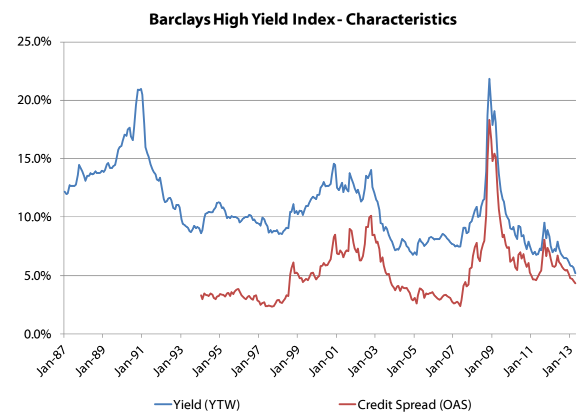
Gallagher Fiduciary Advisors, LLC
a Subsidiary of Gallagher Benefit Services, Inc.

Weekly Market Update – Week Ended May 10, 2013

Not-so-High Yield: The Fed Claims Another

The yield on the Barclays U.S. Corporate High Yield Index hit an all-time low last week, dropping below 5% for the first time in the Index's nearly 30-year history. High yield was one of the last segments of the fixed-income market to offer investors a meaningful source of income, but strong demand has pushed prices higher and yields lower. The lower yields are welcomed by companies with questionable balance sheets, since it allows them to borrow money at lower rates, but investors are left to wonder if they are being properly compensated for lending to companies that fail to achieve an investment-grade rating.

The yield on corporate bonds (high yield or otherwise) compensates investors for taking on the risk that the company will fail to repay its debts. As yields fall, investors begin to question whether they are being paid appropriately for the risk they are assuming. To find their answer, investors should look at the credit spread rather than the absolute yield. Credit spreads measure the yield difference between corporate bonds and U.S. Treasuries. By this measure, high yield investors can see that they are being reasonably compensated for the risk they are assuming.



The accompanying chart shows that, while overall yields have never been lower, credit spreads have often traded lower than they do today. In fact, the current credit spread is only slightly below the long-term median (4.3% vs. 4.8%). The declining income from high yield bonds, therefore, is due to falling U.S. Treasury yields and not a lack of compensation for assuming credit risk. High yield bonds might just be the latest victim of the Federal Reserve and the current low-rate environment.

As of May 10, 2013	Week	Month to Date	Quarter to Date	Year to Date
MSCI All Country World Index	1.00%	1.44%	4.34%	11.12%
S&P 500 Index	1.29%	2.39%	4.36%	15.43%
Russell 2000 Index	2.19%	2.96%	2.58%	15.29%
MSCI EAFE Index	0.69%	0.52%	5.76%	11.19%
Barclays Capital Aggregate Index	-0.40%	-0.67%	0.34%	0.22%
Wilshire REIT Index	0.78%	0.92%	7.54%	15.53%
DJ-UBS Commodity Index	-0.88%	-1.26%	-4.02%	-5.10%
Index Sources: Standard & Poor's, Russell, MSCI Barra, Barclays Capital, Wilshire, Dow Jones, UBS				

We thank you for your continued confidence in Gallagher Fiduciary Advisors. Please contact your Consultant with any questions or comments.