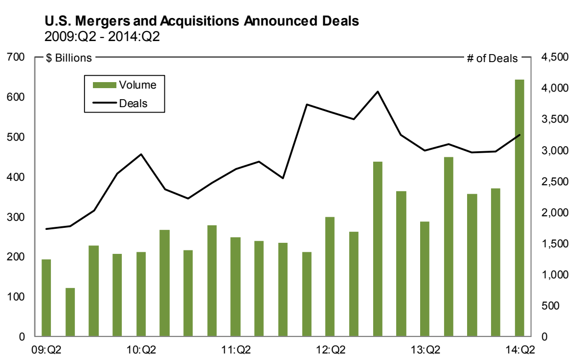
NYSE Short Interest Increases Slightly

The number of shares sold short by the NYSE Group averaged 14.3 billion shares in 2Q'14, up 0.5 percent from 14.25 billion during the previous quarter and 4.8 percent above 13.9 billion in 2Q'13. The short interest is 4.2 percent above the five-year average of 13.7 billion.









Equity Underwriting Volume Increases

Equity underwriting increased to $93.6 billion in the second quarter, 48.8 percent above the $62.8 billion in 1Q'14 and a 16.5 percent increase from the $80.3 billion in 2Q'13. Equity underwriting in 2Q'14 was 38.0 percent higher than the five-year average of $37.8 billion. The number of equity underwriting deals increased in 2Q'14 to 360 deals, up 2.3 percent q-o-q and 10.1 percent y-o-y. The average deal size increased to $259.9 million in the second quarter, an increase of 45.1 percent q-o-q, a 5.8 percent increase y-o-y, and the largest average deal size since 2Q'12.

IPO Volume Almost Doubles

"True" initial public offerings (IPOs), which exclude closed-end mutual funds, increased in 2Q'14 to $22.9 billion on 89 deals, an 89.1 percent increase from $12.1 billion and a 18.7 percent increase from 75 deals in the previous quarter. According to Dealogic, the leading sector in IPOs in the first quarter was finance with $4.1 billion on 11 deals, followed by oil and gas ($3.9 billion on 7 deals), and computers and electronics ($3.5 billion on 13 deals).

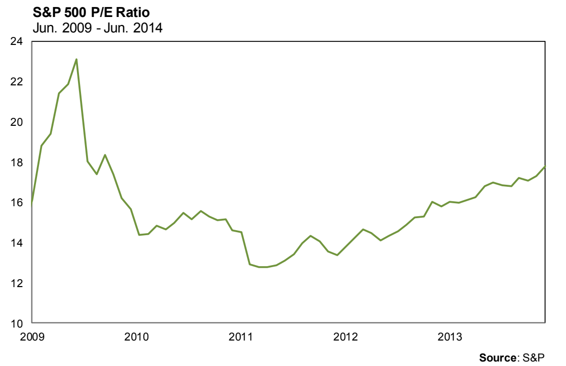
Secondary Offerings Increase

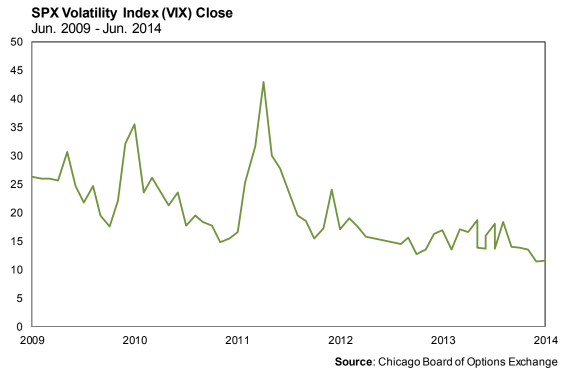
Secondary market issuance increased to $55.0 billion on 237 deals in 2Q'14 from $42.2 billion on 254 deals in 1Q'14 (an increase of 30.5 percent in volume but a decrease of 6.7 percent in number of deals). The average deal value for the quarter increased by 39.9 percent to $232.2 million from $166.0 million in the previous quarter.

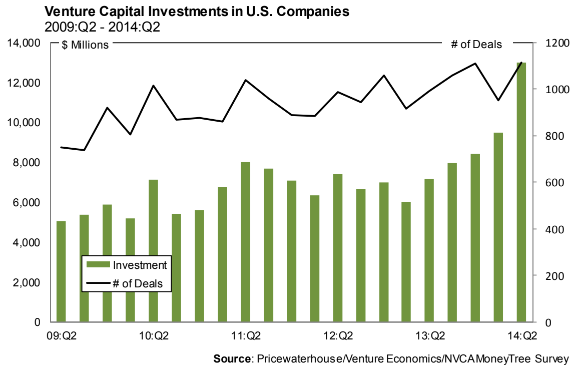
Announced M&A Volume Increases

Announced U.S. mergers and acquisitions (M&A) volume in 2Q'14 stood at $642.6 billion, a steep increase from the previous quarter's $364.1 billion and 124.8 percent increase y-o-y. M&A volume was substantially above the 5-year quarterly average of $273.5 billion. The number of deals increased by 9.0 percent, rising to 3,248 in 2Q'14 from 2,980 in 1Q'14, while the average deal size increased to $197.9 million from $124.2 million in the previous quarter..

According to data from Dealogic, the amount "U.S. Inbound" M&A (money invested in U.S. companies by those outside the U.S. through M&A), almost doubled to $102.2 billion in 2Q'14 from $53.0 billion in the previous quarter. "U.S. Inbound" M&A increased almost threefold from $36.5 billion in 2Q'13. Similarly, the dollar amount U.S. companies invested in other countries increased in 2Q'14; American firms invested $113.7 billion in deals outside of the U.S., a large increase from $18.3 billion in 1Q'14 and from $40.4 billion in 2Q'13.







P/E Ratio Increases

The S&P 500's P/E ratio averaged 17.4 in 2Q'14, up 2.8 percent from the previous quarter's average of 16.9 and up 10.8 percent from the 2Q'13's average of 15.7. The P/E ratio remained 11.1 percent above the 5-year moving average of 15.7 but 21.2 percent below the quarterly high of 24.5 in 4Q'09.

CBOE VIX Index Decreases

The Chicago Board Options Exchange Volatility Index (VIX) decreased by 21.4 percent to 12.1 in the second quarter of 2014 from 15.4 in 1Q'14. The index increased early in the quarter to a high of 17.0 on April 11 and then decreased to a low of 10.6 on June 18.

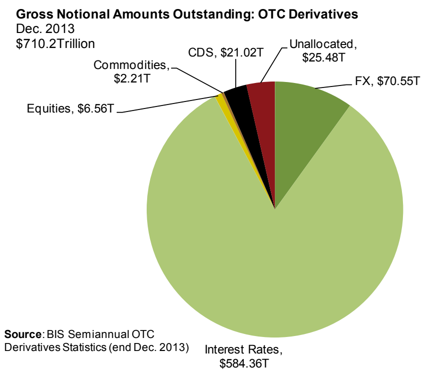
Venture Capital Volume Rises

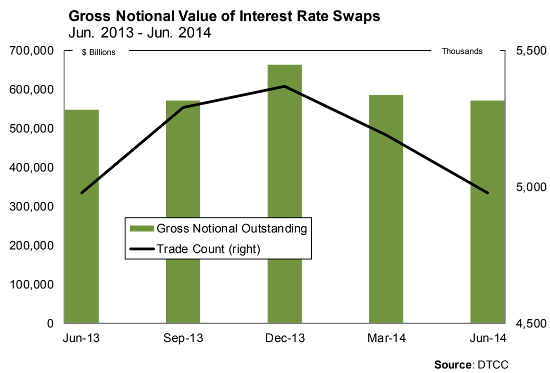
Venture capitalists invested $13.0 billion in 1,114 deals in the second quarter of 2014, according to the MoneyTree™ Report from PricewaterhouseCoopers LLP (PwC) and the National Venture Capital Association (NVCA), based on data provided by Thomson Reuters. Quarterly venture capital (VC) investment activity increased by 34.0 percent in terms of dollars and by 13.1 percent in the number of deals compared to the first quarter of 2014 when $9.7 billion was invested in 985 deals.

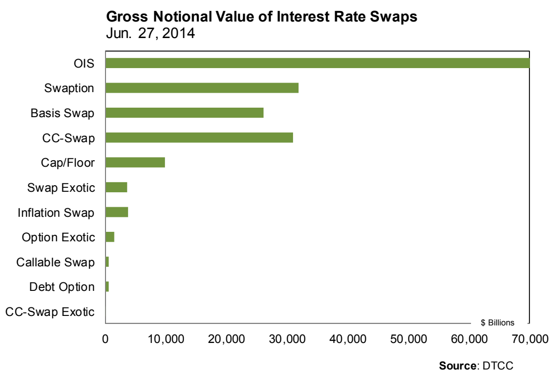
The software industry experienced another significant increase in funding, reaching $6.1 billion in 2Q'14, which marks only the fourth time since 1995 that investments in software companies have exceeded $6 billion in a single quarter. The large quarterly total is due in large part to half of the 10 largest deals of the quarter falling into the software industry, including a $1.2 billion deal, the largest single quarterly deal reported by the MoneyTree Report in the history of the report, which began in 1995.[10]

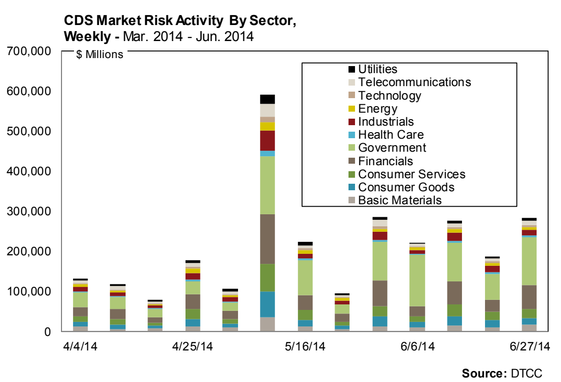
[10] MoneyTree Report 2Q 2014, July 18, 2014.

DERIVATIVES









According to the most recent Bank of International Settlements (BIS) Semiannual Over-the-Counter (OTC) Derivatives Markets Statistics Report (end-December 2013; released May 2014), the gross notional amount outstanding of OTC derivatives totaled $710.2 trillion as of end-December 2013 (up 2.5 percent from end-June)[11]. Interest rate contracts saw the largest increase from end-June 2013, up 4.1 percent to $584.4 trillion, while credit default swaps (CDS) and commodity contracts saw the largest decreases, down 13.7 percent (to $21.0 billion) and 10.3 percent (to $2.2 billion), respectively. The gross credit exposure of outstanding OTC derivatives decreased 19.8 percent to $3.0 trillion during the same period.

Interest Rate Swaps[12]

According to DTCC data, the gross notional value of outstanding interest rate swaps (IRS) at the end-June 2014 was $572.4 trillion, down 2.2 percent from end-March 2014's $585.1 trillion. Increases in the gross notional value of debt options (up 70.4 percent q-o-q), OIS (up 15.2 percent q-o-q), inflation swaps (up 5.0 percent q-o-q) and FRAs (up 4.5 percent q-o-q) were offset by decreases in callable swaps (down 10.0 percent q-o-q) and swaps (down 8.6) percent q-o-q).

The number of contracts outstanding decreased 5.8 percent q-o-q to 4.99 million, with the largest decreases in callable swaps (down 9.1 percent q-o-q), swaps (down 8.1 percent q-o-q) and exotic cross currency swaps (down 3.8 percent q-o-q). The largest increases were in basis swaps (up 4.1 percent q-o-q), inflation swaps (up 3.8 percent q-o-q) and OIS (up 3.6 percent q-o-q).

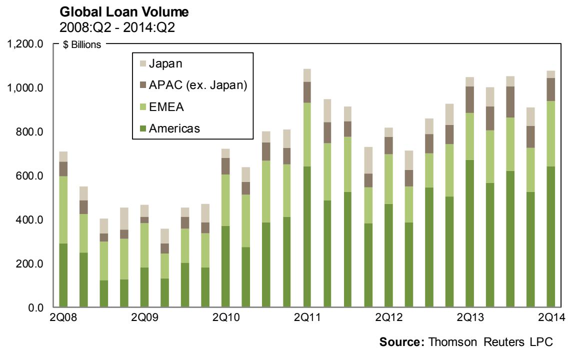
Credit Default Swaps

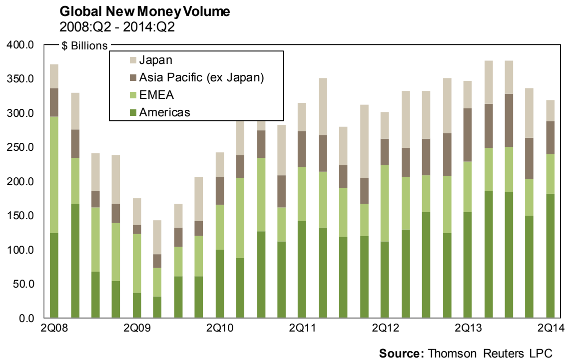
According to DTCC data, the gross notional value outstanding of CDS, including single names, tranches and indices declined 8.4 percent from end-March to end-June 2014 to $18.7 trillion and 19.4 percent y-o-y. Single name CDS outstanding stayed relatively flat q-o-q on a gross notional basis at $10.0 trillion end-June, but on a net notional basis the outstanding value decreased 3.7 percent q-o-q to $826 billion.

In the second quarter of 2014, CDS net notional outstandings were concentrated in government and financial reference entities ($208.1 billion and $162.1 billion, respectively). CDS outstanding decreased slightly on a net notional basis q-o-q in certain Eurozone sovereigns, including Spain (down 4.0 percent), France (down 3.5 percent) and Germany (down 3.0 percent) while Italy saw a small increase of 1.2 percent. The most oft-referenced entities outstanding by gross notional exposure in the second quarter were concentrated in European sovereigns, as was the case in 1Q'14, led by Italy ($415.6 billion), Spain ($183.0 billion) and France ($153.4 billion). Aside from governments and financials, outstandings decreased on a net notional basis in consumer goods (down 9.5 percent q-o-q to $69.5 billion) and consumer services (down 5.7 percent q-o-q to $75.7 billion).

[11] According to BIS, data as of end-December 2011 is not fully comparable to previous periods due to an increase of the reporting population (as Australia and Spain reported for the first time).
[12] Beginning May 2012, DTCC took over responsibility for collecting/publishing OTC interest rate trades from TriOptima. As such, sizable increases in certain categories may be the result of different reporting and collecting procedures.

PRIMARY LOAN MARKET[13]





After a slow start to the year, the global loan market saw qualified growth in 2Q'14 as quarterly totals inched up across all regions, with the exception of Japan, and new money lending opportunities resurfaced. At $1.08 trillion, 2Q'14 global loan volume was up 19 percent over 1Q'14 ($907.5 billion), and up a more modest 2 percent compared to 2Q'13.

Despite the solid quarterly results, 1H'14 global volume, at less than $2 trillion, was flat compared to year ago levels, amid a tempered but very real slowdown in refinancings and repricings, and a significant pickup in global bond issuance. At $150.6 billion, 2Q'14 global high yield bond issuance was up 37 percent over 1Q'14 to set a new quarterly high.

At $641 billion, the Americas represented 60 percent of total global loan volume in the second quarter. The region saw a 23 percent hike in quarterly issuance compared to 1Q'14 ($522 billion), although volume was down 4 percent compared to the year ago period. 1H'14 issuance for the region was largely flat year over year at nearly $1.2 trillion.

New money lending opportunities did resurface, much to the delight of regional lenders and investors. At over $181 billion, 2Q'14 new money deal volume was up 22 percent compared to 1Q totals ($149 billion) and 17 percent greater than year ago levels ($154.5 billion). 1H'14 new money lending in the Americas totaled over $330 billion, an 18 percent increase over the year ago period and more significantly, the highest half year total since 1H'07 ($470 billion).

Lending in Europe, the Middle East, and Africa (EMEA), which experienced a "long, slow start" in 1Q'14 to log just over $200 billion of syndicated loan volume, got a substantial boost in 2Q'14 via the $298 billion of loan deals that cleared the market, a 49 percent increase over 1Q'14 totals and a similarly robust 39 percent increase year over year. Just shy of $500 billion, 1H'14 EMEA loan issuance was up 11 percent over 1H13 totals. The strengthening of the regional loan market culminated with EMEA volume making up 25 percent of global issuance, up from a low of 18 percent in 1Q'14.

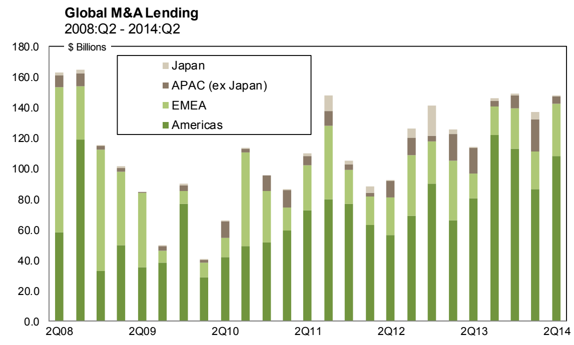
In contrast to trends in the Americas, however, new money remained scarce in EMEA although a fledgling series of M&A financings did emerge. Less than $60 billion in new money loan volume came to market in EMEA, a year over year drop of 22 percent, but 8 percent up compared to 1Q'14 totals. At just under $113 billion, 1H'14 totals represented the lowest half year total on record.

At nearly $104 billion, Asia Pacific (excluding Japan, volume slipped 17 percent compared to the year ago period ($124.5 billion) but was flat compared to 1Q'14. 1H'14 volume totaled $206.6 billion, a 2 percent dip from year ago levels, due in large part to the pullback among China-based corporate dealflow in 1Q'14.

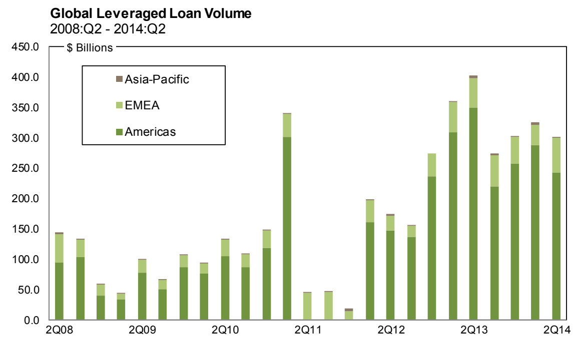
2Q'14 volume was boosted by robust demand by blue chip corporates that tapped the market, as well as the return of Chinese companies seeking cheaper funding sources in the Hong Kong market amid tighter lending measures on the mainland.

New money lending was limited with less than $50 billion raised in 2Q'14, a drop of 38 percent compared to the same time last year.

[13] The author of the primary loan section is Maria Dikeos, Thomson Reuters LPC. For any questions, please contact Maria Dikeos: maria.dikeos@thomsonreuters.com



Source: Thomson Reuters LPC



Source: Thomson Reuters LPC

M&A Gains Momentum

Global new money lending closed out 2Q'14 just north of $318 billion to bring half-year totals to $654 billion, or 33 percent of total global volume. The Americas represented over 50 percent of the total.

Much of this came in the form of M&A financings. Almost $148 billion of M&A loan volume worked its way through the global loan market in 2Q'14, an increase of 8 percent over 1Q'14 totals and a more substantial 29 percent increase over year ago levels. For the first six months of the year, M&A volume totaled $284.5 billion, a 19 percent increase over the same period in 2013 and, more significantly, the highest total for the first half of any year since 1H2008 ($332 billion).

In the Americas, over $108 billion in acquisition financing worked its way through the market in 2Q'14, pushing half year totals to almost $195 billion. Across the board, this represented a win for the region: Quarter-over-quarter the market observed a 25 percent increase in event-driven transactions, year over year quarterly M&A volume was up 34 percent and half year totals were up 33 percent compared to 1H'13 ($147 billion).

"M&A volumes are up," said one U.S.-based arranger. "And while we have hit a bit of an air pocket this minute, we expect reasonably more."

In EMEA, $34.5 billion in M&A loan volume was completed in 2Q'14, a 39 percent increase over 1Q'14 levels ($24.75 billion) to push 1H'14 totals to $59.2 billion, the highest first half year total since 1H'09 ($96.90 billion). This was still a far cry from the $379 billion of M&A volume raised in 1H'07.

"We have seen a decent flow of M&A activity with new issuers and a bunch of smaller ones," said a source.

Both Asia-Pacific (ex. Japan) and Japan alone saw M&A volume tumble amid weak funding demands from Japanese lenders and limited regional growth outside of China. Exclusive of Japan, APAC M&A volume made up only 9 percent of global M&A in 1H'14, down from 14 percent a year ago. Lenders note that China is expected to continue to provide investment opportunities and following elections in both India and Indonesia earlier this year, the hope is that broader regional growth will follow.

Market Grinds Lower, Sideways

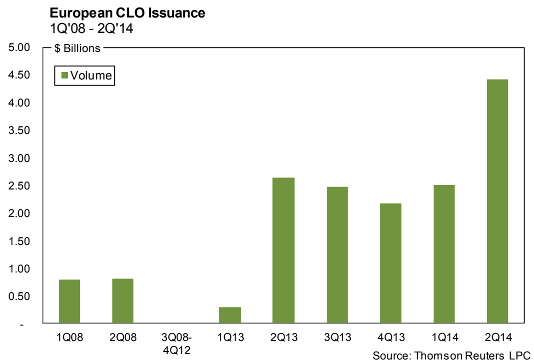
With limited new loan assets coming to market, there was theoretically little to prevent incrementally looser structures, yet lenders showed some measure of discipline.

"The repricings party stopped in April," said one lender.

"Things ground down and we have kind of gone sideways," added an EMEA-based lender. "The market is more discriminating both in the U.S. and EMEA - some deals are pricing tightly and some are flexing the other way. Not everyone is a price taker."

Nowhere was this more pronounced than in the global leveraged loan market. At almost $625 billion, 1H'14 global leveraged volume was down 18 percent compared to the year ago period ($763 billion) as repricings and refinancings slowed and new money deals gained steady but tepid momentum.

However, the topline figures mask the underlying technicals. Despite $6 billion in loan fund outflows in 2Q'14 in the U.S., record quarterly CLO issuance of almost $36 billion brought totals for the first half of the year to nearly $58 billion, allowing the market to dismiss any liquidity concerns in the near term.



Similarly, in EMEA, 2Q'14 CLO volume topped $4.4 billion (a record for the region) to bring year to date totals to nearly $8 billion.

"A lot is being mandated and warehoused," said one arranger. "We could expect $10-15 billion for the year."

The market nevertheless still seems to be picking its spots.

In the Americas, leveraged loan volume at $242 billion was down 16 percent compared to 1Q'14 levels, and down 31 percent compared to year ago totals. 1H'14 leveraged loan volume for the region totaled nearly $530 billion, down 18 percent compared to the year ago period despite a 52 percent increase in leveraged M&A volume coming out of the U.S. High yield bond volume surpassed $100 billion for the first time ever in 2Q'14, reaching $111 billion.

It's a similar story in EMEA. High yield bond issuance surpassed leveraged loan issuance for the second consecutive quarter with issuers weighting structures heavily toward bonds. At just north of $90 billion, 1H'14 EMEA leveraged loan volume was down 6 percent year over year ($96.6 billion), although 2Q'14 volume at $57.2 billion was up 74 percent compared to 1Q'14 totals ($32.88 billion).

At less than $5 billion, 2Q'14 LBO volume remains near record lows. The dearth of EMEA leveraged deals becomes more troublesome given the increasingly attractive rates to be found in the floating-rate note market.

"At Euribor plus 400 or 450 bps, FRNs look attractive," said one arranger. "And they are covenant-lite, too."

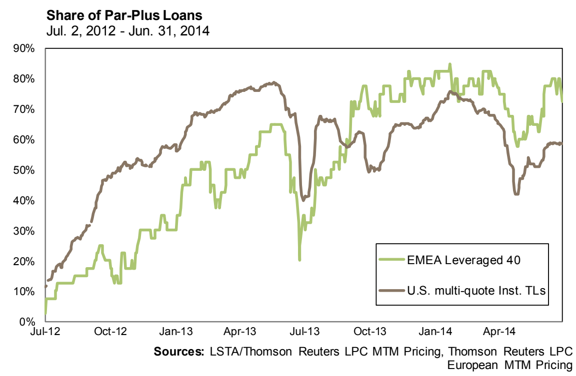
While issuers including Ceva Sante Animale and Deoleo completed the first covenant-lite financings in the region, and borrowers may be keen to adopt the U.S. practice, arrangers point out the lender base is still not deep enough for covenant-lite en masse.

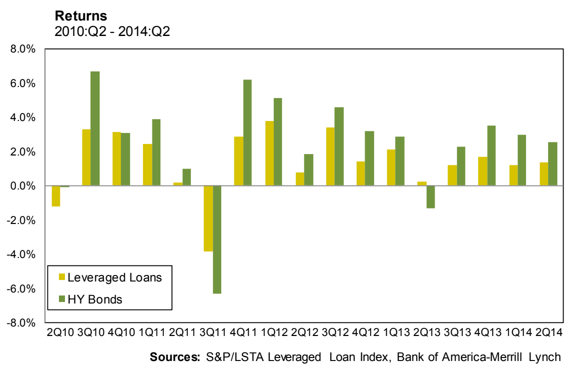
"The market is still pretty fickle, the buying power of loans is still concentrated among 20 major investors," said one EMEA arranger.

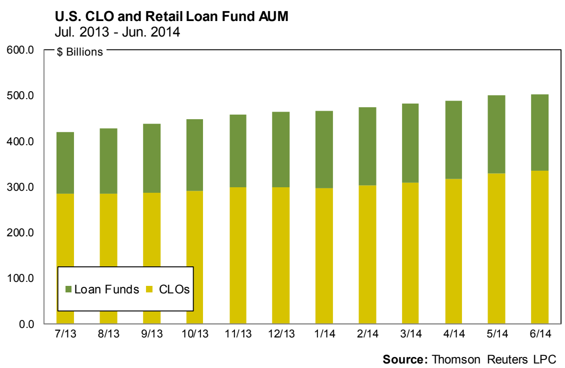
The big question heading into the second half of the year: What will deals look like?

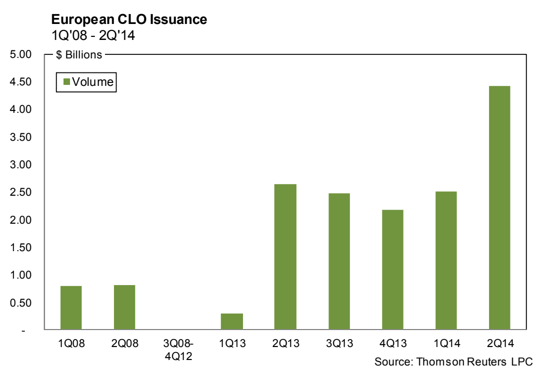
Globally, there is liquidity to be put to work. However, refinancings have slowed and leveraged lenders continue to wrestle with the unknowns associated with Leveraged Lending Guidance and the future of CLO issuance, while facing ongoing retail outflows and record activity in the frothy bond market. However, after 12 weeks of outflows, Lipper reported a positive inflows of $49 billion for the week ending July 9.

SECONDARY LOAN MARKET[14]









The U.S. and European loan markets remained highly bid in the first half of the year in the face of growing collateralized loan obligation (CLO) demand while on the supply side, Europe in particular continued to deal with a lack of sufficient dealflow.

With limited room for further price appreciation, loan returns were reliant on interest income in the first half. The U.S secondary market remained highly priced, with multi-quote institutional term loans at 99.51 by quarter-end, and par-plus loans accounting for 59 percent of the market. Looking at the more liquid names in the market, the SMi100, the average bid finished the second quarter at 99.48. There was also little room for upside in the European market. The European Lev40 ended the second quarter at 100.18, with 73 percent of names bid at or above par.

Despite the lack of room for price appreciation, leveraged loans still grinded out a positive first half of the year, gaining 2.6 percent in the U.S., according to the S&P/LSTA Leveraged Loan Index. This return lagged high yield bonds, with the Bank of America Merrill Lynch U.S. High Yield Index up 5.6 percent.

One of the features of the U.S. market in the second quarter was the reversal in loan mutual fund and ETF flows. Over $4 billion flowed out of loan funds in June, bringing outflows in the second quarter to $7 billion. That said, this outflow follows huge inflows of $63 billion last year. Also, despite the outflows during the second quarter, flows were still positive in the first half of 2014, at $767 million. In comparison, high yield bond fund inflows were relatively robust in the first half of the year, amounting to $5 billion.

While the loan fund outflows had some impact on market sentiment and prices eased slightly, the impact on the secondary market however was limited as CLO issuance went from strength to strength, outweighing loan funds outflows. New CLOs hit the market as uncertainty around the Volker rule receded in the early part of the year and the investor base expanded. In turn, CLO issuance was close to $60 billion in the first half of 2014, with issuance in each of the last four months surpassing $10 billion, and so volume is well on the way to topping 2013's post crisis high of $81 billion.

Over 100 CLOs priced in the first six months of the year and notably the average deal size climbed in each month, indicating the strength of investor appetite for CLO paper. The average size of broadly syndicated loan CLOs increased steadily from $482 million in January to $605 million in May and June, helped by the $1.5 billion CLO from Apollo Global Management in June which was the largest since the financial crisis.

European CLO issuance also picked up, though from a lower base. Issuance increased to 4.4 billion euro in 2Q'14, up from 2.5 billion euro in 1Q'14. In turn, first half 2014 volume of 6.9 billion euro is already close to the full year 2013 figure of 7.6 billion euros.

Following this new CLO deal flow and the offsetting effect of some older CLOs being called, U.S. CLO assets under management (AUM) are now at $335 billion, up an estimated $36 billion this year, while European CLOs are at 67 billion euro. U.S loan mutual fund and ETF AUM is at $168 billion, down 2 percent in June. As a result, the loan mutual fund and ETF share of institutional loan outstandings slipped again in June, and is now at 20 percent. This still represents a gain from

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its level of 19 percent a year ago and 15 percent at the beginning of 2013. In comparison, the CLO share of the market gained 0.5 percent in June and is now at 42.2 percent.

Despite the continued demand from CLOs for loan assets, market technicals in the U.S. were more balanced in the second quarter due to loan fund outflows and an increase in the supply of new loans. Institutional loan outstandings increased by $46 billion in 2Q'14, following a $29 billion increase in 1Q'14, according to the S&P/LSTA Leveraged Loan Index.

The European market, on the other hand, continued to deal with a supply-demand imbalance. European leveraged loans issuance has slipped this year, as has the new money portion, with refinancings accounting for 73 percent of dealflow. On top on this, new CLO vehicles have added to the demand for assets. This lack of supply in the primary market and robust demand for loans kept secondary loan prices at lofty levels.

Looking at credit quality and loan defaults in particular, five Moody's-rated issuers defaulted in the second quarter, with four of those in U.S. but none in Europe. This brought the U.S. leveraged loan default rate to 1.7 percent, up from 1.5 percent in the first quarter.

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