ANGELO, GORDON & CO.

CAPITAL MARKETS PERSPECTIVES

FOURTH QUARTER 2016

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ANGELO, GORDON & CO. is a privately-held registered investment advisor dedicated to alternative investing. The firm was founded in 1988 and currently manages approximately $26 billion. We seek to generate absolute returns with low volatility by exploiting inefficiencies in selected markets and capitalizing on situations that are not in the mainstream of investment opportunities. We creatively seek out new opportunities that allow us to remain a leader in alternative investments.

We have expertise in a broad range of absolute return strategies for both institutional and high net worth investors. Our dedicated team of employees seeks to deliver consistent, positive returns in all market environments. We have built our name on our breadth of talent, intensive research and risk-averse approach to investing. Our long-term experience gives us the insight and patience to turn our vision into profitable, stable businesses.

Non-Investment Grade Corporate Credit

MAUREEN D'ALLEVA
Portfolio Manager

For the third consecutive quarter the leveraged loan market enjoyed positive returns, ending the year with a strong annual performance that stood in stark contrast to the lackluster returns of the last two years. In Q4, the CS Leveraged Loan Index returned 2.25%, taking YTD returns to 9.88%. Strong technicals gained further momentum into year-end and December returns of 1.15% represented the best month for the asset class since July. CLO formation remained robust, with October and December volumes representing the second and third highest monthly totals on record, and refinancing and reset volume surged to over $31 billion, taking the full year volume to $39.4 billion over the quarter. While 2016 net total CLO issuance of $73 billion was down over 25% versus 2015, it exceeded any expectations investors would have had in January 2016 when issuance was an extremely anemic $800 million. Risk retention rules officially went into effect on Christmas Eve in the U.S. which may result in slightly lower issuance in 2017, although indications are that dozens of managers do have solutions in place to address the new regulations.

Loan funds recorded inflows for each month during the quarter. The sharp rise in interest rates post the Trump election victory in November has renewed investor interest in floating rate assets and helped loan fund flows end the year on a very strong note. December inflows of $5.7 billion were the largest monthly inflow in over three years and the seventh largest inflow on record. According to Thomson Reuters data, over $13 billion flowed into loan funds during the second half of the year, resulting in total inflows of $7.8 billion in 2016. This is compared to outflows of roughly $60 billion over the prior ten quarters. Issuers took advantage of the strong technical landscape during the quarter. October's new issue volume of $77 billion was the second highest on record behind February 2013's record $116 billion. December was a strong month as well with nearly $70 billion pricing. Full year volume was up sharply versus 2015, although 65% of the $485 billion issued was repricing/refinancing activity.

After dragging the market down for two consecutive years, Energy was the second best performing industry in the loan market, second only to Metals and Mining. According to J.P. Morgan, Energy leveraged loans returned 33.38% on the year, just behind Metals and Mining's 37.46% return.

In stark contrast to the market tone at the end of 2015, 2016 ended – and 2017 has begun – on an overall positive note. As investors contemplate asset allocations for 2017, leveraged loans are well positioned to benefit from rising interest rates and potentially positive effects from President Trump's agenda. Although the full details of this agenda are not yet clear, there is some optimism for stronger economic growth and potential tax reform, both of which would likely serve to benefit corporate earnings.

Middle Market Direct Lending

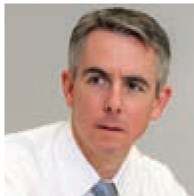
TREVOR CLARK
Portfolio Manager

CHRIS WILLIAMS
Portfolio Manager

Middle market syndicated volume rebounded during the fourth quarter to reach $39 billion, taking 2016 full-year issuance to close to $140 billion. Sponsored issuance of over $17 billion in Q4 represented a 38% increase quarter-over-quarter and a 31% increase versus Q4 of 2015. In a recent market survey, those lenders who achieved their target Q4 lending volumes cited relationships and portfolio activity as two of the drivers of their success. We have long believed that sponsor and borrower relationships are vital to achieving robust deal flow and that strong deal flow is a critical component of successful investing in the middle market.

This same market survey indicated that most lenders expect middle market syndicated loan volume to reach $125 to $150 billion in 2017, roughly in line with overall volumes for each of the last two years. That said, there is some potential for upside if a Trump presidency continues to fuel market optimism and higher growth, driving increased M&A related activity. If his administration is successful in delivering corporate tax reform and lowering healthcare costs through a roll back of the Affordable Care Act, further bolstering growth, we could expect to see an additional uptick in deal activity. The sharp rise in interest rates also triggered by Trump's surprise win in November has resulted in renewed investor focus on increasing their exposure to floating rate assets.

Deal pricing has remained attractive versus the broadly syndicated market, where the continued rally has shifted pricing power in favor of borrowers. Thomson Reuters' data suggest that institutional middle market term loan yields declined 30 basis points during the quarter to 6.36%, however we believe that lenders with differentiated strategies are likely garnering higher yields than these metrics indicate. Overall leverage levels in the middle market have continued to decline and remain below those in the broadly syndicated loan market, and we expect this trend to continue.



TODD DITTMANN
Portfolio Manager

Energy Direct Lending

Driven by the widely telegraphed, yet still somewhat surprising OPEC (and non-OPEC) production cut agreements, WTI ended the year up 45% versus 2015, marking its largest annual gain since the financial crisis. The Saudi-led price war that began in late 2014 hit North American shale producers particularly hard, pushing E&P and oilfield service bankruptcy filings to 114 and 110 respectively by the end of 2016, while stronger players worked to stabilize margins through a blend of innovation, high grading, and cost reductions. We are now seeing break-evens steadily narrowing and rig count more than doubling from its May trough. We expect this, together with a stronger U.S. dollar, will limit further WTI upside over the near-term.

As prices stabilized, the oil and gas acquisition and divestiture market returned in full force, with volume nearly doubling year-over-year to over $60 billion in announced transactions. The Permian Basin remained dominant, accounting for nearly half of FY 2016 volume and 10 of the 20 largest deals. The capital markets continued to fund growth, whether through acquisitions or the drill bit, with over $31 billion in equity capital raised over the year. Likewise, high yield issuance generated over $20 billion in proceeds, the majority of which was executed in Q4 post-OPEC. The commodity price rebound drove strong market performance, a welcome change after a dismal 2015, and the energy high yield market was among the strongest performing asset classes in 2016, generating a +37% total return, with credit spreads narrowing to levels not seen since 2014, when WTI traded well above $100 a barrel.

The appreciation of the price of both traded energy bonds and equities is in stark contrast to energy bank lending, which continues to constrict in response to significant ongoing headwinds. A recent survey of fall borrowing base redeterminations indicated that approximately 80% of borrowers experienced a flat or reduced borrowing base, whereas only 20% enjoyed an increase.

GAVIN BAIERA
Portfolio Manager

Distressed Debt

The fourth quarter of 2016 opened with volatile oil prices and rapidly increasing yields in the risk-free benchmark. This escalation accelerated post-U.S. election as market participants began baking in a reflationary policy agenda, supplanting most other market-driving dialogue. By quarter-end, the 10-year yield had reached 2.6%, a 100 basis point rise in three months and the sharpest move since the Taper Tantrum. Crude finally found its footing post-OPEC and risk asset prices moved steadily north for the remainder of the quarter. In fact, E&P debt plays largely morphed into equity stories and the valuation gap between public comps and reorganized private comps – which were substantial – quickly began to close significantly.

With a renewed domestic focus on near-term inflation, tax reform, fiscal spending, increased capex and decreased regulation, both equity and debt investors in the U.S. appear to be broadly pricing in a positive environment for near-term corporate earnings. For pure distressed investors, the obvious headline data challenges a robust opportunity set, especially with increased corporate capex and low unemployment. That being said, the increasingly complex political backdrop, both in the U.S. and in Europe, continues to give rise to price-movement "air pockets," and nimble investors – with equally nimble capital – can capitalize on opportunities with thoughtful, rapid reaction times. This dynamic is especially true as perceived geopolitical risk is dampened by ECB bond-buying. As fundamental credit investors covering the gamut of opportunistic corporate debt, attractive risk/reward opportunities are available. These are largely found in sector- or issuer-driven situations that have been created by misunderstood stories and accompanied by lower prices.

ARTHUR PEPONIS
Portfolio Manager

Private Equity

The private equity industry experienced a strong year in 2016. Net of the anomalous EMC and Kraft transactions which increased 2015 deal volume by $107 billion, North American deal volume reached its highest level since 2007. The year closed at $190 billion (up 31% year-over-year) and was comparable to the strong performances seen in 2013 and 2014. Globally, deal volume was similarly high, up 2% year-over-year to $322 billion, the second highest level since 2007. "Dry powder" continued the upward trend started in 2013, and at December 31, 2016 stood at an all-time high of $525 billion, an 11% increase from $473 billion at December 31, 2015. Not surprisingly, transaction multiples remained robust. The oft-quoted "too much money chasing too few deals" continues to ring true, even despite increased deal volumes. The average multiple paid by private equity buyers in 2016 reached its second highest level at 10.0x EBITDA, which is eclipsed only by last year's 10.3x. Despite this year-over-year decrease, it is certainly too early to declare a trend of lower transaction multiples. Average leverage for buyouts, while slightly lower than 2014 and 2015, still remained high relative to post financial crisis levels. In 2016, leverage as a multiple of EBITDA was 5.5x, modestly lower than the 5.8x multiple seen in 2014 and 2015. Equity contribution as a percentage of total capitalization was at its highest level since 2010 at 41%.

If there was any weakness in the private equity landscape in 2016, it was in "exits." In both number and aggregate exit value, 2016 was the slowest year since 2013, with the number of exits down nearly 10% from 2015. The aggregate exit value decreased approximately 25% from the prior year, reflecting a weaker IPO environment and generally significantly smaller assets being sold by sponsors. As we enter 2017, geopolitical concerns and the U.S. presidential transition continue to dominate the headlines. While the U.S. equity markets have benefitted from the "Trump Rally," investors are proceeding with a degree of caution until there is greater clarity on the new administration's policies and initiatives. Despite this political uncertainty, the inherent overhang of over $500 billion of dry powder and continued access to leverage for sponsors should result in high multiples paid and strong transaction volume in 2017.

DAVID KAMIN
Portfolio Manager

Merger Arbitrage

The surge of activity in the fourth quarter helped make 2016 the second-best year for M&A activity since the financial crisis. Total deal value was down 17% from 2015's record level but the fourth quarter was the strongest for the year, lending hope that the current M&A bull cycle has not ended.

The traditional logic that confidence and continuity in the economic and political landscape leads to higher deal volumes was upended as the rise of geopolitical uncertainty - evidenced in the U.K.'s vote to leave the EU, the U.S. election of Donald Trump as President, and the defeat of a constitutional referendum in Italy and subsequent resignation of the Prime Minister - was not enough to frustrate the continued boom in global takeovers. The year also overcame regulatory hurdles as U.S. regulators blocked several of the largest deals on antitrust grounds or via new tax policies resulting in terminated deals touching an eight-year high. China was a major force on the global M&A stage almost doubling last year's record levels. Policy makers in Beijing have encouraged both privately owned companies and state-owned enterprises (SOEs) to acquire globally as they seek industry expertise and valuable IP as part of efforts to shift their economy. That said, China's role as a global M&A player is indeterminate as Chinese officials seek to curb outbound capital flows and investments and U.S. and European government officials have become cautious of China's intentions as a global economic and political force.

From a merger arbitrage perspective, deal spreads narrowed during the quarter and for the year in total. The challenging environment, which saw six adverse terminations during the year due to regulatory issues, presented opportunities in other deal spreads that were negatively impacted due to association. Portfolio construction and position sizing was at a premium this year for arbitragers. There was a reversal of antitrust sentiment and a subsequent tightening of deal spreads post-U.S. elections as arbitrageurs believe the future of U.S. antitrust will look similar to that of prior Republican administrations.

In spite of all these uncertainties and challenges the backdrop for M&A remains very supportive. Many CEOs are still faced with weak organic growth and rapidly shifting industry dynamics which has forced companies to acquire rivals or diversify into new business segments. Additionally, there is no shortage of available capital enabling companies to finance acquisitions in addition to their substantial cash balances. Much attention in 2017 will be on the Trump administration and its policies. Arbitrage investors will have a keen interest on who is appointed to the FTC and DOJ antitrust divisions as well as Federal judge appointments, with the latter being more impactful in years to come. CEOs and boards of directors will be watching to see if President Trump follows through on campaign promises of cutting the U.S. corporate tax rate, reducing regulations and enacting a repatriation holiday

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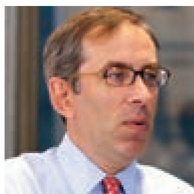
GARY WOLF
Portfolio Manager

Convertible Arbitrage

Global equity markets remained strong during the final quarter of the year, gaining 4.39% and taking the annual return to 6.77% (MSCI World, local currency terms). Even though their outperformance did not extend through Q4, global convertibles still produced a quarterly gain of 1.91% on an outright basis, which brought their annual performance to 7.92% (BAML G300, local currency terms). Using the HFRX FI-Convertible Arbitrage Index as an indicator, arbitrage returns for the overall market also slowed somewhat. The index gained 1.46% in Q4 and 7.47% for the year.

Primary market activity couldn't quite keep up the fast pace set during the summer period. According to UBS data, $14.8 billion of new convertible transactions were priced in Q4. Europe was the most active region, accounting for $6.7 billion of the total deal volume, €4 billion of which was made up by the Bayer mandatory, followed by the U.S. with $5.4 billion where the biggest deals included Ensco, Finisar, Teradyne and Zillow. Annual issuance for 2016 reached $77.9 billion, representing a small decline versus 2015. While issuance actually increased in the U.S. ($36.3 billion vs. $35.4 billion) and Europe ($27.7 billion vs. $23.1 billion), it remained approximately flat in Asia-ex Japan and fell in Japan ($4.3 billion vs. $7.7 billion) and in the rest of the world ($2.2 billion vs. $8.0 billion). The average cheapness to fair value of U.S. new issues was 3.78% in 2016, compared to 2.2% in 2015, according to Barclays Research estimates.



JONATHAN LIEBERMAN
Portfolio Manager

Residential and Consumer Debt (RMBS/ABS)

In the fourth quarter, the election brought a paradigm shift to the macro investing environment and was coupled with only the second increase in Fed Funds since ZIRP. Amid this backdrop, mortgage credit markets were liquid and spreads broadly tightened during the fourth quarter. The tightening was driven by persistently favorable fundamentals, which have been stable to improving, and a strong net demand technical. Certain long-duration sub-sectors, however, saw some weakness during the quarter due to higher Libor. On the heels of Bank of America's $8.5 billion Countrywide settlement with RMBS investors earlier this year, Citi distributed over $1 billion in proceeds for its own RMBS investor settlement in December, offering support to the net demand technical. The new issuance calendar was active in the fourth quarter, and issuers from a variety of sub-sectors came to market. New issuance of mortgage credit securities totaled over $50 billion in 2016, paling in comparison to peak issuance of over $1.1 trillion in 2005 and 2006, and trailing the pre-crisis low of $139 billion in 2000. Broad measures of home prices continued to record year-over-year growth of around 5%-6% due to tight inventory in many markets. Despite this, homebuilder confidence remains high.

Agency MBS modestly outperformed both Treasury and swap benchmarks during the fourth quarter as favorable market technicals overwhelmed interest rate volatility. The sharp move to higher rates quickly slowed gross issuance while the Fed continued to reinvest paydowns at an above-trend rate due to faster prepayments during the third quarter. The move to higher rates also resulted in increased demand for interest-only product, tightening spreads on mortgage derivatives. New issuance of asset-backed securities totaled over $195 billion in 2016, roughly in line with 2015. Credit card performance was mostly strong. Auto performance, however, was more mixed as delinquencies and defaults reached higher levels compared to other post-crisis vintages, but remained otherwise consistent with a normal credit cycle.

ANDREW SOLOMON
Portfolio Manager

Real Estate Debt (CMBS)

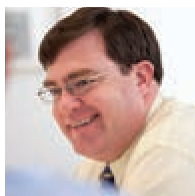
The CMBS market ended what proved to be a volatile year on a relatively firm note. After widening to start the year, new issue conduit spreads recovered and generally ended the year at tighter levels than they started. The one exception was at the BBB- level, where spreads generally remained wide of levels seen at the beginning of January 2016.

New issue volume in the fourth quarter totaled approximately $27 billion, bringing annual 2016 issuance to $77 billion. While this amount is roughly 28% lower than the prior year, the decline was not nearly as steep as many feared six months earlier when year-to-date volumes were half those of 2015. A portion of this second half pick-up in issuance was the result of originators working to price deals prior to the implementation of new risk retention rules which went into effect in December.

Thus far, four traditional conduit and one single borrower CMBS deals have been structured to be risk retention compliant. Each of the four conduit deals used what is referred to as a vertical slice to meet the retention requirements, whereby issuing banks collectively purchase 5% of each bond class from AAA through unrated which they are then required to hold for the life of the deal. The remaining 95% of each bond class is free to trade in the same way as any other CMBS security.

Under the new regulations, issuing banks are not the only group that can fulfill the retention requirement. The rules also allow for a real estate expert to hold 5% of the economic risk of a CMBS transaction via what is referred to as a horizontal slice. In this structure, the real estate expert would retain the highest yielding and most risky portion of the capital structure. Despite significant early enthusiasm for this proposed solution, not a single conduit or multi-borrower deal to date has employed this structure. One of the major hurdles facing this solution is the fact that the issuing institution remains on the hook for the behavior of the third-party real estate expert buying the horizontal slice. As a result the issuer, rather than the third-party real estate expert, will be subject to fines and other penalties for any future violations of the retention rules. This has resulted in a stalemate with respect to legal documentation and it remains uncertain whether a solution acceptable to all parties will be reached.

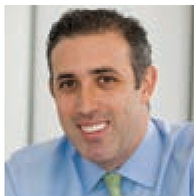
With respect to the U.S. presidential election, although President Trump's governing agenda is not yet clear and it remains to be seen how effective he will be at implementing that agenda, Republican control of both the legislative and executive branches means the new administration can likely implement at least some of the key components of its platform. Investors have been largely focused on the potential effects of greater infrastructure spending, tax code reform and reduced regulation for certain industries. Treasury yields have increased sharply, which could have a negative effect on fixed-rate CMBS investors who elected not to hedge their interest rate exposure.



GORDON J. WHITING
Portfolio Manager

Net Lease Real Estate

As of the fourth quarter of 2016, the trailing 12-month U.S. single-tenant transaction volume totaled $48 billion, according to Real Capital Analytics. Transaction volume has declined by 25% since Q4 2015 (or approximately 6% per quarter), with the largest declines occurring in the retail and industrial segments. With the decline in transaction volume, cap rates have started to find a floor. Retail and industrial cap rates remained flat in Q4 compared to the prior quarter and office cap rates expanded 10 basis points. The slowdown in volume and the widening of cap rates has been correlated with a rise in 10-year Treasury rates over 2016. While Treasury rates increased, CMBS spreads have compressed in recent months as lenders have begun to digest the implementation of new risk retention regulation that went into effect at the end of December 2016. As we look forward in 2017, there is cause for optimism about the net lease environment. The widening of cap rates could present more opportunities for higher yielding transactions and the CMBS market is starting to look more stable and attractive.



ADAM SCHWARTZ
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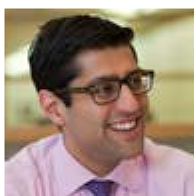
Head of U.S. and
Europe Real Estate

REID LIFFMAN
Co-Portfolio Manager
U.S. Real Estate



ANUJ MITTAL
Co-Portfolio Manager
Europe Real Estate

Real Estate

United States Real Estate: Despite a bumpy year punctuated by Brexit, the surprise U.S. election outcome and rising interest rates, real estate has continued to increase in value with prices up 6.3% year-to-date through October 2016, according to Moody's RCA CPPI, bringing prices to 22% above their 2007 peak. Volume, however, has declined about 12% year-to-date compared to the same time last year. With interest rates expected to continue to rise over the next few years, many real estate investors have shifted their focus from lower-for-longer income plays to assets with possibilities for growth in income streams, namely transitional assets and shorter lease life assets. NOI growth over the last four quarters has moderated versus the last few years but still remains in line with or above longer term trends. Demand fundamentals continue to be attractive with GDP growth up 2.9%[1], job growth up by 2.2 million this year[2] and 1.3 million[3] new households created. At the same time, a tightening lending environment has made it harder for new supply to get financed, strengthening the likelihood for both rents and occupancies to continue to improve. Although rates have risen meaningfully since the election, they have increased only back to levels seen a year prior. Over that same 12 month period cap rates barely moved, so we don't expect an increase in cap rates will automatically follow the recent rate movement. Going forward, continued rate increases could put upward pressure on cap rates unless inflation results in income growth that outpaces interest rate growth. There is potential for a slowdown in foreign investment in U.S. real estate as China continues to tighten foreign investment rules and countries assess the impact of foreign policy under the Trump administration. Foreign investors had become a considerable force in driving prices of core assets in gateway cities, so a slowdown would not be without repercussions.

Europe Real Estate: Turning to Europe, in Q4, despite weak performance in the publicly-listed real estate market, private UK real estate continued to show resiliency after the EU referendum. Investment volumes finished at £49 billion, down from a very active 2015 but showing strong acceleration in the last quarter and an annual volume in line with the long-term average. During Q4, London property represented over 50% of transactions, which is above the long-term average of 45% and suggests Brexit has not impacted investor appetite for London. Yields have also remained consistent with pre-Brexit levels and based on the All-Property IPD have on average decreased by approximately 10 basis points. On the leasing side, the City of London recorded 1.7 million sq ft of take-up in Q4, the strongest quarter of the year, and 25% ahead of the 10-year quarterly average. Full-year take-up reached 5.3 sq ft, which is close to the 10-year annual average of 5.6 million sq ft. Overall vacant supply stands at 4.5 million sq ft, leading to an overall vacancy rate of 4.0% which was significantly lower than the 10-year average of 6.4%.

Worst case estimates of job losses related to Brexit suggest 50k to 100k jobs, which would equate to vacancy increases of 2% to 4% which, even for a worst case, appear manageable. Across Europe, positive net absorption continued to bring vacancy levels down, ending Q3 at 7.9% versus 8.45% the year before. Investment volumes in Germany ended at €52.5 billion, the second highest on record (the highest being 2015 when €55 billion transacted). Prime yields continued to fall and remain at all-time lows in major cities. The eurozone's Economic Sentiment Indicator continued to increase in Q4, ending at its highest level since 2011. The ESI is highly correlated to GDP and suggests that Q4 will show increased growth. The slow but accelerating GDP growth in the eurozone since 2013 is also allowing for a gradual labor recovery seen by unemployment which has dropped from a peak in 2013 of +12% to 9.8% in Q4. UK economic fundamentals also remained stable in Q4 with sentiment data suggesting positive GDP growth and unemployment reaching a post-crisis low of 4.8%. What is yet to be seen is the impact of potential inflation from Sterling depreciation which will eventually filter through the economy and may dampen consumer spending and business investment.

[1] *GDP: As of 9/30 YOY growth (nominal dollars)*
[2] *2016 full year nonfarm payroll net employment*
[3] *YTD through 9/30 (U.S. Household Formation)*

Asia Real Estate

WILSON LEUNG
Co-Portfolio Manager

STEVEN CHA
Co-Portfolio Manager

Japan's real GDP increased 1.3% year-over-year in the third quarter of 2016, in line with the Japanese government real GDP growth targets of 1.3% and 1.5% for fiscal years 2016 and 2017 respectively. In January 2016, the Bank of Japan ("BOJ") introduced negative interest rates to counter deflation, pushing the 10-year Japanese government bond yields to -0.3% in July and in September, announced additional monetary easing to control the yield curve. Since the BOJ introduced the new policy, the 10-year Japanese government bond yield has hovered around 0.1%, while U.S. treasury yields increased more than 0.5% in the fourth quarter. In response to U.S. interest rate movement following the U.S. presidential election, we have seen the Japanese Yen depreciate significantly from 104 to 116 per USD as of year-end.

Real estate fundamentals in Central Tokyo remained strong. Office vacancy in Central Tokyo fell below 4% in the second half of 2016, and the average office rent continued to increase for the ninth consecutive quarter through the end of 2016. In addition, fundamentals in other large regional cities such as Osaka and Nagoya have shown significant improvement due to recovering tenant demand and limited new supply. The vacancy rate in Central Osaka fell to 5.2% in December 2016 from 7.5% in the prior year and we are now seeing moderate rent growth as well. On the capital markets side, commercial real estate transaction volume was USD42 billion which is a 19% drop from the same period last year, mainly due to a lack of available assets for sale. On the other hand, there is increasing shareholder pressure on many Japanese corporates to sell their non-core real estate assets to improve return on equity and growth. Finally, the number of overseas tourists reached 24 million in 2016, an increase of 22% year-over-year, which has continued to benefit the growing hospitality sector.

Korea is currently enduring a period of political turmoil as President Park's leadership has collapsed over allegations that the President's acquaintance, Ms. Soon-Sil Choi, interfered in state affairs and gained financial benefits by taking advantage of her close relationship with the President. Accusations against the President include negligence of duty, colluding with a confidante to extort money and favors from companies, and allowing the acquaintance to unlawfully interfere with government affairs. President Park's approval rating plummeted to 5% as the nation called for her immediate resignation. In December, politicians voted to remove the President and South Korea's Constitutional Court has begun to hear oral arguments in the impeachment trial of the President which is expected to take a number of months and conclude in the first half of 2017.

The Korean economy has remained resilient despite the headwinds of sluggish export growth, concerns over China's slowdown, and political challenges at home. GDP growth rate was 2.7% year-over-year as of the third quarter of 2016. 2017 is expected to be challenging for the domestic economy with the ongoing political turmoil, corporate restructurings and the Fed rate hike cycle. Nevertheless the domestic economy is expected to continue its recovery at a modest pace on the back of improving exports and strong fiscal support from the government. The Fed rate hike cycle is likely to lead to a weakening KRW, which should benefit exports. There is also sufficient room for a government stimulus program with Korea's government debt lingering below 40% of GDP (vs OECD Avg. of 88%). In addition, we expect the Bank of Korea to maintain its accommodative monetary policy even after the Fed continues to increase rates to support the economy.

The spread between prime office cap rates and Korean government bond yields is near the all-time high of 370 basis points as of the third quarter of 2016. However, the Fed rate hike should cause spreads to contract in 2017, thus compressing office capital values. Overall office vacancy in Seoul increased 230 basis points to 13.9% in Q3 2016 due to the completion of Parnas Tower, a 1.12 million square foot office building which was delivered in September, and lower overall net absorptions in CBD area. Despite the recent increase in vacancy, we expect office vacancy to improve over the next 12 months as the major supply wave of commercial office has now been completed

In China, Q4 2016 GDP growth is expected at approximately 6.7%, on track to achieve the government's full year target of 6.5% to 7.0%. The equity markets experienced another somewhat uneventful quarter with Shanghai Composite Index rising 3.3%, although it is still down over 12% from the end of 2015. On the currency side, the RMB continued its weakening trend inching toward 7.0 RMB per USD, having depreciated close to 11% since August 2015.

On the real estate front, China's housing sector saw strong sales in the first half of 2016 but slightly softened toward year end as more restrictive policies were announced and implemented in first-tier and select second-tier cities. In 2016, residential prices rose most dramatically in Shanghai and Beijing (24.1% and 18.0% year-on-year respectively) precipitated by growing investment demand of onshore capital with limited opportunities to invest offshore. On the other hand, second and third tier cities continue to face destocking pressure and pricing has lagged in spite of the loosening policies. Although we do not anticipate a major correction in the real estate market in China, the current robustness of the market is cause for some caution in investing in the market.

ANGELO, GORDON & CO.

ECONOMIC DASHBOARD

MARKET INDICES

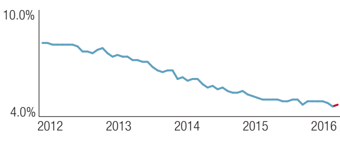
Fourth Quarter 2016

JOB MARKET

Macro Economics		Five-Year Trend

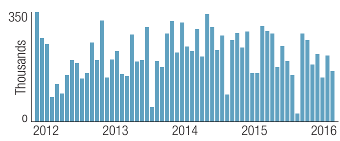
US – Unemployment Rate

As of 12/31/2016

Latest Level	4.7	
Change from Prior Month	0.1	
Latest Direction	Deteriorating	
Frequency	Monthly	

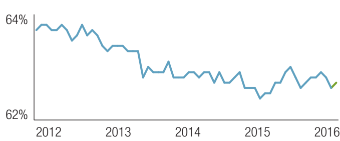
US – Non-Farm Payroll

As of 12/31/2016

Latest Level	156.0	
Change from Prior Month	(48.0)	
Latest Direction	Deteriorating	
Frequency	Monthly	

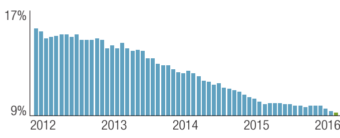
US – Labor Participation Rate

As of 12/31/2016

Latest Level	62.7	
Change from Prior Month	0.1	
Latest Direction	Improving	
Frequency	Monthly	

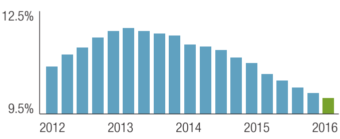
US – U-6 Unemployed & Margin & Part-Time as % of Labor Force & Margin

As of 12/31/2016

Latest Level	9.2	
Change from Prior Month	(0.1)	
Latest Direction	Improving	
Frequency	Monthly	

Eurozone Unemployment Rate

As of 9/30/2016

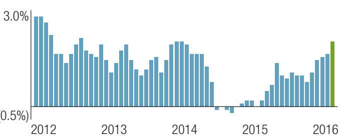
Latest Level	10.0	
Change from Prior Quarter	(0.2)	
Latest Direction	Improving	
Frequency	Quarterly	

INFLATION

Macro Economics		Five-Year Trend

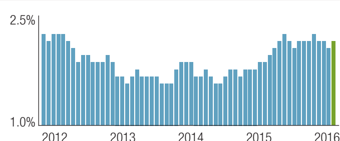
US Consumer Price Index (CPI) Y-o-Y %

As of 12/31/2016

Latest Level	2.1	
Change from Prior Month	0.4	
Latest Direction	Increasing	
Frequency	Monthly	

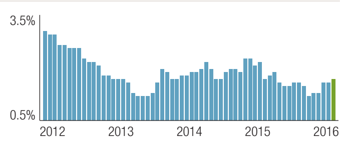
US CPI Goods Less Food and Energy Y-o-Y %

As of 12/31/2016

Latest Level	2.2	
Change from Prior Month	0.1	
Latest Direction	Increasing	
Frequency	Monthly	

US Producer Price Index (PPI) Y-o-Y %

As of 12/31/2016

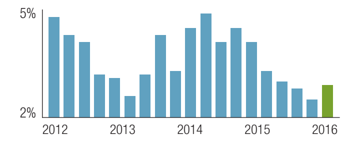
Latest Level	1.7	
Change from Prior Month	0.1	
Latest Direction	Increasing	
Frequency	Monthly	

GDP GROWTH

Macro Economics		Five-Year Trend

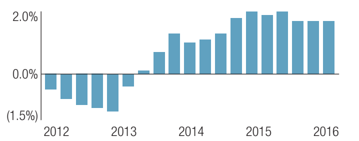
US – GDP Y-o-Y %

As of 9/30/2016

Latest Level	2.9	
Change from Prior Quarter	0.4	
Latest Direction	Improving	
Frequency	Quarterly	

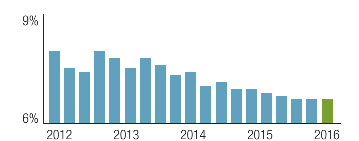
Eurozone – GDP Y-o-Y %

As of 9/30/2016

Latest Level	1.7	
Change from Prior Quarter	0.0	
Latest Direction	No Change	
Frequency	Quarterly	

China – GDP Y-o-Y %

As of 12/31/2016

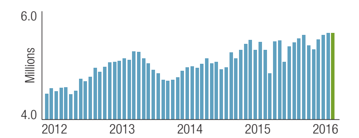
Latest Level	6.8	
Change from Prior Quarter	0.1	
Latest Direction	Improving	
Frequency	Quarterly	

HOUSING

Macro Economics		Five-Year Trend

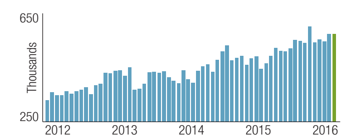
Existing Home Sales

As of 11/30/2016

Latest Level	5.6	
Change from Prior Month	0.0	
Latest Direction	Improving	
Frequency	Monthly	

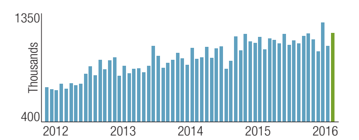
New Home Sales

As of 11/30/2016

Latest Level	592.0	
Change from Prior Month	29.0	
Latest Direction	Improving	
Frequency	Monthly	

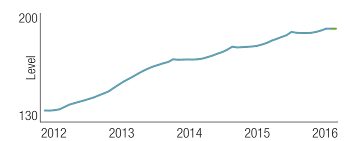
Housing Starts

As of 12/31/2016

Latest Level	1,226.0	
Change from Prior Month	124.0	
Latest Direction	Improving	
Frequency	Monthly	

Case-Shiller Index of Home Value in 20 Cities

As of 10/31/2016

Latest Level	190.5	
Change from Prior Month	1.2	
Latest Direction	Improving	
Frequency	Monthly	

Source: Bloomberg (All)

"Latest Direction" is from the last "Frequency" measurement

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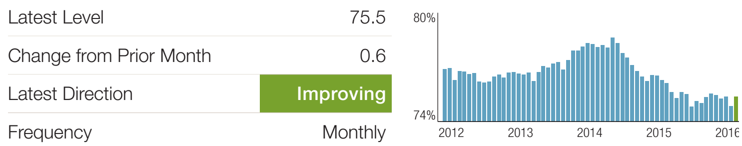
ECONOMIC DASHBOARD *(continued)*

ECONOMIC & MARKET CONFIDENCE

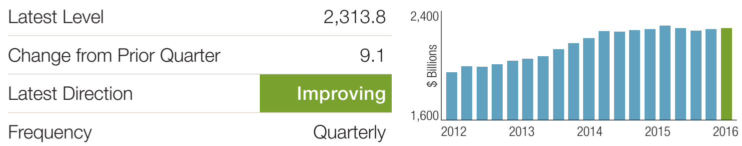
Macro Economics		Five-Year Trend

Capacity Utilization as a % of Capacity
As of 12/31/2016



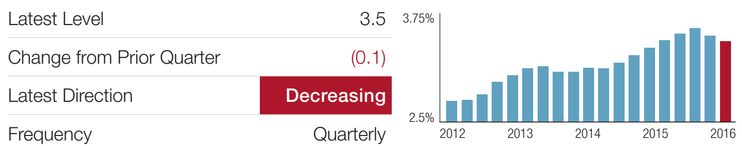
Latest Level	75.5
Change from Prior Month	0.6
Latest Direction	Improving
Frequency	Monthly

Private Fixed Investment Nonresidential SAAR
As of 9/30/2016



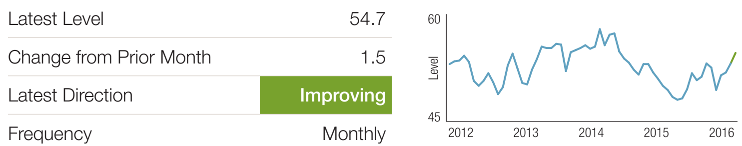
Latest Level	2,313.8
Change from Prior Quarter	9.1
Latest Direction	Improving
Frequency	Quarterly

Residential Fixed Investment as a % of GDP
As of 9/30/2016



Latest Level	3.5
Change from Prior Quarter	(0.1)
Latest Direction	Decreasing
Frequency	Quarterly

ISM Manufacturing Index
As of 12/31/2016

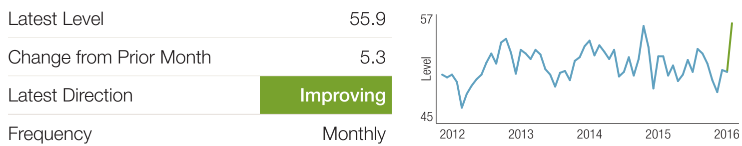


Latest Level	54.7
Change from Prior Month	1.5
Latest Direction	Improving
Frequency	Monthly

Manufacturing Inventory Change Q-o-Q $
As of 9/30/2016

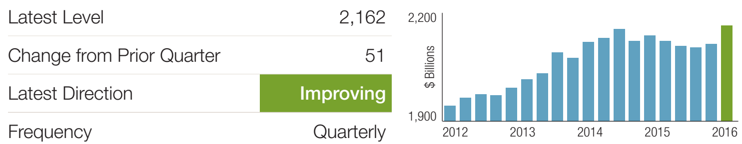
Latest Level	0.5
Change from Prior Quarter	22.1
Latest Direction	Increasing
Frequency	Quarterly

Architecture Firms Billings Index
As of 12/31/2016



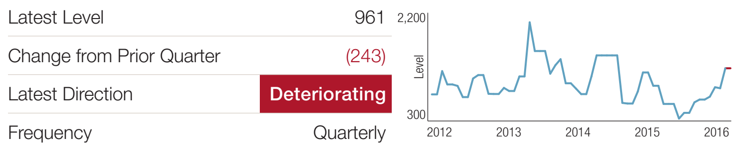
Latest Level	55.9
Change from Prior Month	5.3
Latest Direction	Improving
Frequency	Monthly

Exports of Goods/Services
As of 9/30/2016



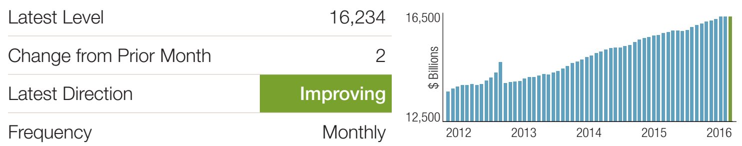
Latest Level	2,162
Change from Prior Quarter	51
Latest Direction	Improving
Frequency	Quarterly

Shipping Rates
As of 12/31/2016



Latest Level	961
Change from Prior Quarter	(243)
Latest Direction	Deteriorating
Frequency	Quarterly

Personal Income Level
As of 11/30/2016

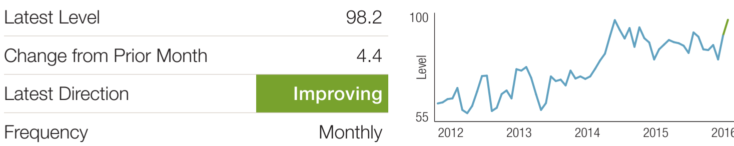


Latest Level	16,234
Change from Prior Month	2
Latest Direction	Improving
Frequency	Monthly

ECONOMIC & MARKET CONFIDENCE *(continued)*

Macro Economics		Five-Year Trend

Michigan Consumer Confidence Sentiment
As of 12/31/2016

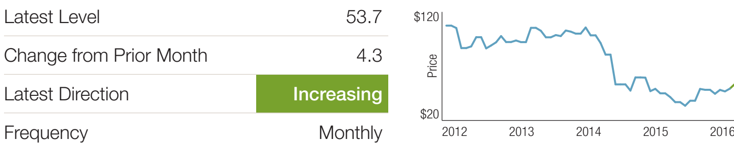


Latest Level	98.2
Change from Prior Month	4.4
Latest Direction	Improving
Frequency	Monthly

COMMODITIES

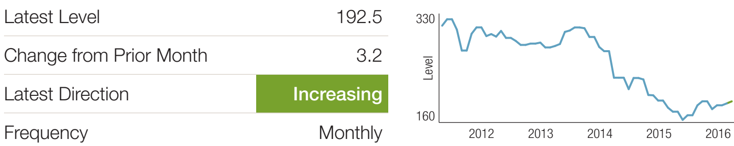
Macro Economics		Five-Year Trend

WTI Crude Oil Price
As of 12/31/2016



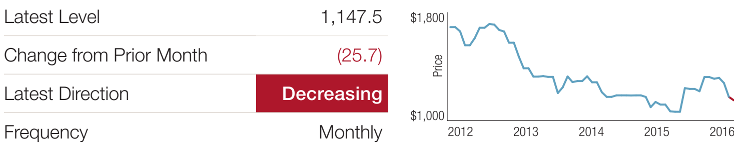
Latest Level	53.7
Change from Prior Month	4.3
Latest Direction	Increasing
Frequency	Monthly

Reuters/Jefferies Commodity Index
As of 12/31/2016



Latest Level	192.5
Change from Prior Month	3.2
Latest Direction	Increasing
Frequency	Monthly

Gold
As of 12/31/2016

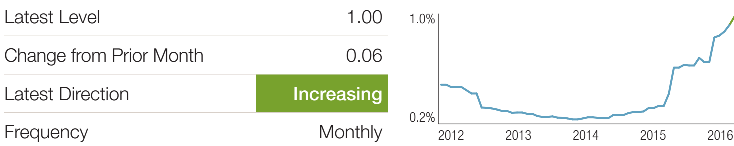


Latest Level	1,147.5
Change from Prior Month	(25.7)
Latest Direction	Decreasing
Frequency	Monthly

RATES

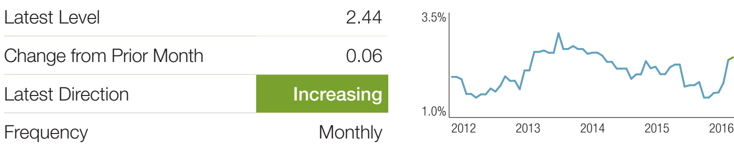
Macro Economics		Five-Year Trend

LIBOR 3M
As of 12/31/2016



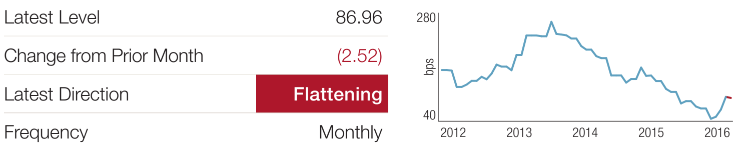
Latest Level	1.00
Change from Prior Month	0.06
Latest Direction	Increasing
Frequency	Monthly

Treasury 10 Yr Yield
As of 12/31/2016



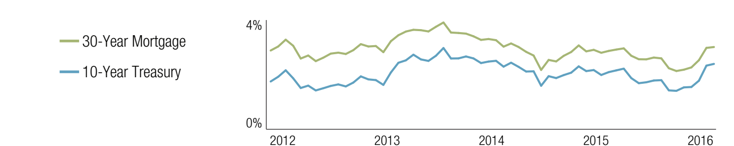
Latest Level	2.44
Change from Prior Month	0.06
Latest Direction	Increasing
Frequency	Monthly

Swaps 2Y vs. 10Y
As of 12/31/2016



Latest Level	86.96
Change from Prior Month	(2.52)
Latest Direction	Flattening
Frequency	Monthly

30 Yr Mortgage and 10 Yr Treasury



Source: Bloomberg (All)
"Latest Direction" is from the last "Frequency" measurement

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ECONOMIC DASHBOARD *(continued)*

EQUITY

Macro Economics | Five-Year Trend

US Equity Markets – Russell 3000

As of 12/31/2016

Latest Level	1,313.7
Change from Prior Month	23.4
Latest Direction	Rally
Frequency	Monthly

US Equity – VIX

As of 12/31/2016

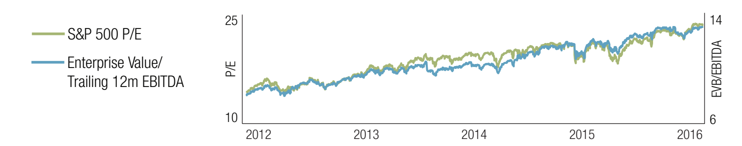
Latest Level	14.0
Change from Prior Month	0.7
Latest Direction	Increasing
Frequency	Monthly

S&P 500 Percentage Exceeding Earning Estimates

As of 12/31/2016

Latest Level	72.5
Change from Prior Month	(1.8)
Latest Direction	Decreasing
Frequency	Monthly

S&P 500 Historical Valuation Levels



Trailing P/E on S&P 500

As of 12/31/2016

Latest Level	21.0
Change from Prior Month	0.4
Latest Direction	Increasing
Frequency	Monthly

Equity Markets – Euro Stoxx

As of 12/31/2016

Latest Level	350.3
Change from Prior Month	22.9
Latest Direction	Increasing
Frequency	Monthly

Equity Markets – MSCI EAFE

As of 12/31/2016

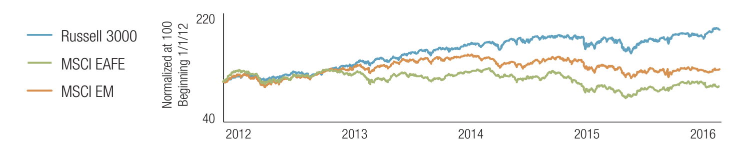
Latest Level	1,684.0
Change from Prior Month	54.3
Latest Direction	Increasing
Frequency	Monthly

Equity Markets – MSCI EM

As of 12/31/2016

Latest Level	862.3
Change from Prior Month	(0.6)
Latest Direction	Decreasing
Frequency	Monthly

Russell 3000 – MSCI EAFE – MSCI EM



FOREIGN EXCHANGE RATE

Macro Economics | Five-Year Trend

Euro Spot Rate vs. 1 USD

As of 12/31/2016

Latest Level	1.05
Change from Prior Month	(0.01)
Latest Direction	Deteriorating
Frequency	Monthly

Yuan Spot Rate vs. 1 USD

As of 12/31/2016

Latest Level	0.1439
Change from Prior Month End	(0.0011)
Latest Direction	Deteriorating
Frequency	Monthly

Yen Spot Rate vs. 1 USD

As of 12/31/2016

Latest Level	0.0085
Change from Prior Month	(0.0002)
Latest Direction	Deteriorating
Frequency	Monthly

Source: Bloomberg (All)

"Latest Direction" is from the last "Frequency" measurement

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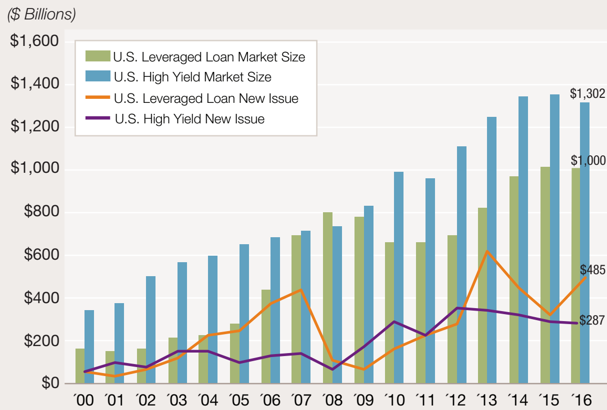
CHART OF THE QUARTER

Ten-year yields rose sharply post the Trump election victory in November as investors began to price in higher deficits, a firmer economic outlook and increasing inflation expectations.

NON-INVESTMENT GRADE CORPORATE CREDIT

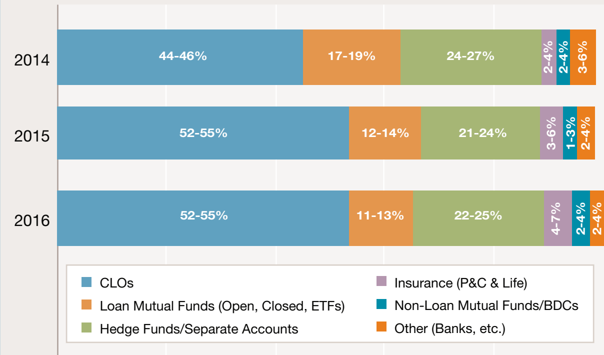
LEVERAGED LOAN AND HIGH YIELD BOND MARKET SIZE AND NEW ISSUE VOLUME



Source: Credit Suisse, Bank of America Merrill Lynch, JP Morgan

Leveraged loan issuance rose versus 2015, although given a high percentage of repricings/refinancings the overall size of the loan market was unchanged.

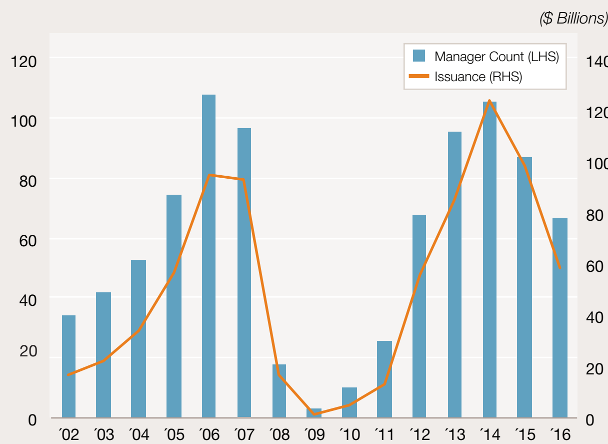
ESTIMATED SHARE OF U.S. LEVERAGED LOAN HOLDINGS



Source: Lipper, EPFR, CEF Connect, Credit Flux, HFR, Federal Reserve, S&P Capital IQ, Bloomberg, Barclays Research

CLOs remain a key source of demand for the leveraged loan market.

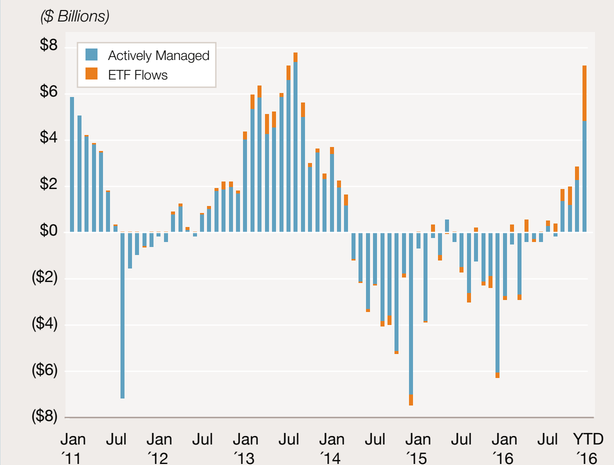
CLO ISSUANCE AND MANAGER COUNT



Source: JP Morgan, S&P Capital IQ LCD

Manager count continued to decline in 2016 as risk retention was implemented late in the year.

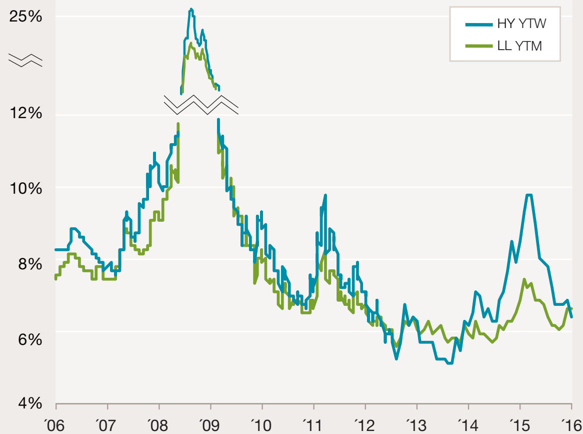
LEVERAGED LOAN FUND FLOWS



Source: JP Morgan

After 2+ years of consistent outflows, loan funds enjoyed positive inflows in 2016 of approximately $7 billion.

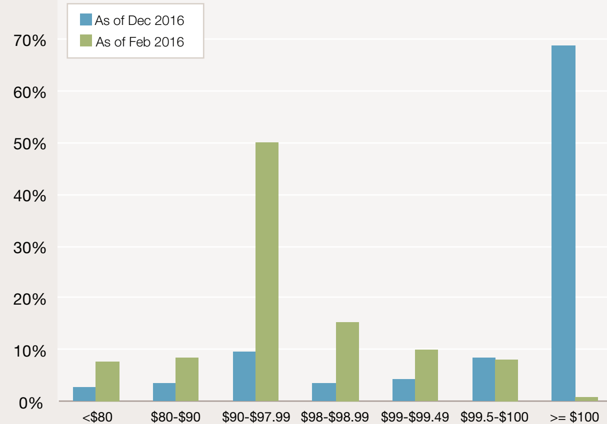
LEVERAGED LOAN AND HIGH YIELD BOND YIELDS



Source: Credit Suisse, Bloomberg

Loan and bond yields declined over the year as risk appetite returned.

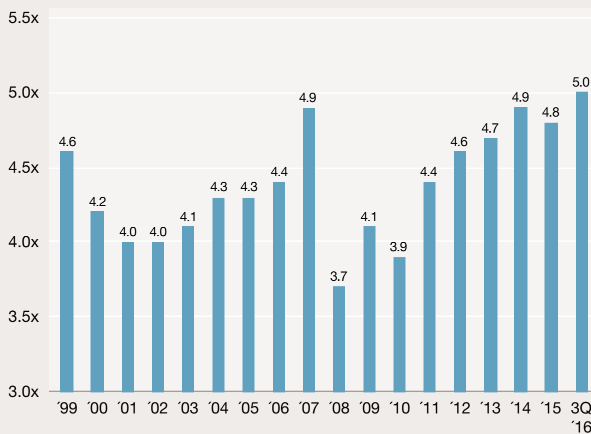
LEVERAGED LOAN PRICING BUCKETS



Source: JP Morgan

The rally in the loan market shifted pricing distribution for the index. In February 2016, over 60% was trading below $98; by year-end, ~70% was trading above par.

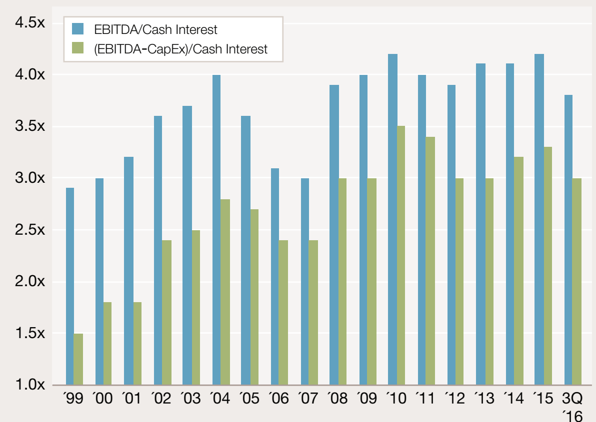
LEVERAGED LOAN DEBT/EBITDA



Source: JP Morgan, S&P Capital IQ LCD

Debt to EBITDA levels have increased modestly over the last several years.

LEVERAGED LOAN INTEREST COVERAGE

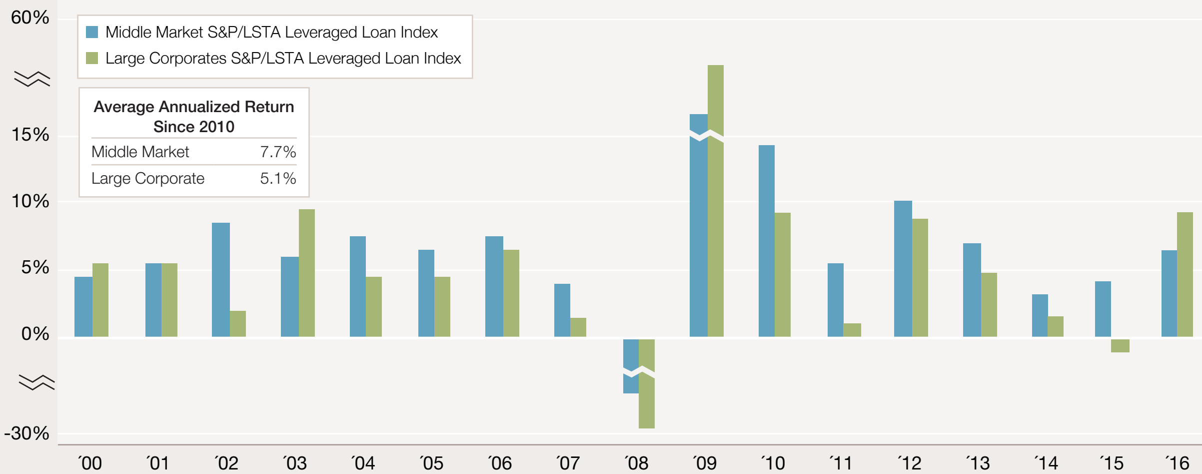


Source: JP Morgan, S&P Capital IQ LCD

Interest coverage declined over the last two years, but overall has remained stable since the financial crisis.

MIDDLE MARKET DIRECT LENDING

ANNUAL RETURNS: MIDDLE MARKET VS. LARGE CORPORATES

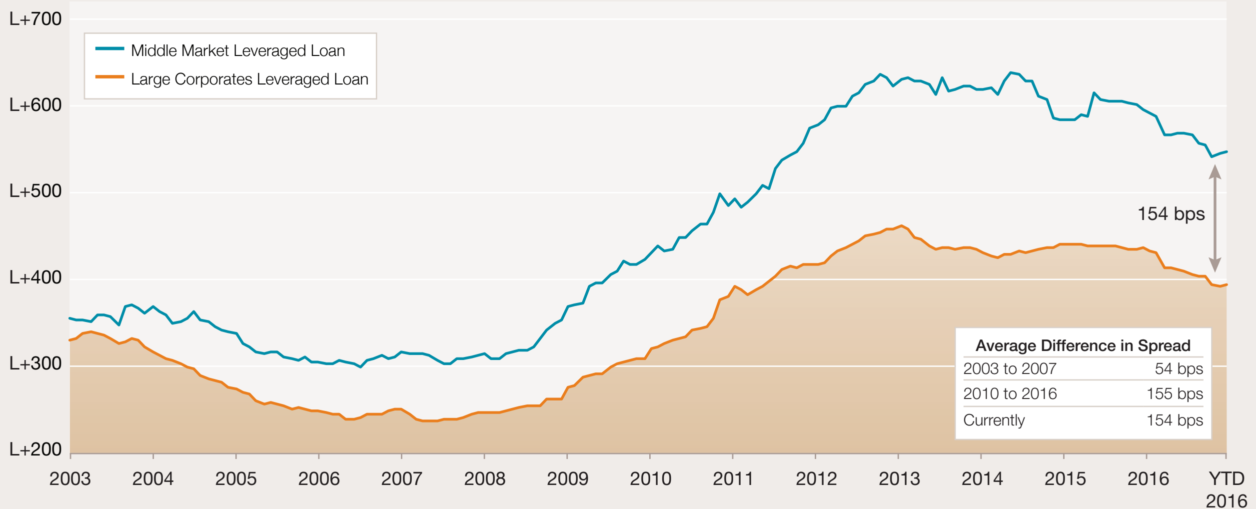


Middle market leveraged loan includes issuers with less then $50m EBITDA

Source: S&P Capital IQ LCD, S&P/LSTA Leveraged Loan Index

Middle market loans delivered positive returns for the 8th consecutive year.

AVERAGE LOAN SPREAD: MIDDLE MARKET VS. LARGE CORPORATES



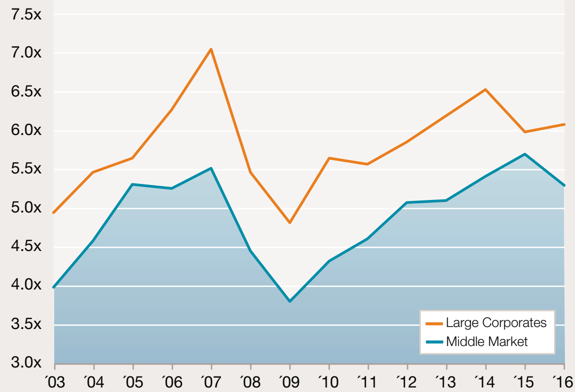
Middle market leveraged loan includes issuers with less than $50m EBITDA

Average spread includes any LIBOR floor benefit

Source: S&P Capital IQ LCD

Spreads in the middle market remain above those in the large corporate market.

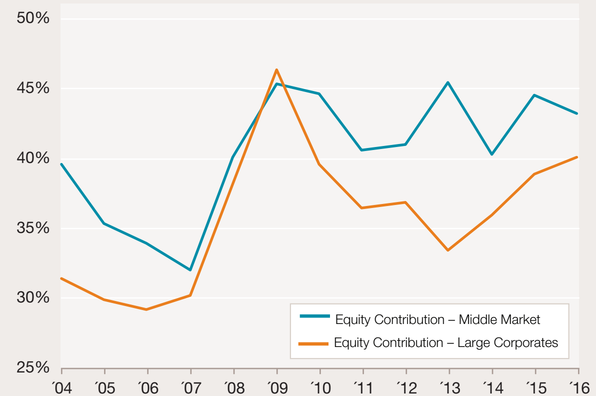
LBO DEBT TO EBITDA: MIDDLE MARKET VS. LARGE CORPORATES



Source: Thompson Reuters

The debt-to-EBITDA multiple differential between the middle market and the large corporate market widened steadily throughout the year as more conservative structures prevailed in the middle market.

AVERAGE EQUITY CONTRIBUTION FOR LBO'S: MIDDLE MARKET VS. LARGE CORPORATES

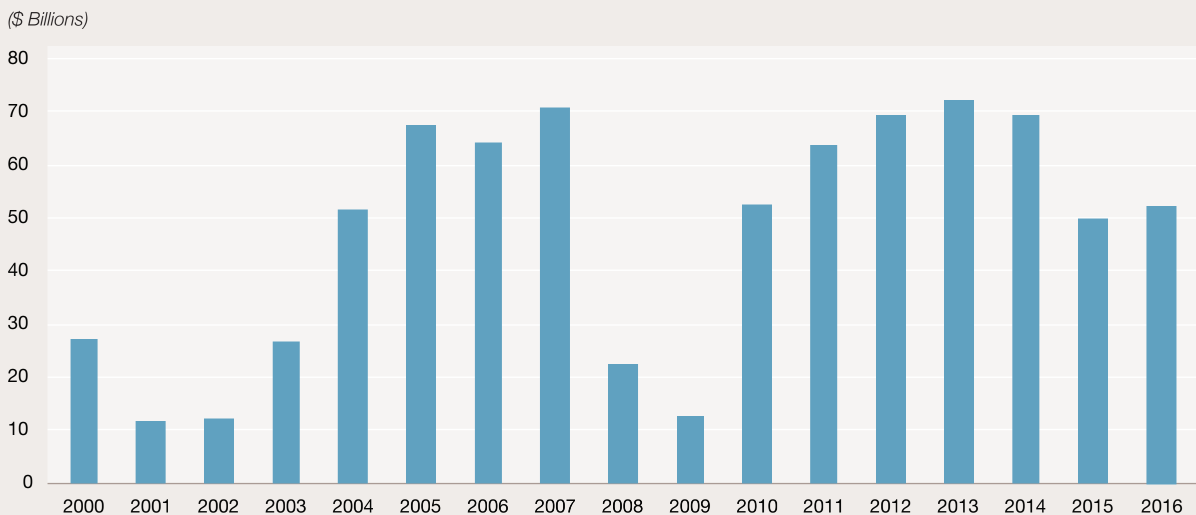


Middle market leveraged loan includes issuers with less than $50m EBITDA. Average spread includes any LIBOR floor benefit.

Source: S&P Capital IQ LCD

Sponsor equity contributions in the middle market remain north of 40%.

MIDDLE MARKET SPONSORED ISSUANCE



Source: Thompson Reuters

The pace of sponsored issuance increased slightly versus 2015.

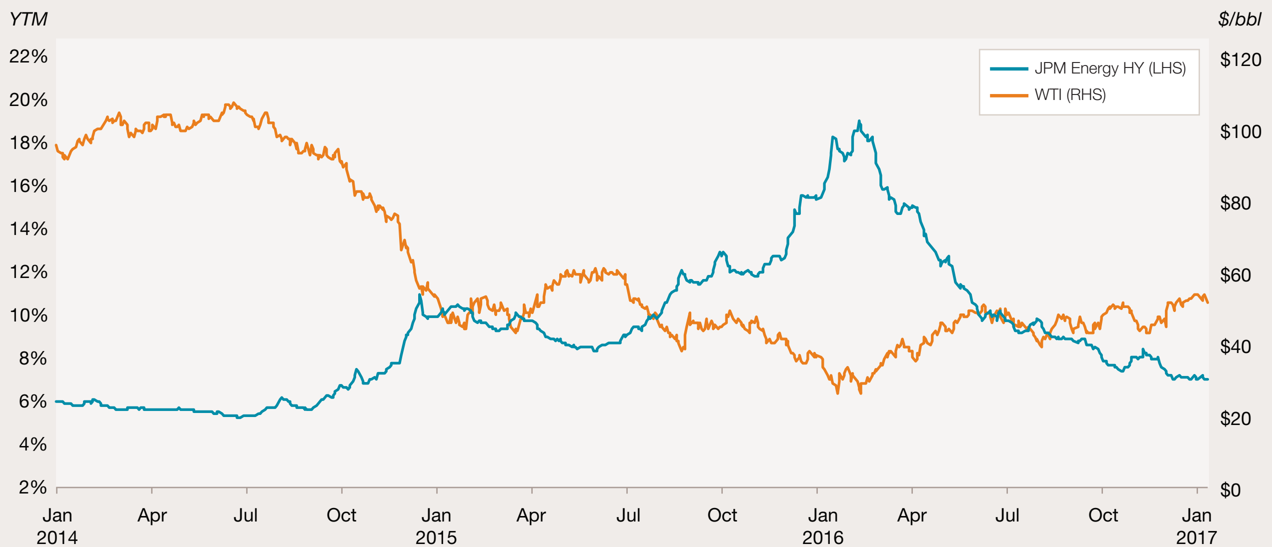
ENERGY DIRECT LENDING

COMMODITY PRICES VS. HIGH YIELD ENERGY VS. E&P EQUITY

Source: Bloomberg

In line with the continued appreciation in WTI pricing, both the energy high yield and equity markets have similarly outperformed.

WTI VS. HIGH YIELD ENERGY INDEX (YTM)



Source: Bloomberg

After peaking near 20% in February 2016, energy yields normalized rapidly and have since returned to the mid-single digits - nearing levels last seen in 2014 with WTI priced > $100/bbl.

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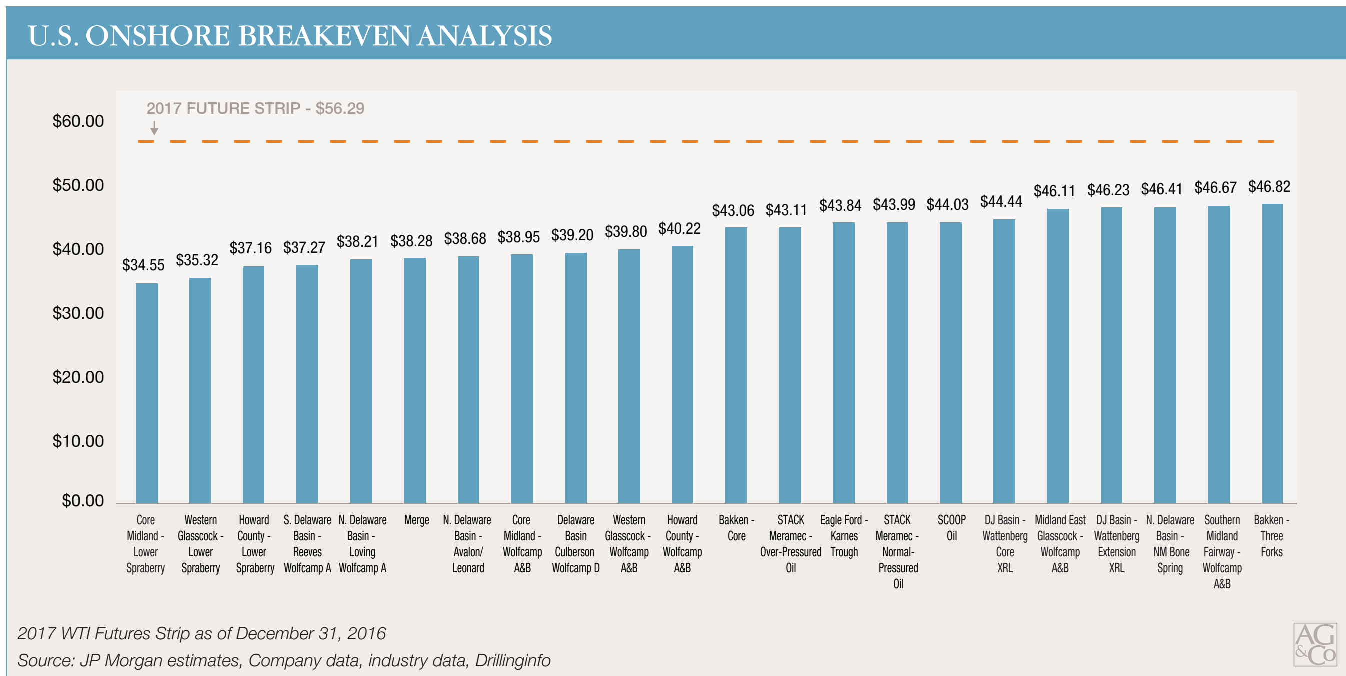
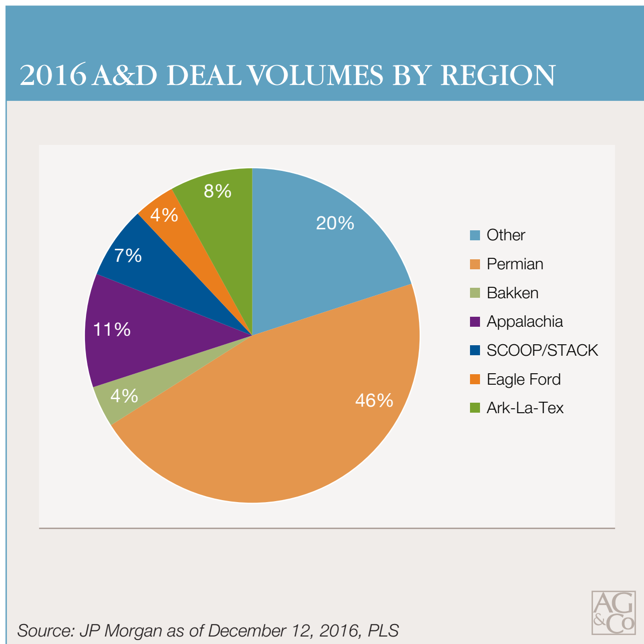
U.S. ONSHORE BREAKEVEN ANALYSIS



2017 WTI Futures Strip as of December 31, 2016
Source: JP Morgan estimates, Company data, industry data, Drillinginfo

U.S. producers responded to the downturn in commodity prices by lowering drilling costs to help stabilize margins. These cost reductions have helped reduce onshore breakeven pricing for most basins below the 2017 future strip.

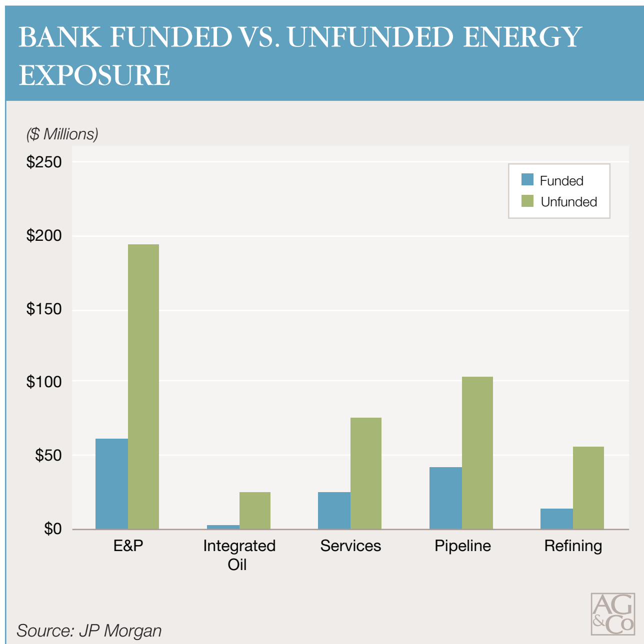
2016 A&D DEAL VOLUMES BY REGION



Source: JP Morgan as of December 12, 2016, PLS

2016 acquisition and divestiture activity ticked up considerably, with the Permian attracting significant attention.

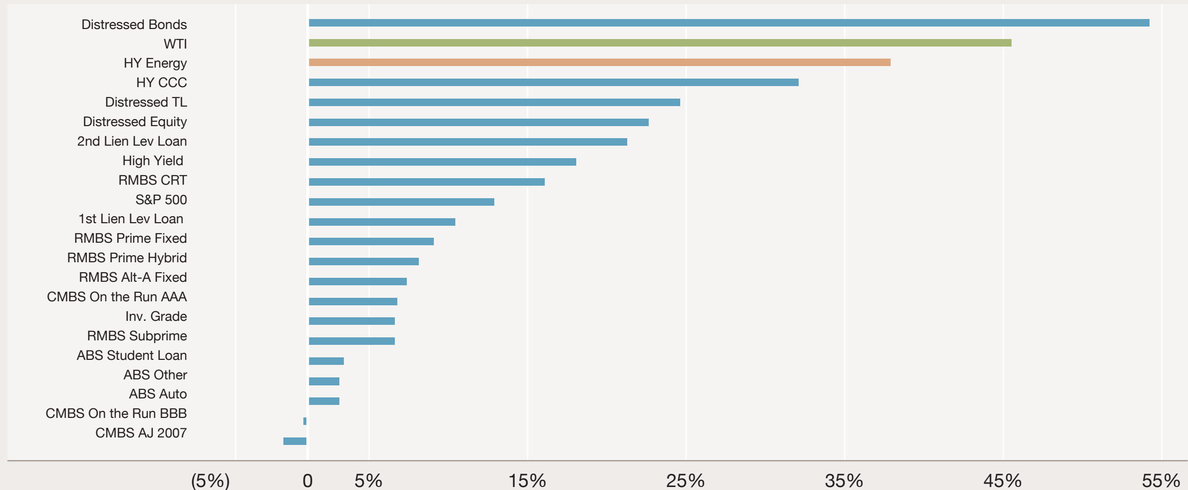
BANK FUNDED VS. UNFUNDED ENERGY EXPOSURE



Source: JP Morgan

Significant exposure to legacy borrowers and levered balance sheets are biasing banks to only evaluate new, clean financings.

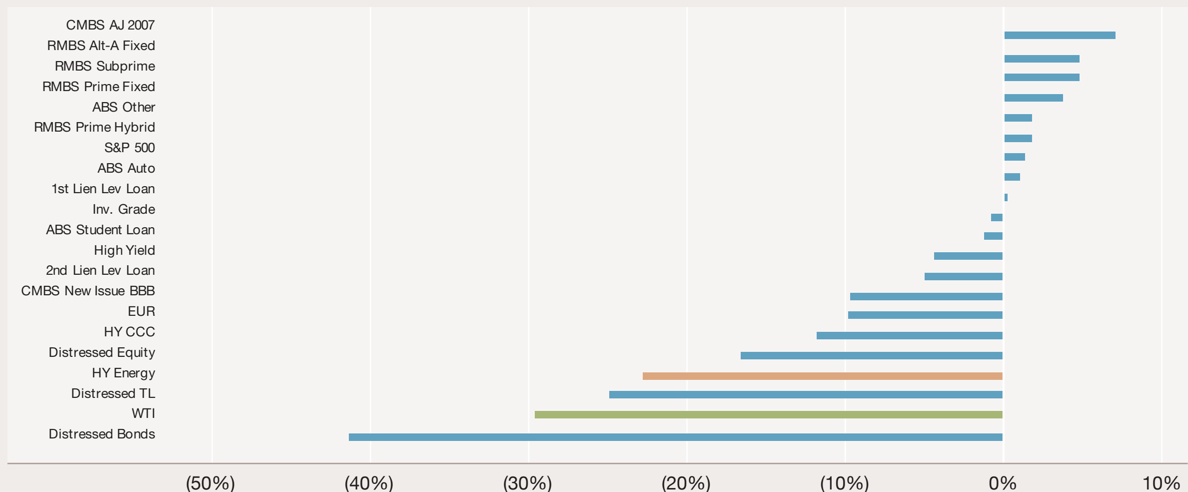
2016 TOTAL RETURN BY ASSET TYPE



Source: Bloomberg, JP Morgan, Credit Suisse, Barclays

2015 was a dismal year for energy returns. 2016 began with a rough start, but finished with a happy ending, as WTI and HY energy were among the highest returning asset classes. *(Applies to all charts on page.)*

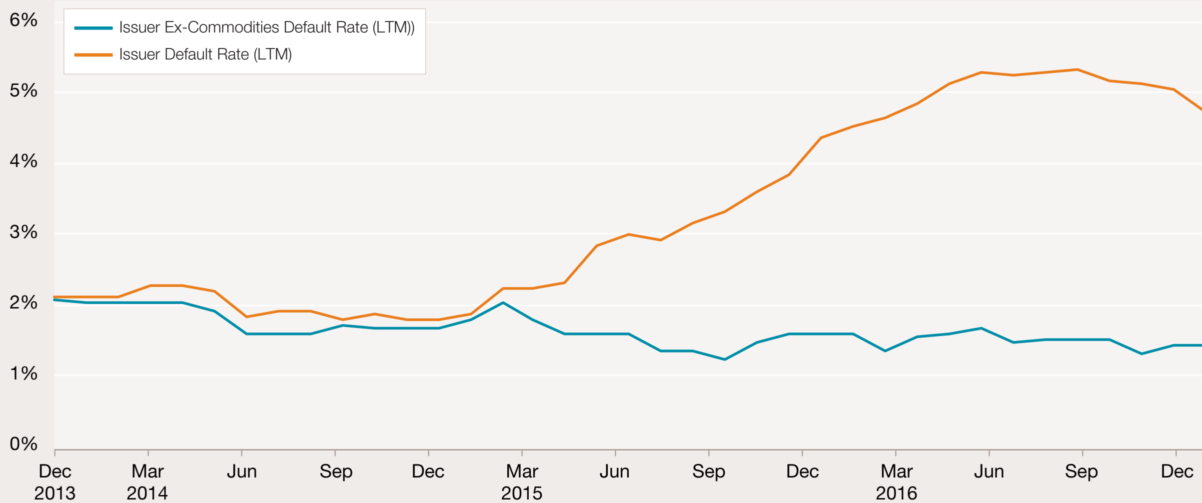
2015 TOTAL RETURN BY ASSET TYPE



Source: Bloomberg, JP Morgan, Credit Suisse, Barclays

DISTRESSED DEBT

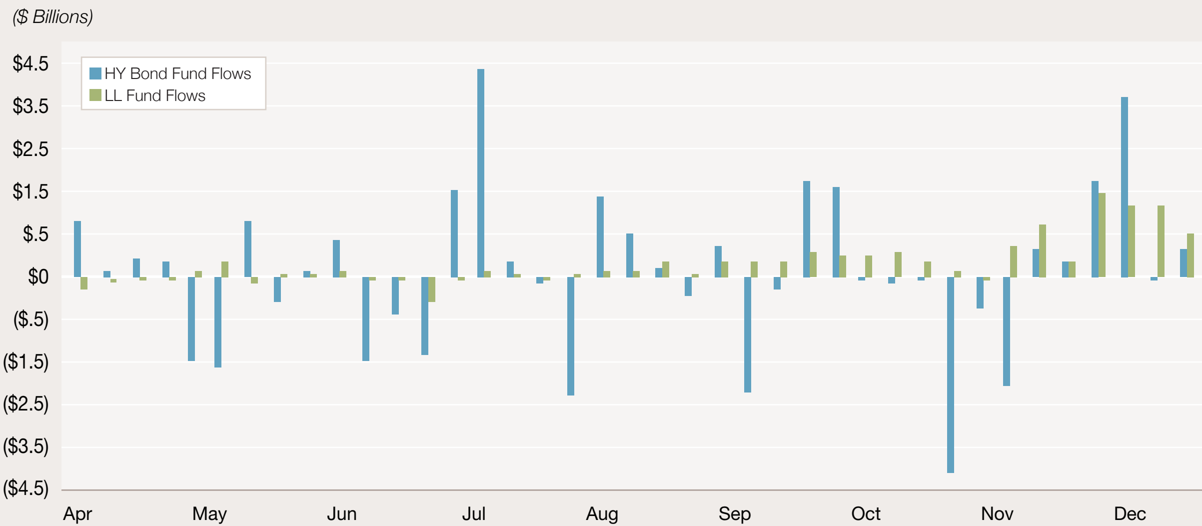
DEFAULT RATES HAVE PEAKED LOCALLY



Source: Morgan Stanley Research, Citigroup Index LLC

The commodity-driven default wave appears to have peaked and stabilized.

WEEKLY FUND FLOWS SINCE Q2 2016



Source: JP Morgan

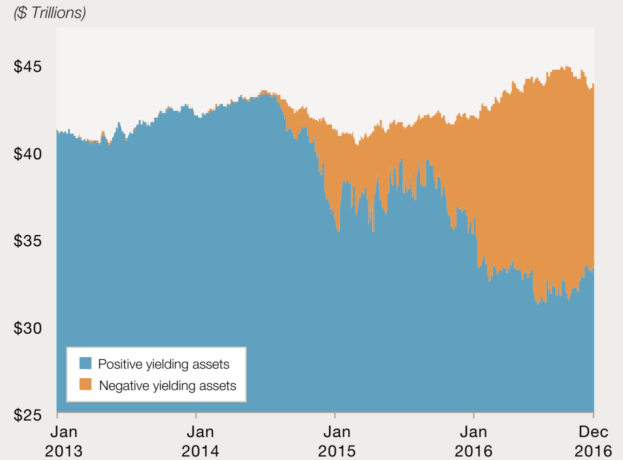
Retail sentiment has shifted into floating rate product, anticipating a new rate environment.

U.S. 10-YEAR YIELD

Source: Bloomberg

With a spiking U.S. benchmark yield, a reflationary agenda is clearly back on investors' minds.

NEGATIVE YIELDING ASSETS



Source: Bank of America Merril Lynch

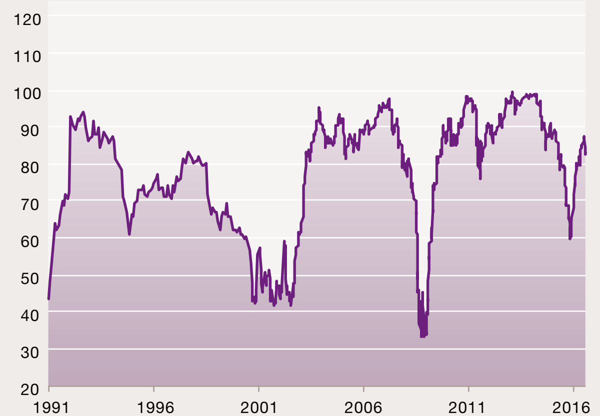
The increase in negative yielding global sovereign debt, though large, reversed course in Q4 2016.

SPREADS: HIGH YIELD ENERGY VS. HIGH YIELD

Source: Morgan Stanley Research, Citigroup Index LLC

2016 ultimately saw more rapid spread compression in high yield energy…

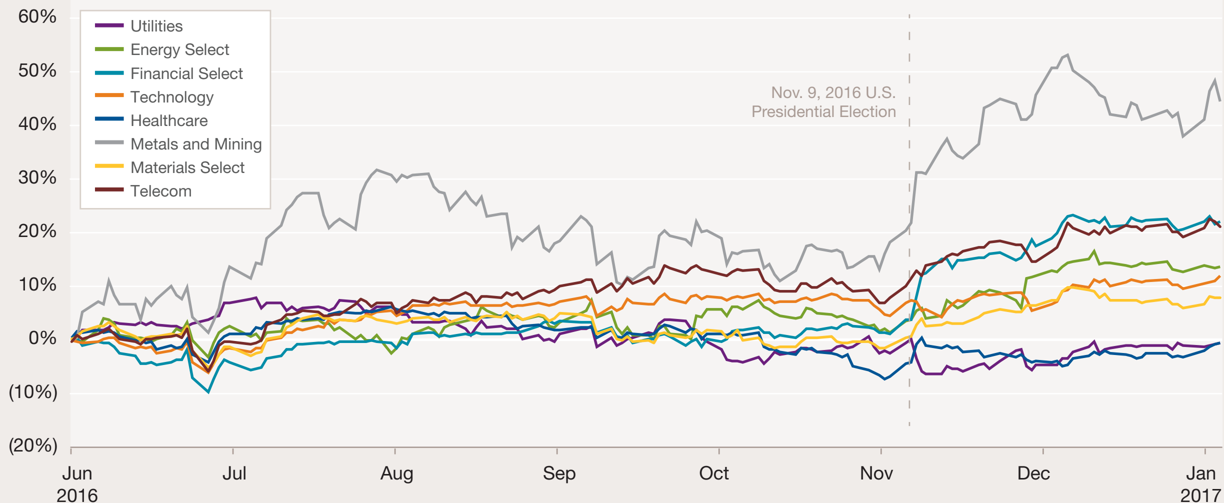
HIGH YIELD CCC PRICES



Source: Morgan Stanley Research, Citigroup Index LLC

…as CCC's ended the year at healthy bids.

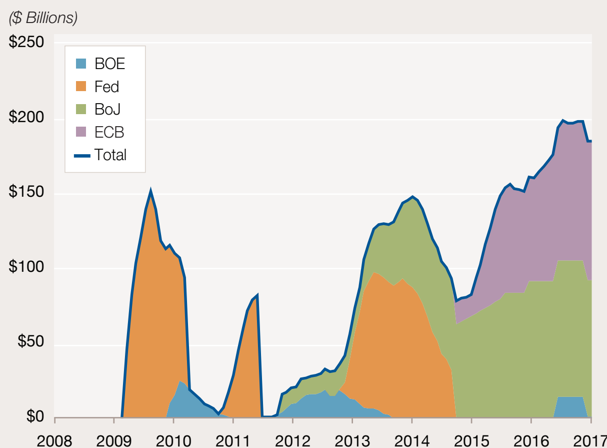
ETF PERFORMANCE BY SECTOR SINCE ELECTION



Source: Bloomberg

Certain sectors have clearly outperformed since November based on possible, but unknown, policies.

MONTHLY ASSET PURCHASES

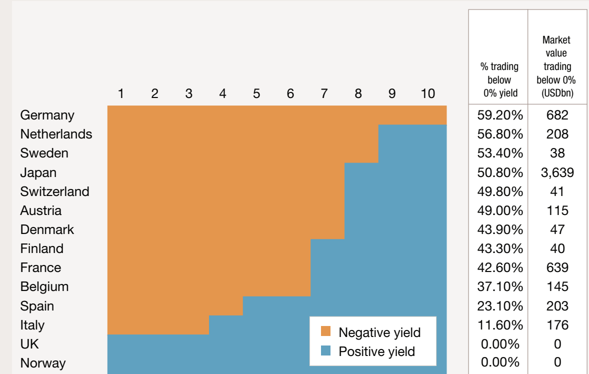


Note: 12m moving average.

Source: Deutsche Bank Global Markets Research

In Europe, a geopolitical environment fraught with potentially significant consequences, remains obfuscated by central bank purchases.

GOVERNMENT BOND YIELDS

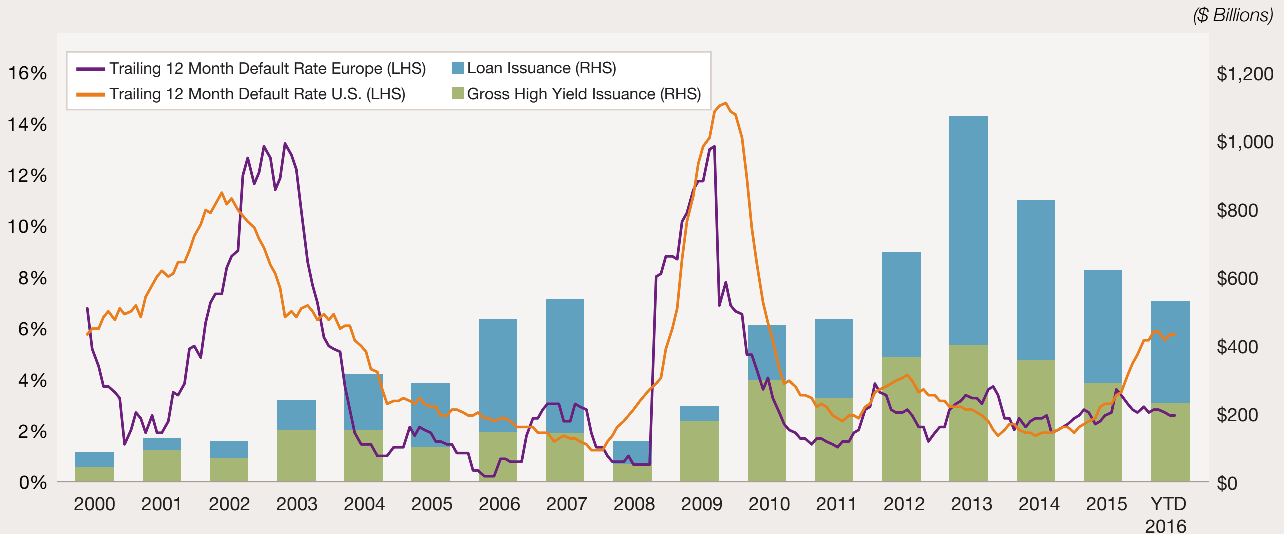


	% trading below 0% yield	Market value trading below 0% (USDbn)
Germany	59.20%	682
Netherlands	56.80%	208
Sweden	53.40%	38
Japan	50.80%	3,639
Switzerland	49.80%	41
Austria	49.00%	115
Denmark	43.90%	47
Finland	43.30%	40
France	42.60%	639
Belgium	37.10%	145
Spain	23.10%	203
Italy	11.60%	176
UK	0.00%	0
Norway	0.00%	0

Source: Bloomberg Finance LP, DB Global Markets Research

And negative yielding assets abound across the continent.

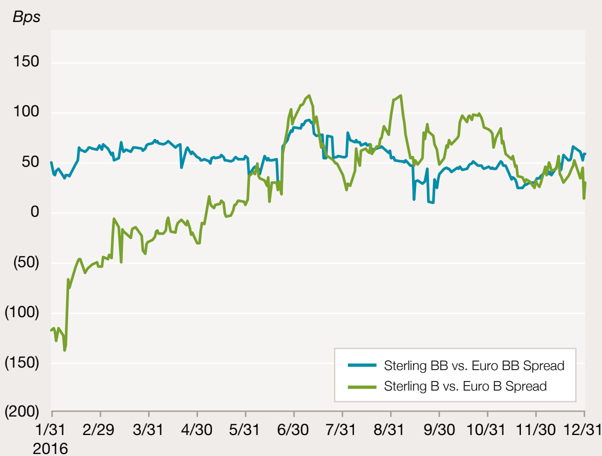
U.S. AND EUROPE: ISSUANCE VS. DEFAULTS



Source: Wells Fargo

While trailing U.S. default rates rose along with commodity pressures, European defaults stayed range bound.

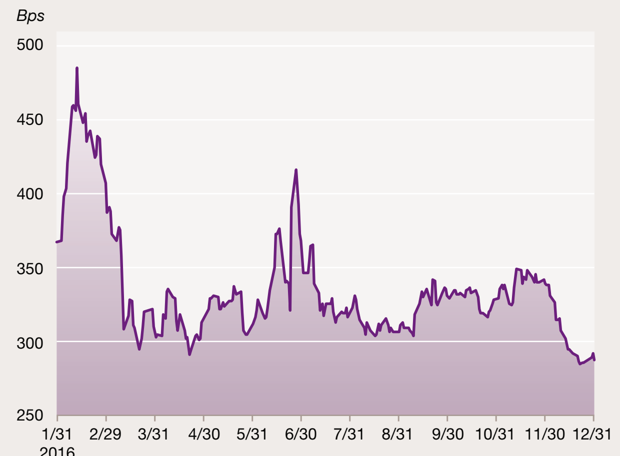
STERLING VS. EURO BOND SPREAD DIFFERENTIAL



Source: JP Morgan High Yield Index

Since Brexit, the Sterling / Euro spread has been volatile, but narrowed into year-end.

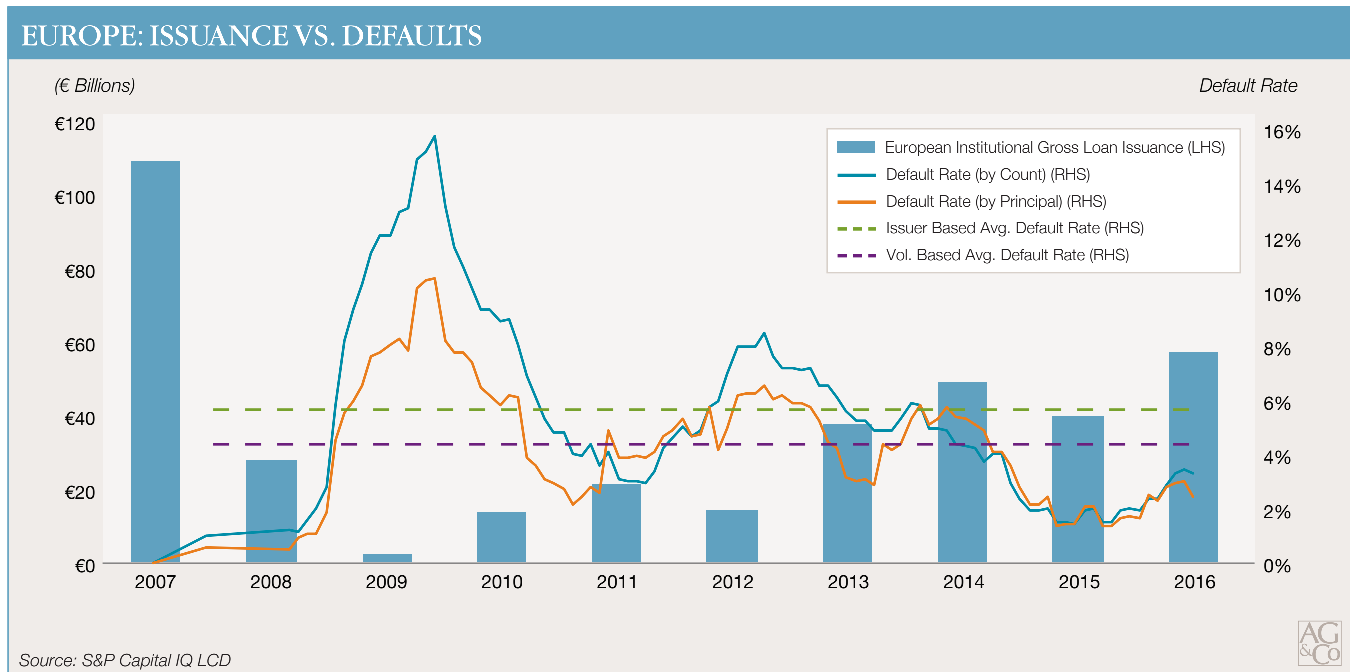
EUROPE HIGH YIELD CREDIT 5-YEAR SPREAD



Source: Markit iTraxx Europe Crossover 5-year Sub-investment Grade Corp Index

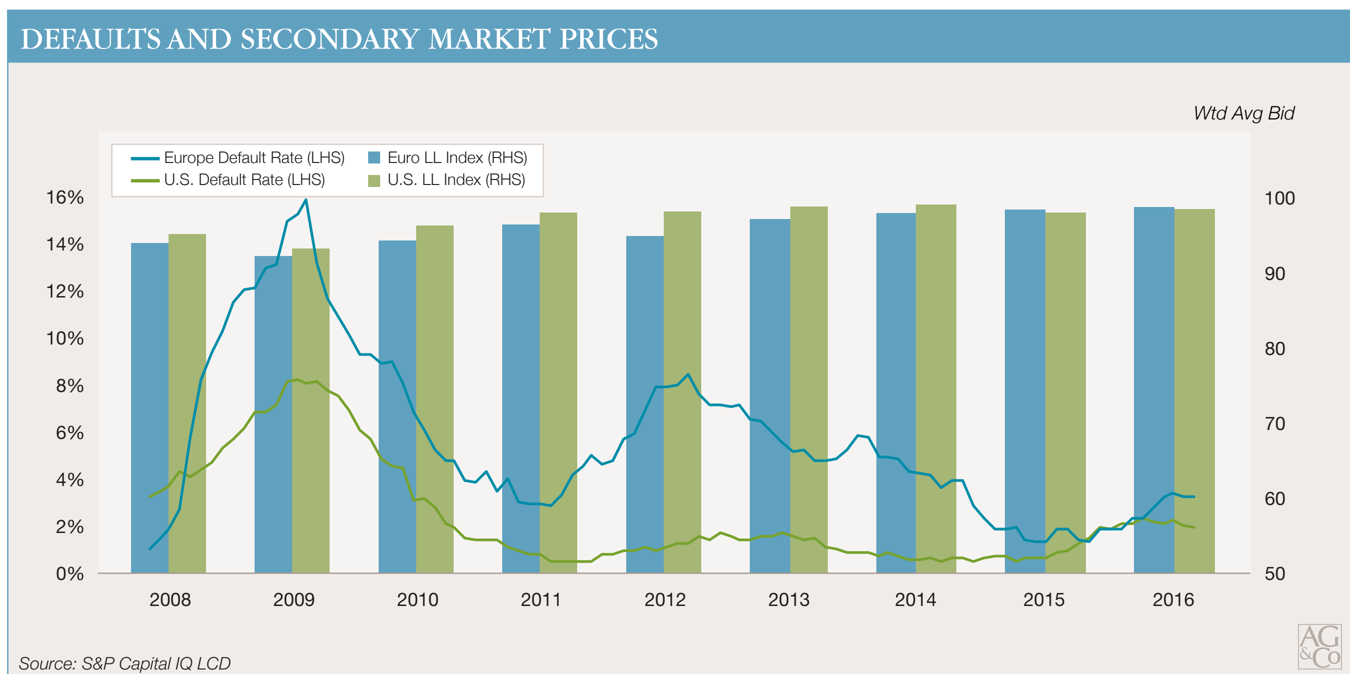
Outright Euro-denominated corporate spreads also compressed in Q4, along with the U.S. market.

EUROPE: ISSUANCE VS. DEFAULTS



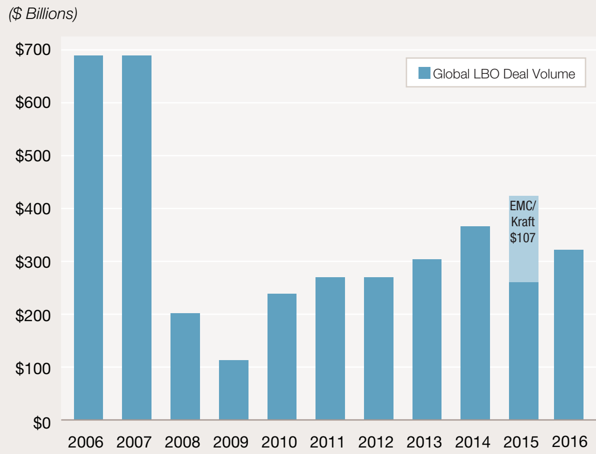
2016 was a strong year for European loan issuance, but defaults are still well below historical averages...

DEFAULTS AND SECONDARY MARKET PRICES



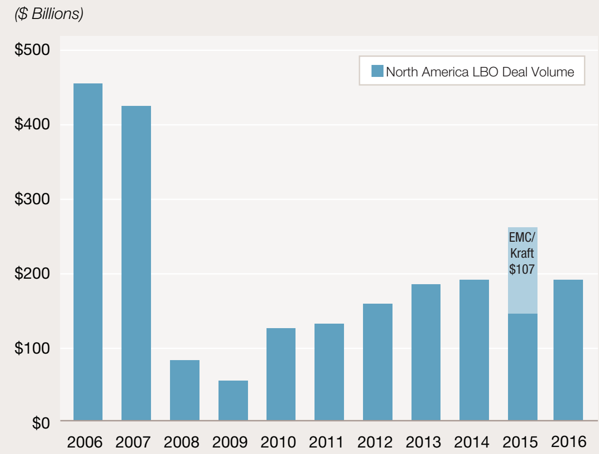
...and secondary market trading appeared fully valued.

GLOBAL LBO DEAL VALUE



Source: Preqin

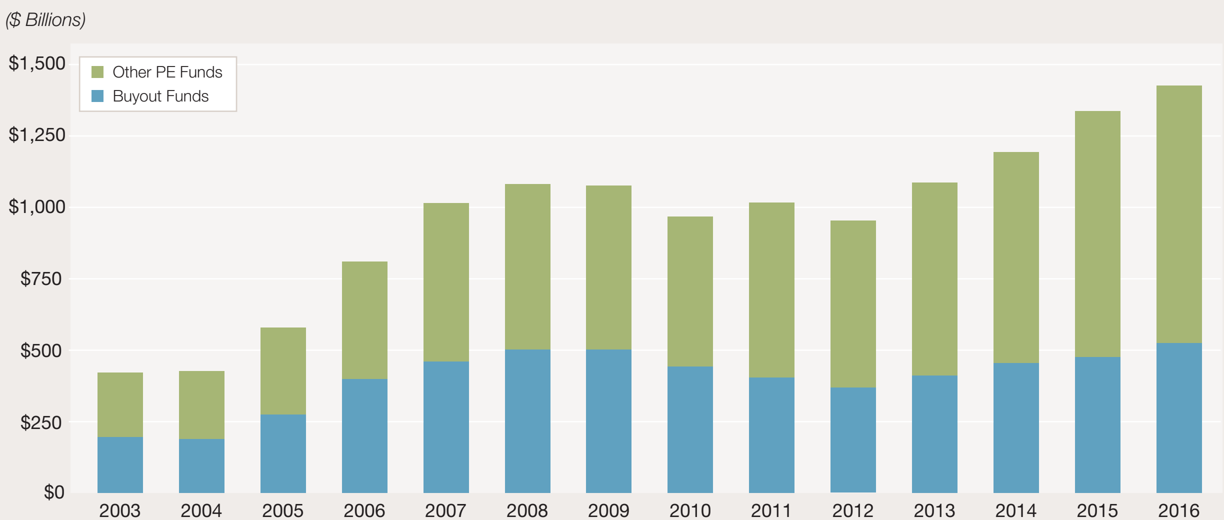
NORTH AMERICA LBO DEAL VALUE



Source: Preqin

After normalizing 2015 for the anomalous EMC and Kraft deals which represented $107 billion of transaction, global deal volume in 2016 was 2% higher than in 2015, while North American deal volume for 2016 was the strongest since 2007.

GLOBAL PRIVATE EQUITY DRY POWDER



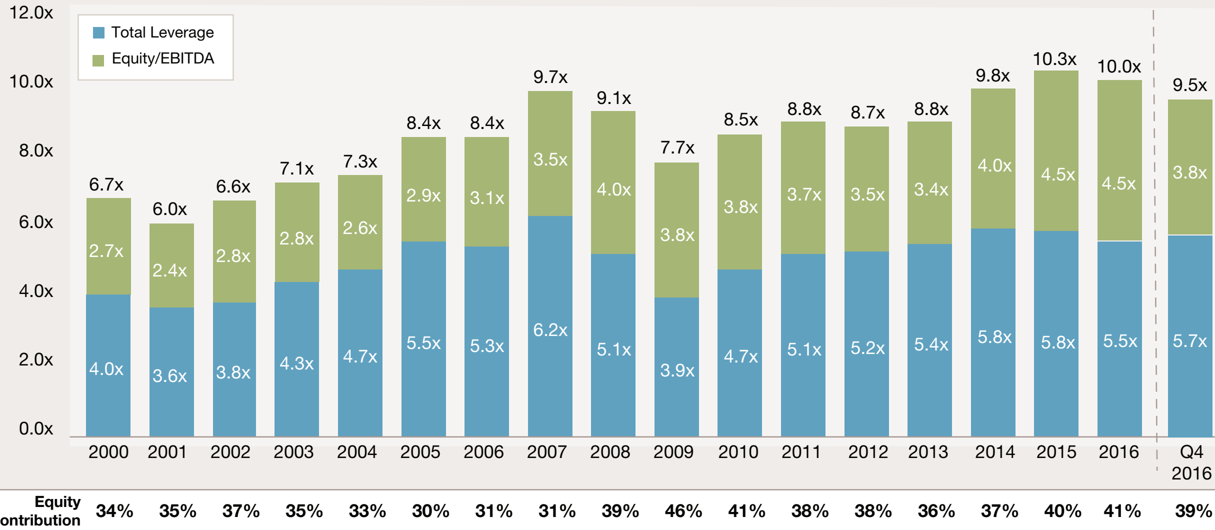
Other PE Funds: Real Estate, Venture, Infrastructure, Growth, Distressed, Mezzanine, Other

Source: Preqin

Buyout dry powder ended 2016 at an all-time high of $525 billion and an 11% increase over 2015.

PRIVATE EQUITY *(continued)*

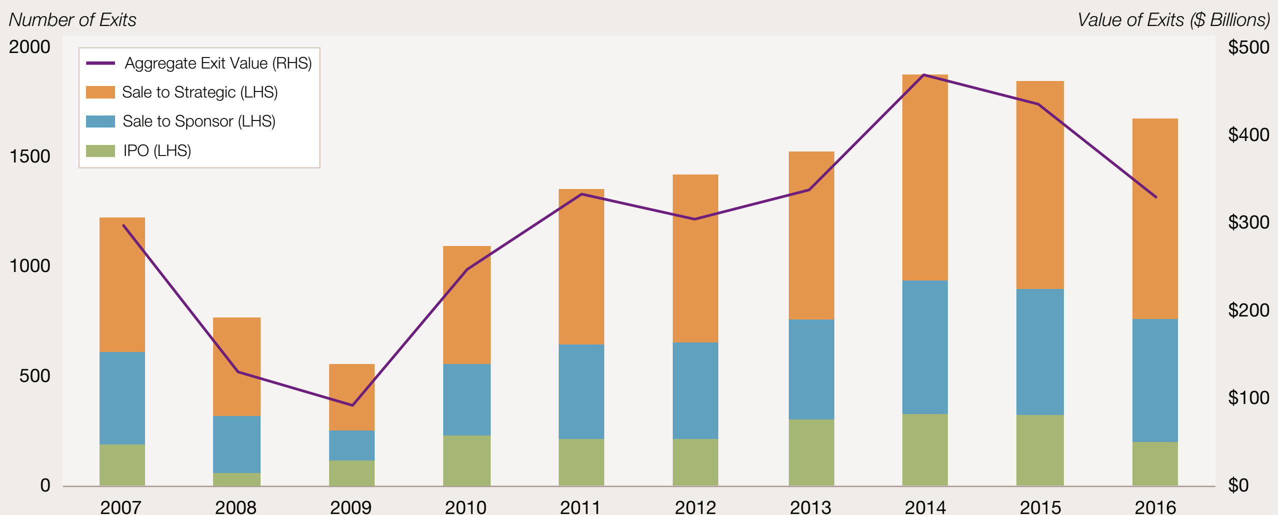
LBO CAPITALIZATION



Source: S&P Capital IQ LCD

LBO multiples in 2016 (10.0x EBITDA), while 0.3x of a multiple turn lower than 2015, were still the second-highest in history.

PRIVATE EQUITY EXITS

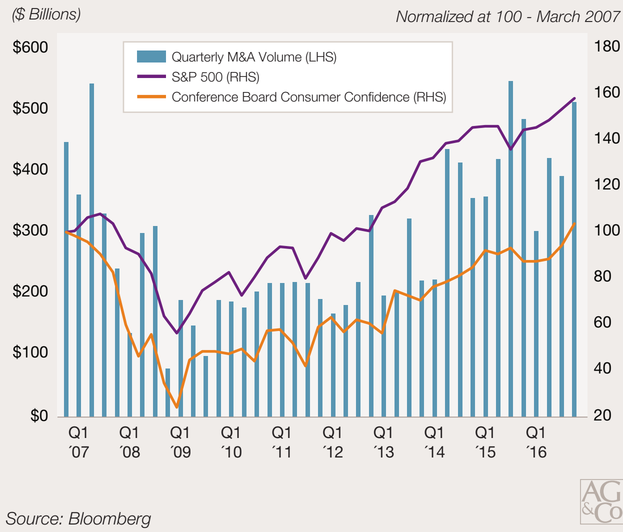


Source: Preqin

2016 exits, both in terms of volume and number, were below those levels in 2014 and 2015, in part due to a weaker IPO environment and smaller dispositions by sponsors.

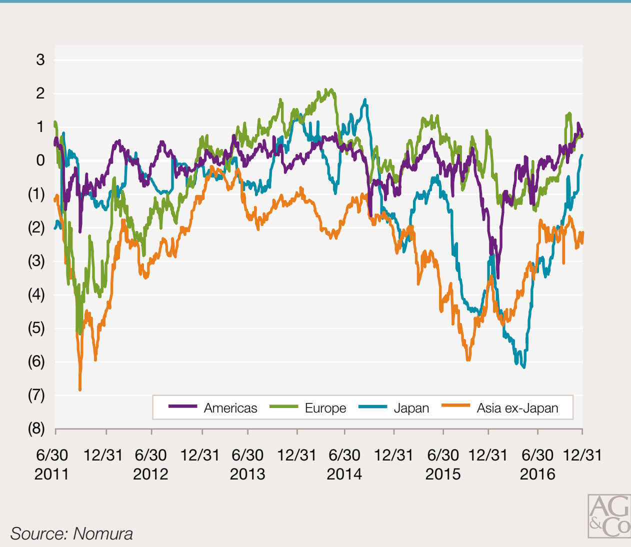
MERGER & CONVERTIBLE ARBITRAGE

QUARTERLY NORTH AMERICAN M&A VOLUME VS. S&P 500 AND CONSUMER CONFIDENCE



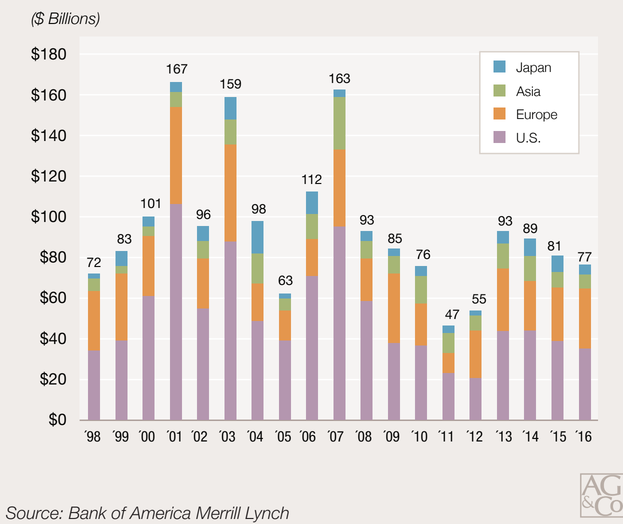
The surge of activity in the fourth quarter helped make 2016 the second-best year for M&A activity since the financial crisis.

CONVERTIBLE BOND – RICH/(CHEAPNESS) TO FAIR VALUE (%)



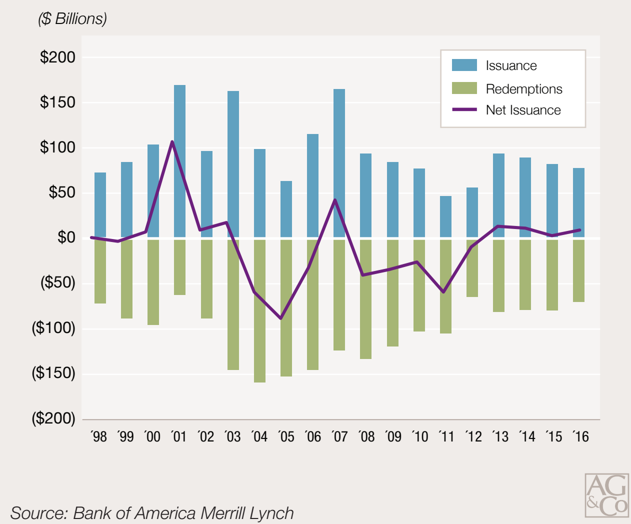
Convertible valuations remain reasonable across all regions.

CONVERTIBLE BONDS ANNUAL GLOBAL ISSUANCE BY REGION



Global new issuance remained solid in 2016.

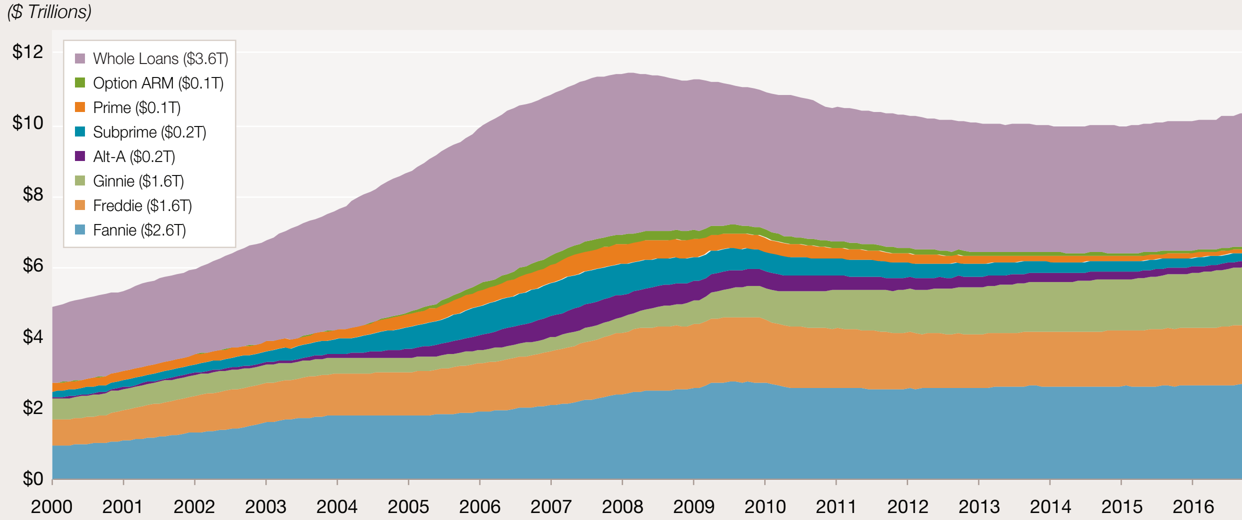
CONVERTIBLE BONDS GLOBAL NET ISSUANCE



The moderate pace of expansion supports valuations in the secondary market.

RESIDENTIAL AND CONSUMER DEBT (RMBS/ABS)

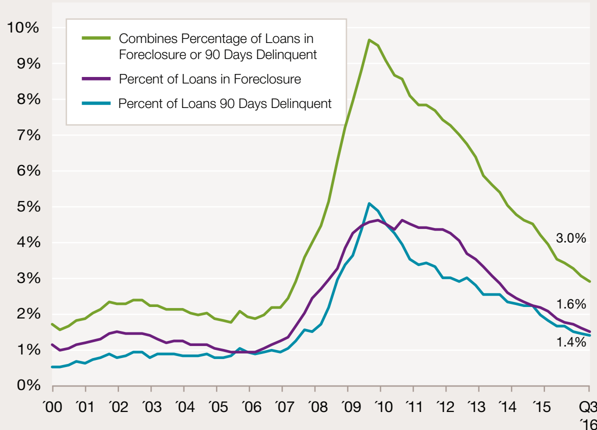
SIZE OF U.S. RESIDENTIAL MORTGAGE MARKET



Source: Bank of America Merrill Lynch

Although mortgage debt has decreased from 2007, the mortgage market remains vast and at $10.1 trillion has been modestly ticking higher.

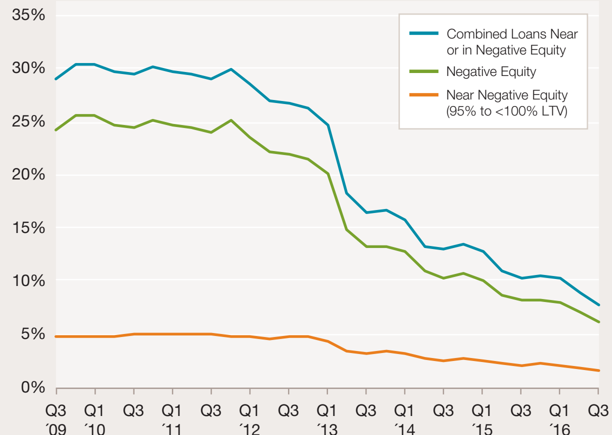
U.S. RESIDENTIAL MORTGAGES IN SERIOUS DELINQUENCY/FORECLOSURE



Source: Mortgage Bankers Association and Urban Institute

Serious delinquencies and foreclosures continue to decline as the housing market and economy improve. Loans that are 90 or more days delinquent or in foreclosure fell to 3.0% in Q3.

U.S. RESIDENTIAL MORTGAGES WITH NEGATIVE EQUITY



Negative Equity: LTV greater than 100%

Near Negative Equity: LTV between 95% and 100%

Source: Bloomberg

Mortgage borrowers with negative equity benefit from sustained home price appreciation. As a share of all residential borrowers, the share of those underwater or near underwater continued to drop from 30% in 2009 to about 8% in Q3.

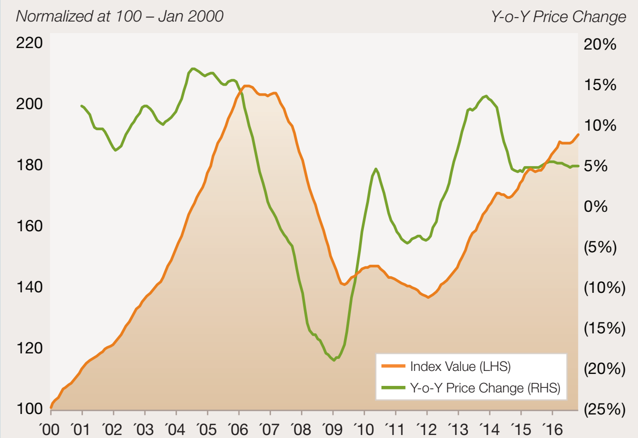
SUBPRIME PRICE INDEX

The Index represents a basket of reference obligations of twenty originally-rated AAA subprime bonds issued in the first half of 2006, and is treated as a benchmark for similar vintage bonds.

Source: Credit Suisse

Index prices on subprime RMBS have seen an uptick in the last few months.

S&P/CASE-SHILLER COMPOSITE – 20 HOME PRICE INDEX

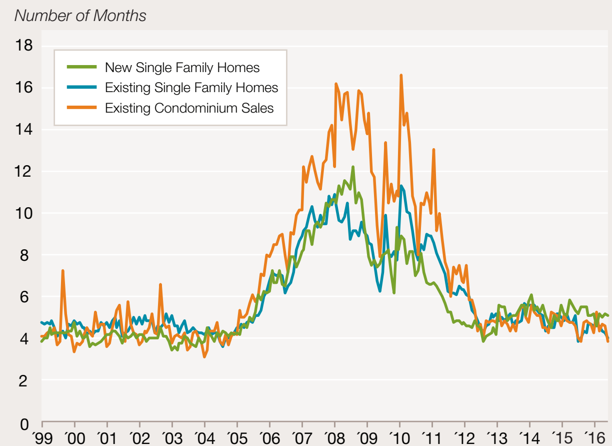


The S&P/Case-Shiller Composite of 20 Home Price Index is a value-weighted average of 20 metro area indices. These metro areas include: Boston, Chicago, Denver, Las Vegas, Los Angeles, Miami, New York City, San Diego, San Francisco, Washington, DC, Atlanta, Charlotte, Cleveland, Dallas, Detroit, Minneapolis, Phoenix, Portland, Seattle and Tampa.

Source: Bloomberg

The pace of home price appreciation has moderated but remains positive.

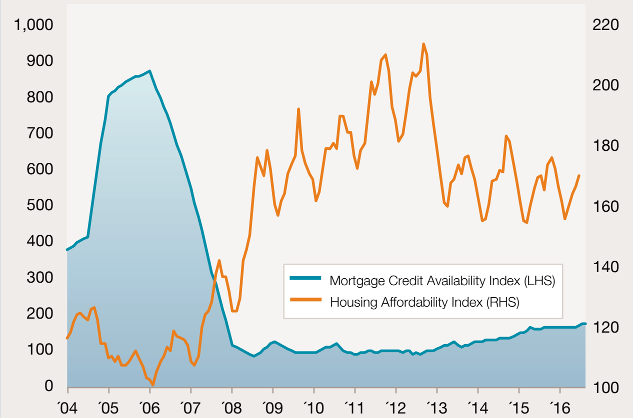
MONTHS SUPPLY OF HOUSING



Source: Bloomberg

Housing supply has returned to more normalized levels as the housing market recovers.

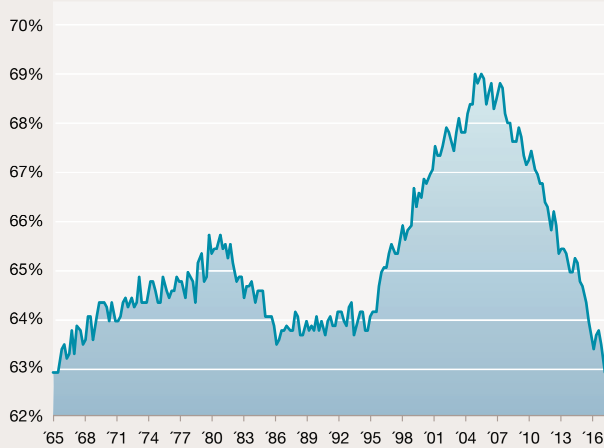
MORTGAGE CREDIT AVAILABILITY INDEX VS. HOUSING AFFORDABILITY



Source: Bank of America Merrill Lynch, Bloomberg

Although near historic lows, mortgage credit availability has trended higher. Housing affordability remains reasonably high.

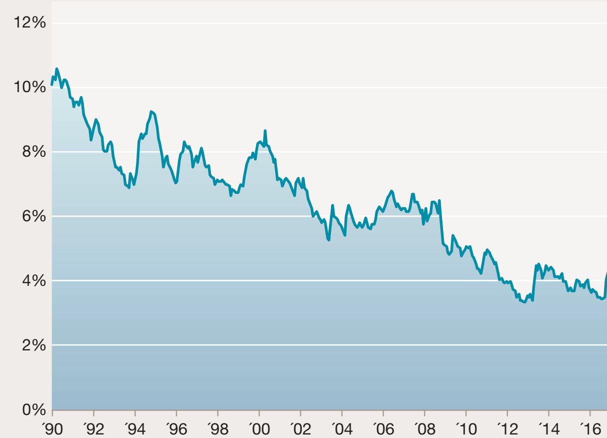
HOMEOWNERSHIP RATE



Source: Bloomberg

Fallout from the crisis amid historically tighter credit conditions and continued home price appreciation have limited homeownership to approximately 63.5%.

30-YEAR MORTGAGE FIXED RATE



Freddie Mac U.S. Mortgage Market Survey 30-year Homeowner Commitment National: This concept measures movements of interest rates on residential real estate loans that are usually secured by a mortgage.

Source: Bloomberg

The 30-year mortgage rate continues to sit near historic lows but has ticked higher since the election.

MORTGAGE APPLICATION INDEX

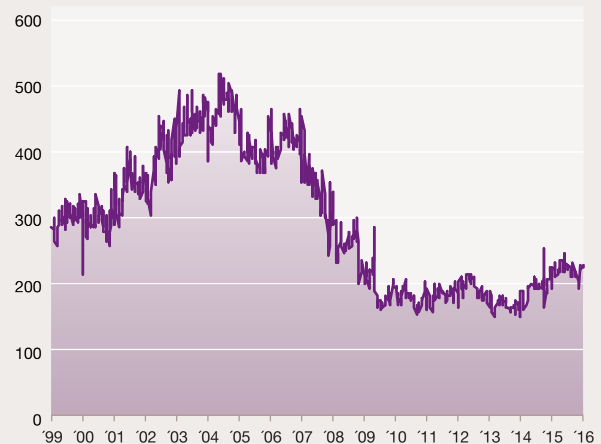
Normalized at 100 – Jan 1990

This concept tracks the volume of mortgage loan applications that have been submitted to lenders.

Source: Bloomberg

MORTGAGE PURCHASE INDEX

Normalized at 100 – Jan 1990

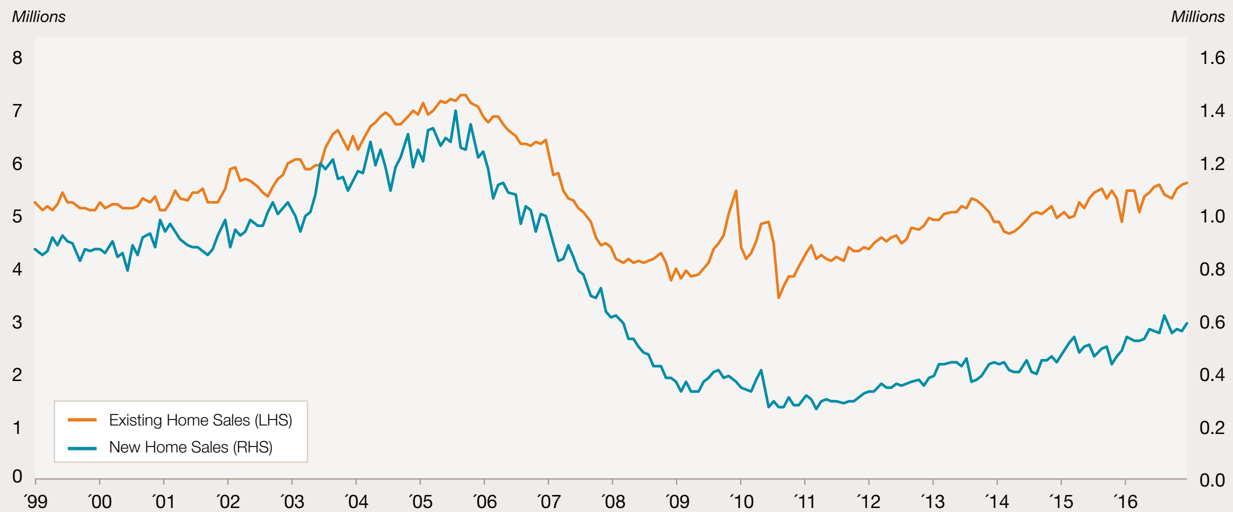


This concept tracks the volume of mortgage purchase loan applications that have been submitted to lenders.

Source: Bloomberg

Mortgage applications continue to be hampered by stringent underwriting standards. Refinance volume dropped through the quarter, but mortgage purchase volume saw a sharp spike following the election as buyers rushed to obtain mortgages following the uptick in prevailing mortgage rates.

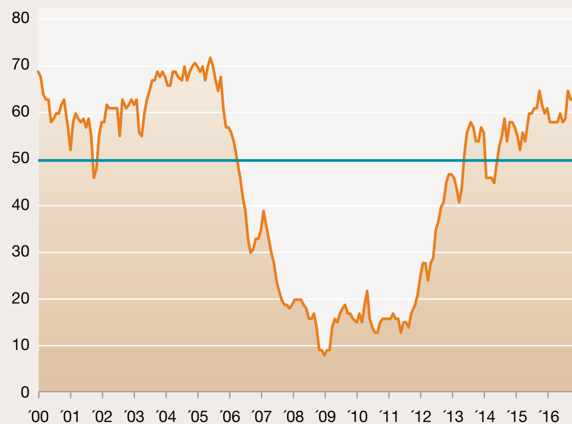
NEW AND EXISTING HOME SALES



Source: Bloomberg

Sales of new and existing homes oscillated through 2015 and 2016 but have advanced since the crisis.

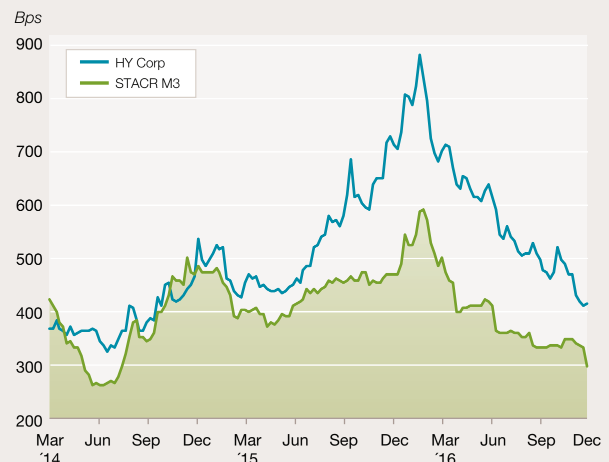
HOMEBUILDER INDEX



Source: Bloomberg

Standing at 70 in December, the Homebuilder Index has remained above 50 for 30 months. A reading above 50 indicates that builders see favorable market conditions.

CREDIT RISK TRANSFER VS. HIGH YIELD CORPORATES

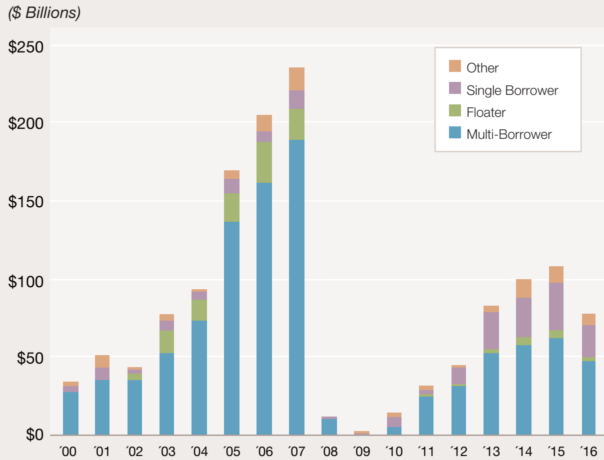


Source: Bank of America Merrill Lynch Global Research

Risk transfer spreads continued to tighten into the end of the year.

COMMERCIAL REAL ESTATE DEBT (CMBS)

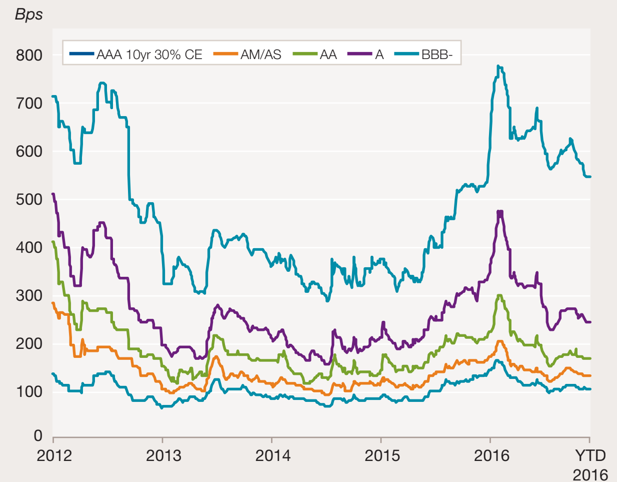
U.S. CMBS ANNUAL ISSUANCE



Source: Credit Suisse

CMBS issuance declined in 2016 but remained healthy at over $70 billion.

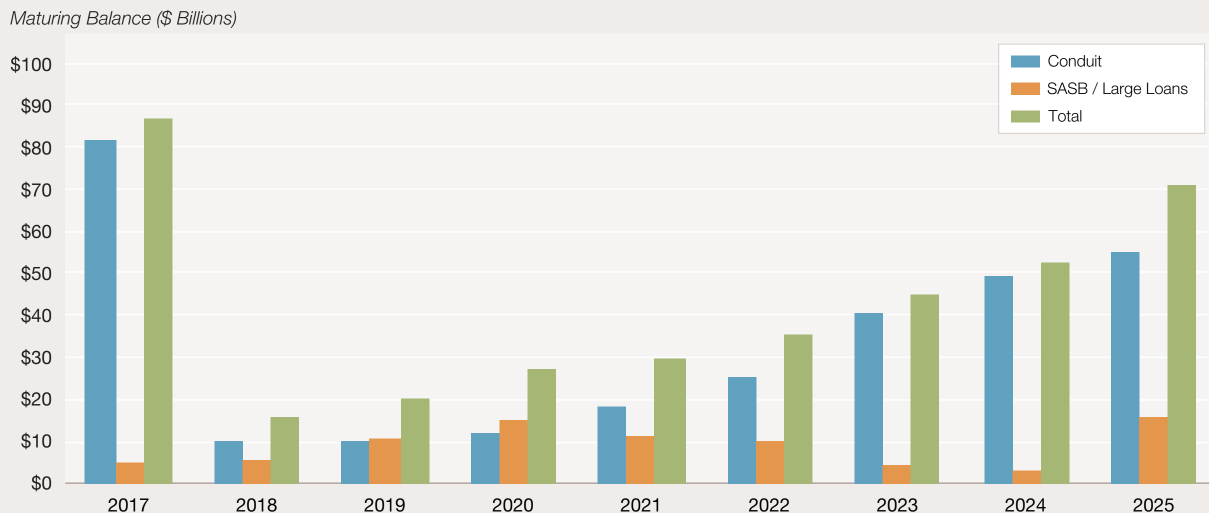
NEW ISSUE CMBS SPREADS



Source: Credit Suisse

CMBS exposure to the retail sector and to malls has declined since the new issue market restarted in 2010.

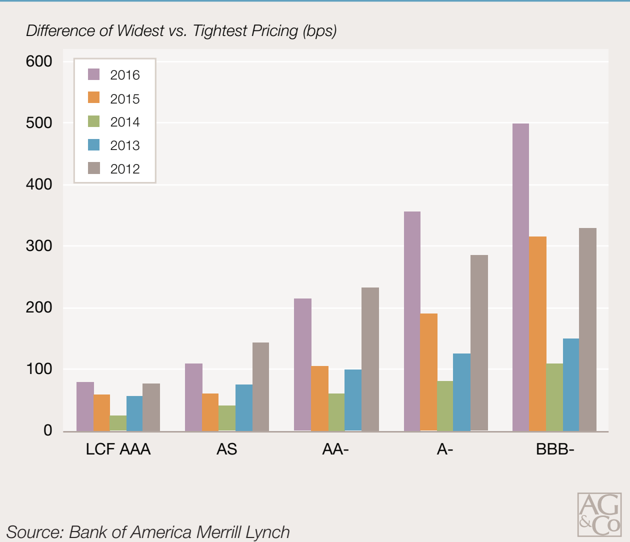
CMBS MATURITY SCHEDULE



Source: Citi Research, as of Nov 2016

The long-talked-about "maturity wall" is upon us, with nearly $90 billion of CMBS loans slated to mature this year.

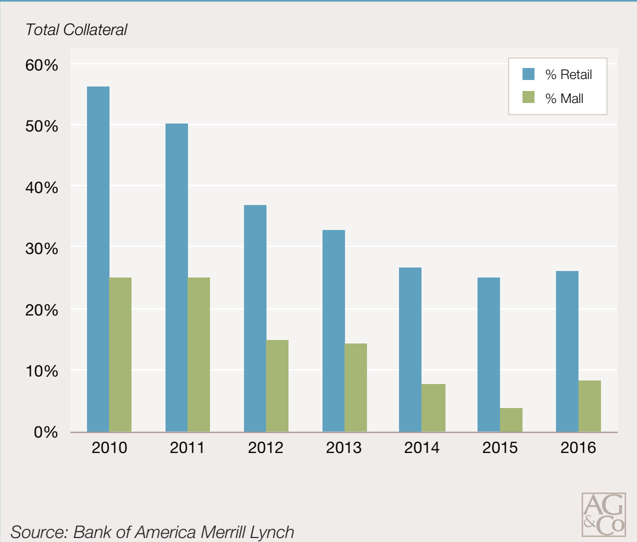
WIDEST VS. TIGHTEST CONDUIT PRICING SPREADS



Source: Bank of America Merrill Lynch

Price tiering has increased across the capital structure over the last several years.

CONDUIT EXPOSURE TO RETAIL SECTOR



Source: Bank of America Merrill Lynch

CMSB exposure to the retail sector and to malls has declined since the new issue market restarted in 2010.

PRIMARY DEALER POSITIONS

Source: Bloomberg, Federal Reserve Bank of New York

Dealer holdings of private label and Agency CMBS remain at very low levels compared to the prior 3.5 years.

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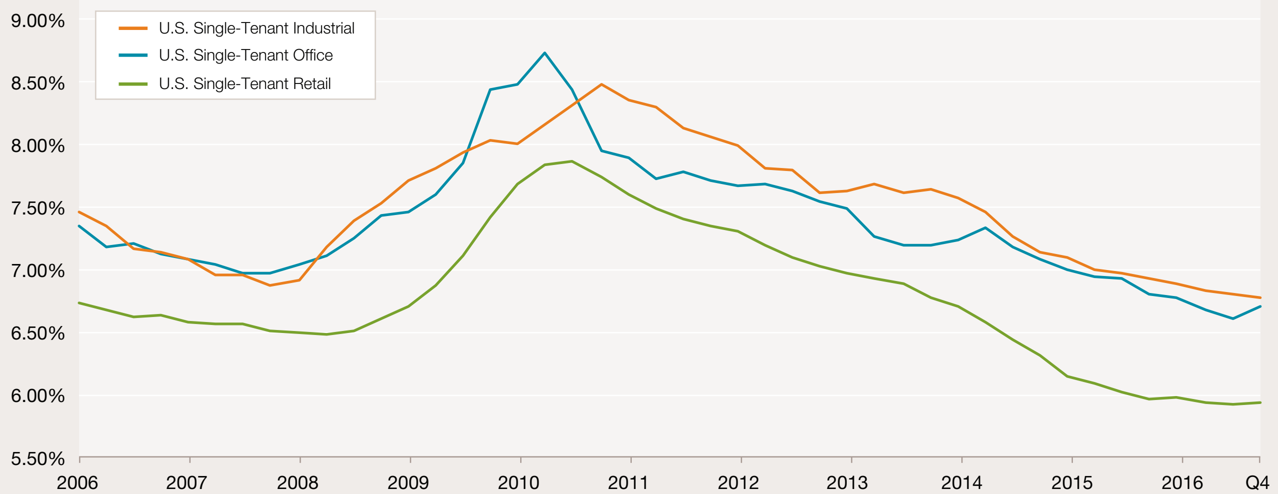
NET LEASE REAL ESTATE

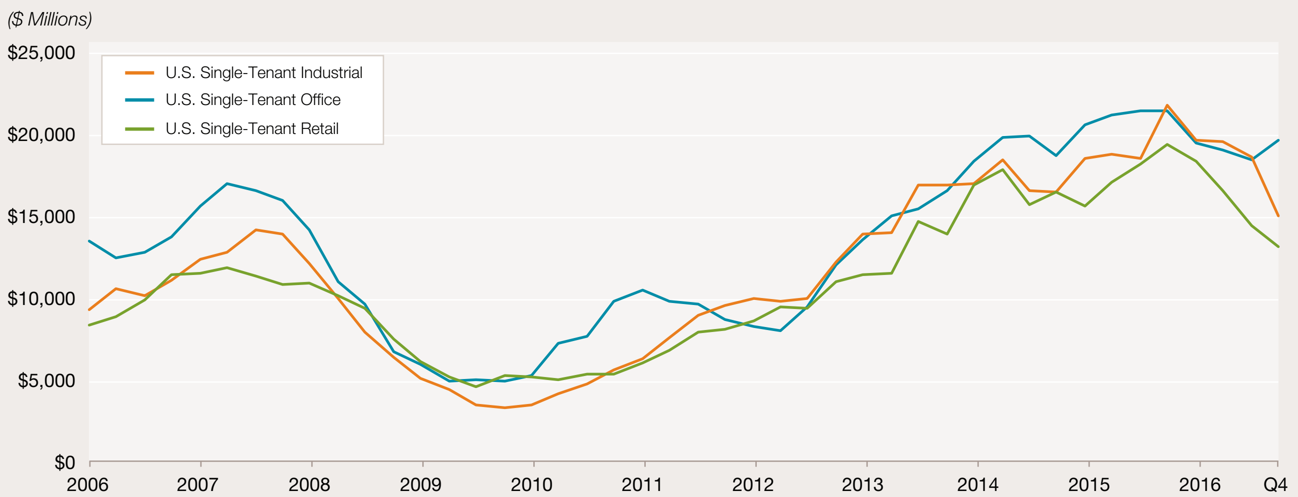
AVERAGE SINGLE-TENANT CAP RATES



Source: Real Capital Analytics

Cap rates have started to find a floor.

12-MONTH ROLLING SINGLE- TENANT DEAL VOLUME

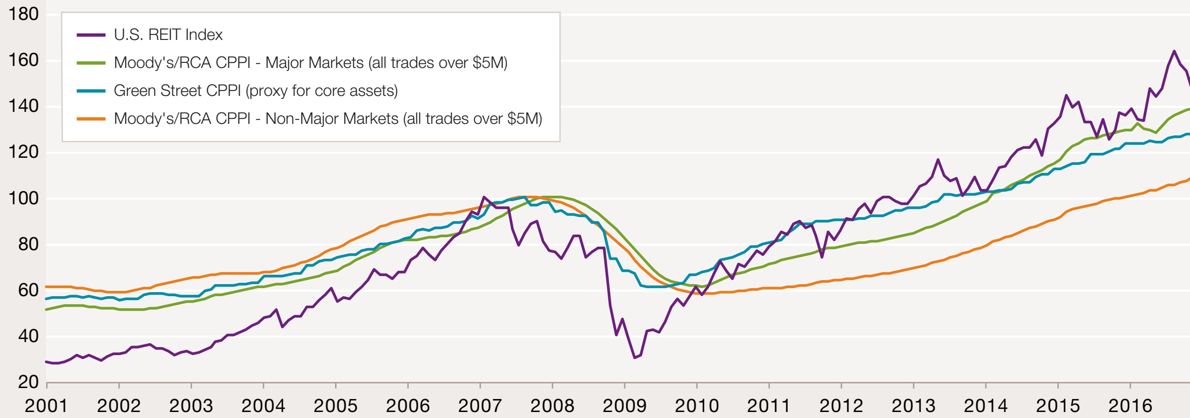


Source: Real Capital Analytics

Volume has declined from peak levels.

REAL ESTATE – UNITED STATES

COMMERCIAL REAL ESTATE PRICE INDICES



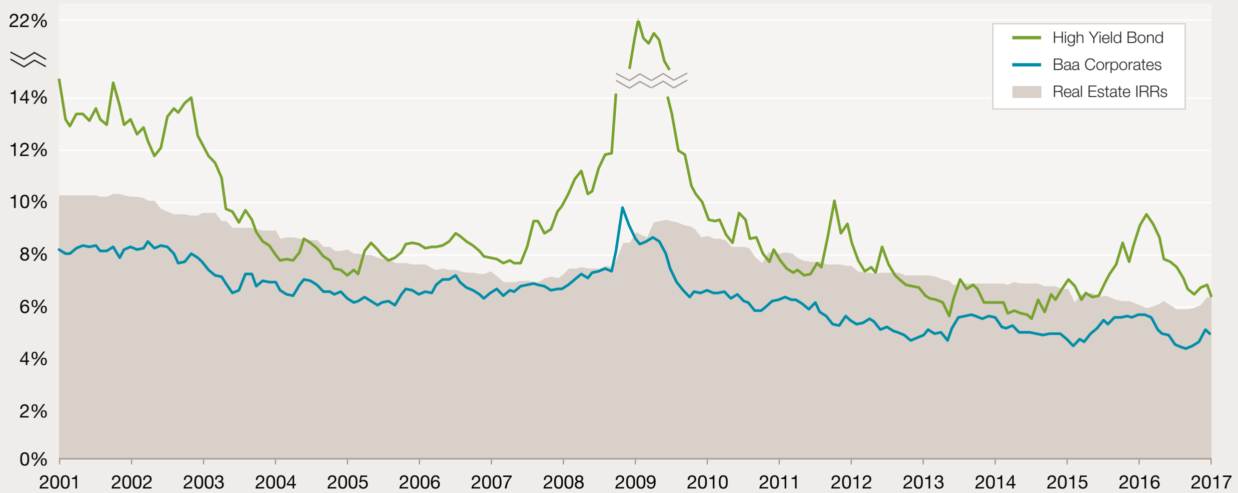
Moody's CPPI = Moody's/RCA All Property Types

Green Street CPPI = Major Sectors

Source: Moody's/RCA - Commercial Property Price Index (Moody's CPPI) (data through Aug '16), Green Street Advisors - Commercial Property Price Index (Green St CPPI) (data through Aug '16), U.S. REIT Index - MSCI REIT Gross Index (data through Aug '16). Note: For this chart, all indices were indexed to 100 at their 2007 peaks: Green St CPPI (Aug '07), Moody's CPPI (Dec '07 - Major Markets and Sep '07 - Non-Major Markets) and U.S. REIT Index (Jan '07). Note: Major markets include Boston, Chicago, Washington D.C. Metro, Los Angeles Metro, New York City Metro and San Francisco Metro.

Prices continue to increase albeit at a moderating pace.

UNLEVERED TOTAL RETURN EXPECTATIONS ON REAL ESTATE VS. CORPORATE BOND YIELDS

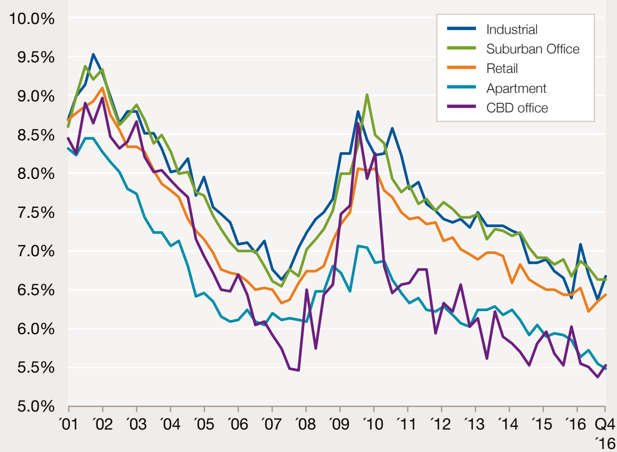


Real Estate IRR is an equal-weighted average of the asset-weighted averages for the five major property sectors (Apartment, Industrial, Mall, Office and Strip Center).

Source: Green Street Advisors (Apr '16), Moody's (Baa Corporates), BAML (High-Yield Bonds)

CRE returns relative to Baa corporates and high yield have improved dramatically over the last 12 months, suggesting continued stability and attractive relative pricing.

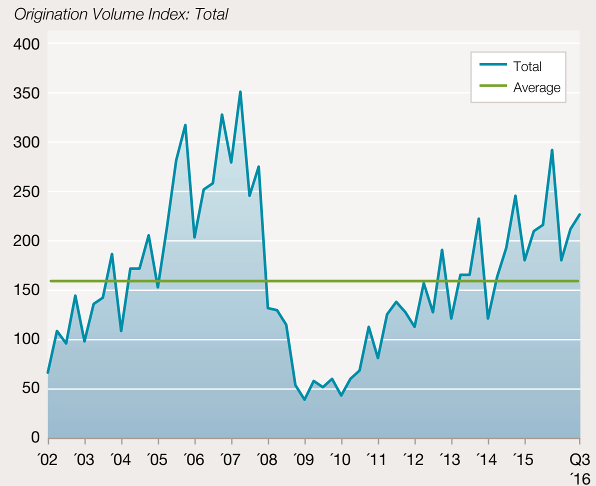
AVERAGE CAP RATES BY REAL ESTATE SECTOR



Source: Real Capital Analytics

Cap rates have seen a minor uptick although remain at historical lows. As interest rates increase in 2017 we will be watching for, although not yet expecting, meaningful further movement in cap rates.

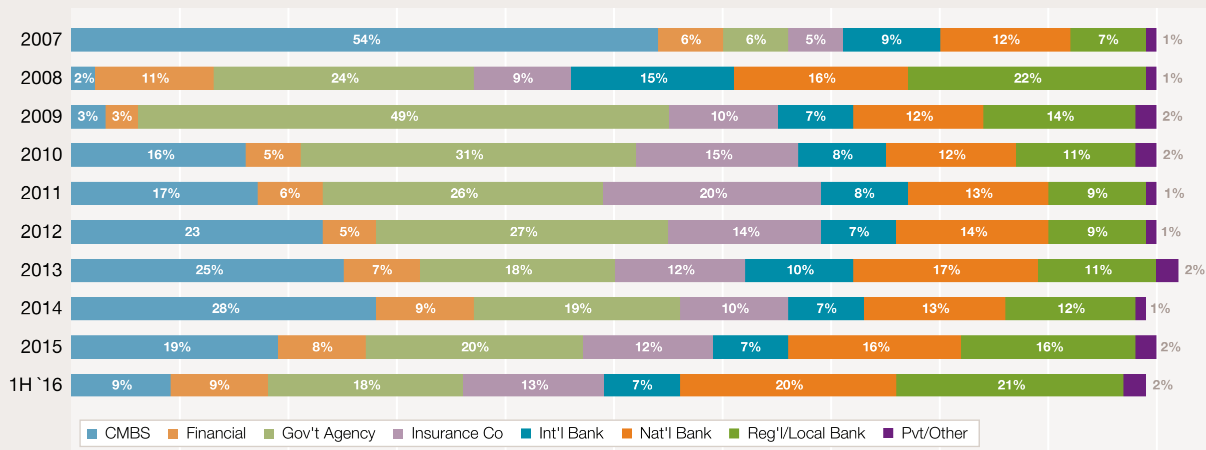
ORIGINATIONS VOLUME VS. HISTORICAL AVERAGE



Source: MBA, Morgan Stanley Research

Debt originations remain robust.

LENDER COMPOSITION

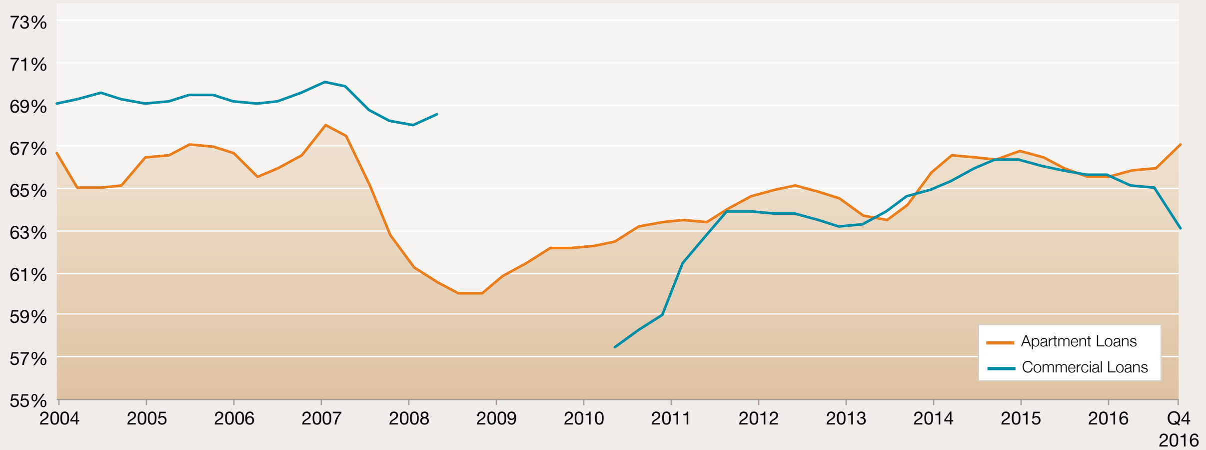


Totals may not sum due to rounding

Source: HFF publication (Debt, page 34); Real Capital Analytics

And decreased CMBS originations are being absorbed by increasing bank activity.

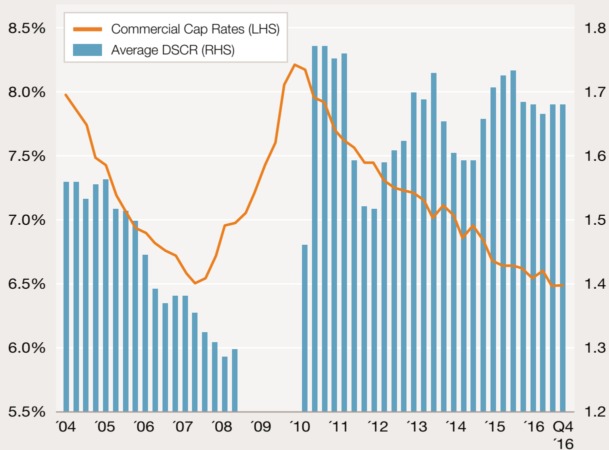
LOAN-TO-VALUE TRENDS DO NOT POINT TO AGGRESSIVE LENDING



Source: Real Capital Analytics

Despite an active lending environment, underwriting metrics are continuing to improve year over year and compare favorably to pre-global financial crisis levels. *(Applies to all charts on page.)*

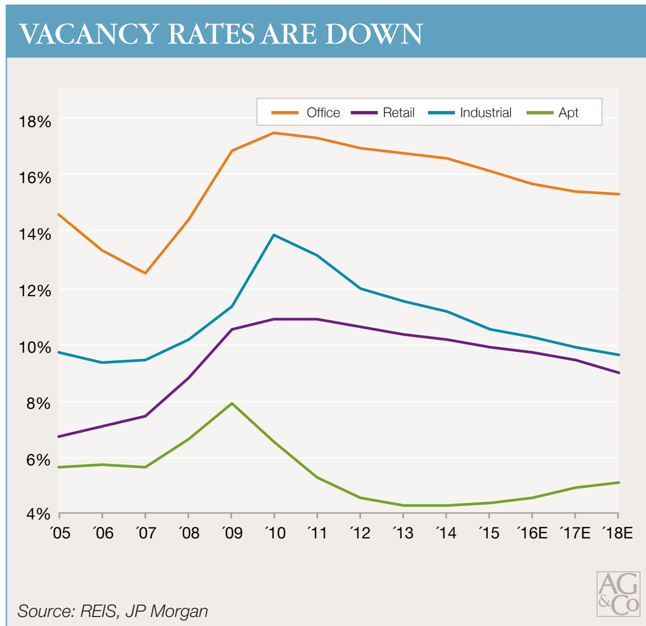
CURRENT DEBT SERVICE COVERAGE PROTECTS LENDERS

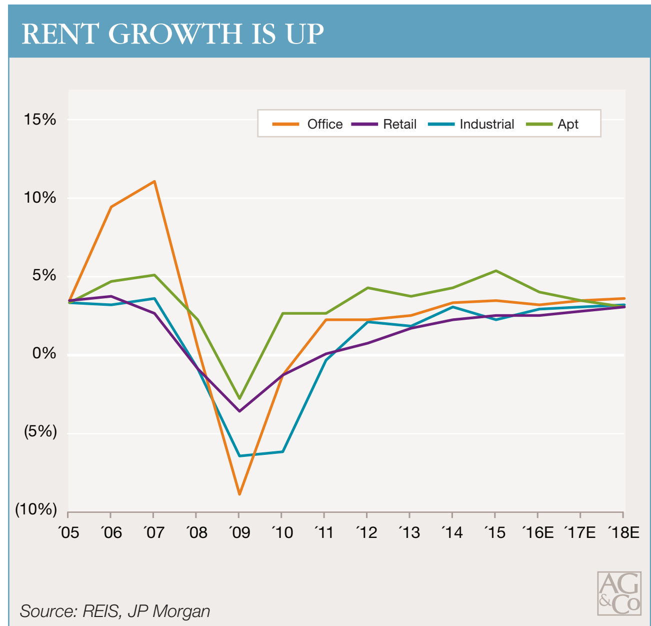


Source: Real Capital Analytics

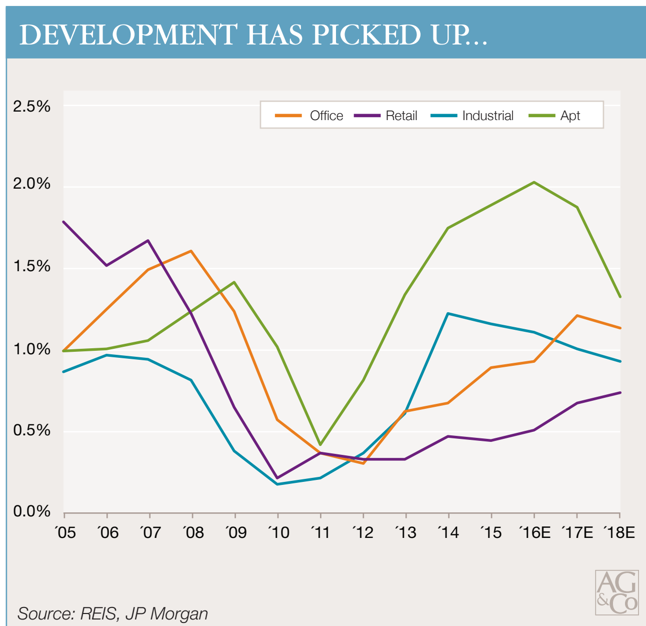
LENDERS HAVE BEEN TIGHTENING STANDARDS SINCE Q4 '15

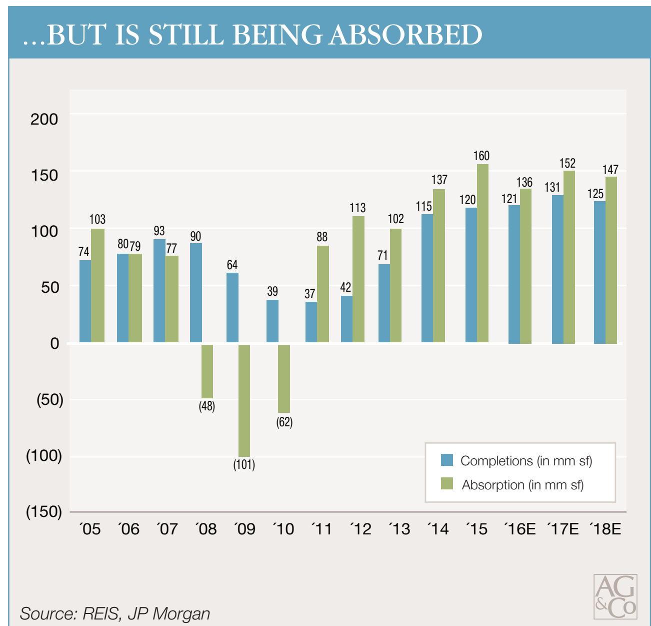
Source: Real Capital Analytics





Property fundamentals continue to improve. *(Applies to all charts on page.)*





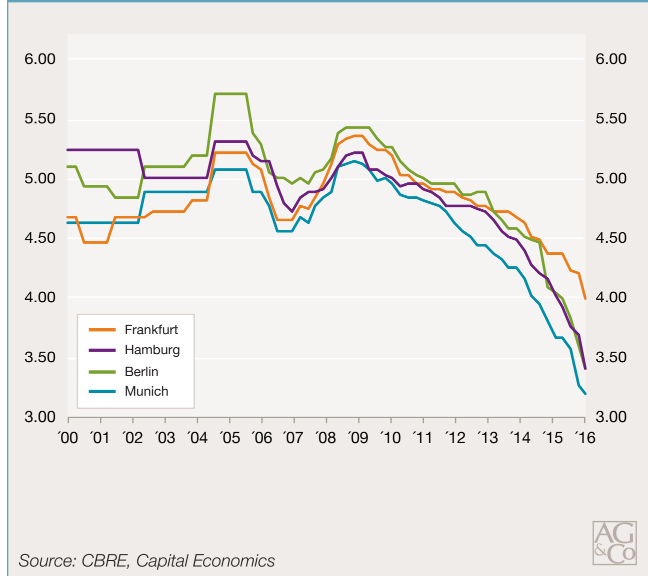
REAL ESTATE – EUROPE

EUROZONE ECONOMIC SENTIMENT INDICATOR & GDP

Source: Capital Economics

Sentiment surveys have been pointing upward.

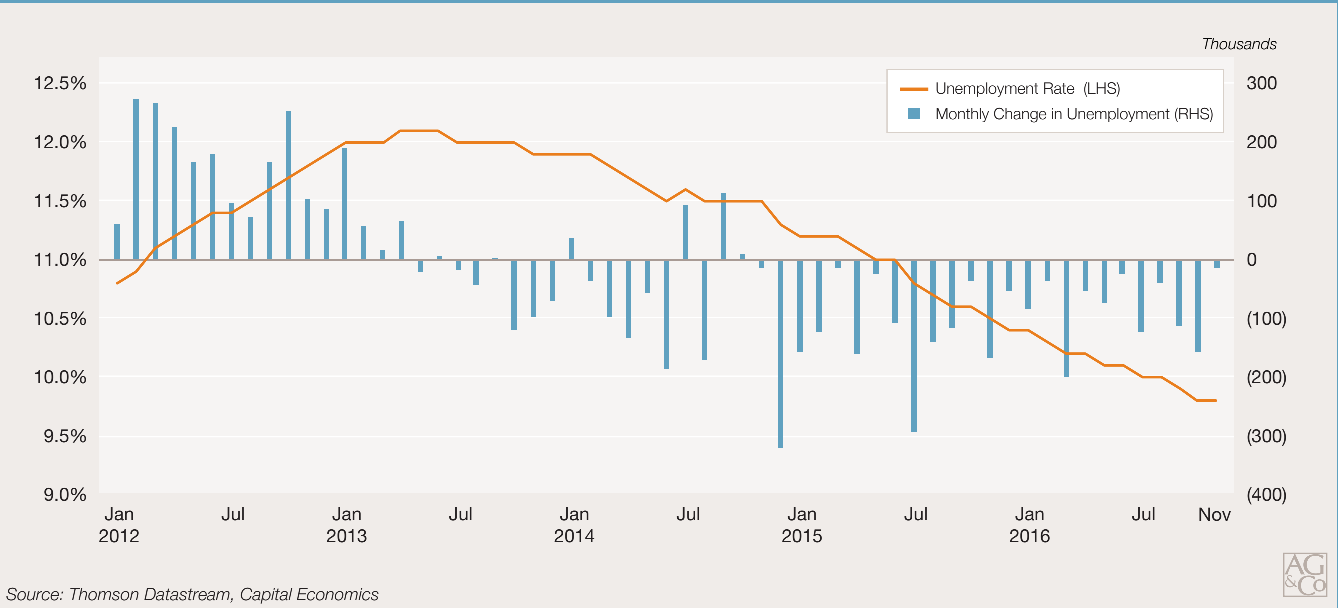
GERMAN CITY PRIME OFFICE YIELDS



Source: CBRE, Capital Economics

Yields in core German cities are at the lowest seen in almost 20 years.

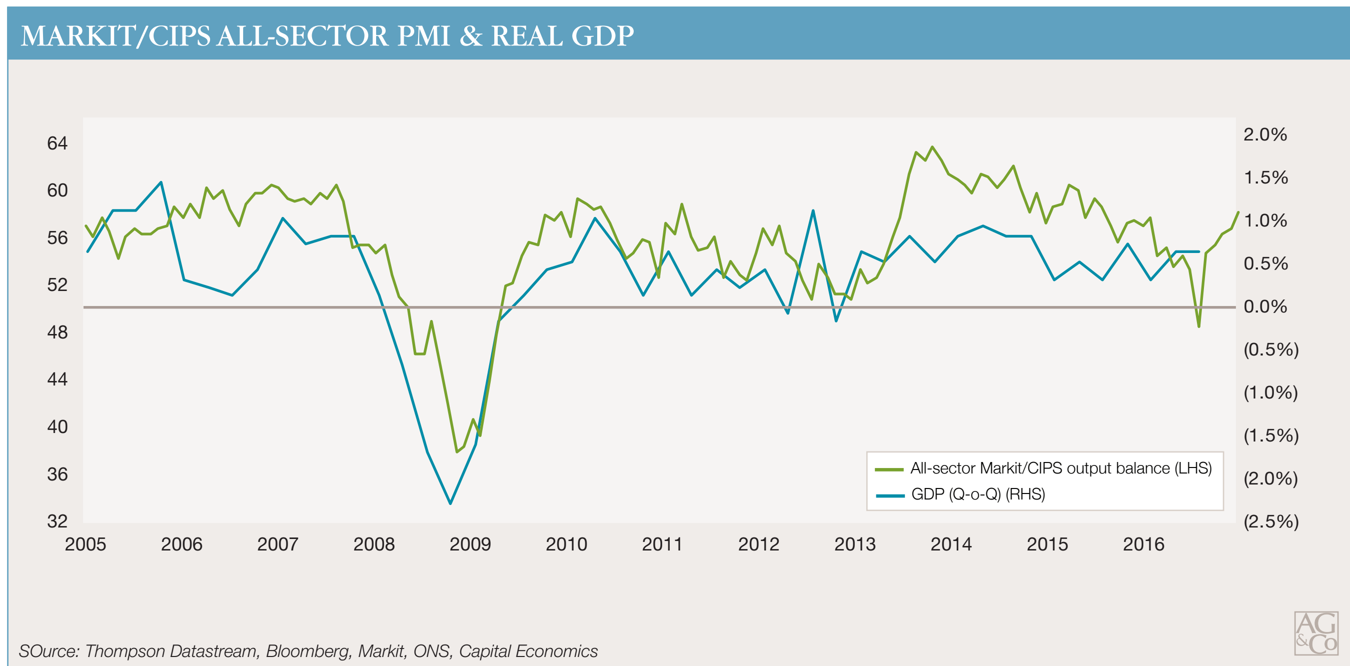
EUROZONE UNEMPLOYMENT



Source: Thomson Datastream, Capital Economics

Eurozone has seen a slow recovery in employment.

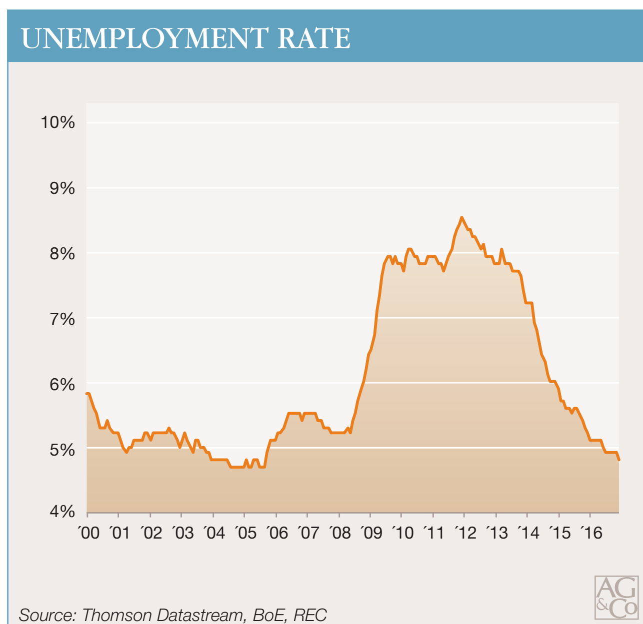
MARKIT/CIPS ALL-SECTOR PMI & REAL GDP



SOurce: Thompson Datastream, Bloomberg, Markit, ONS, Capital Economics

UK purchase surveys show positive Q4.

UNEMPLOYMENT RATE



Source: Thomson Datastream, BoE, REC

UK labor market is very tight.

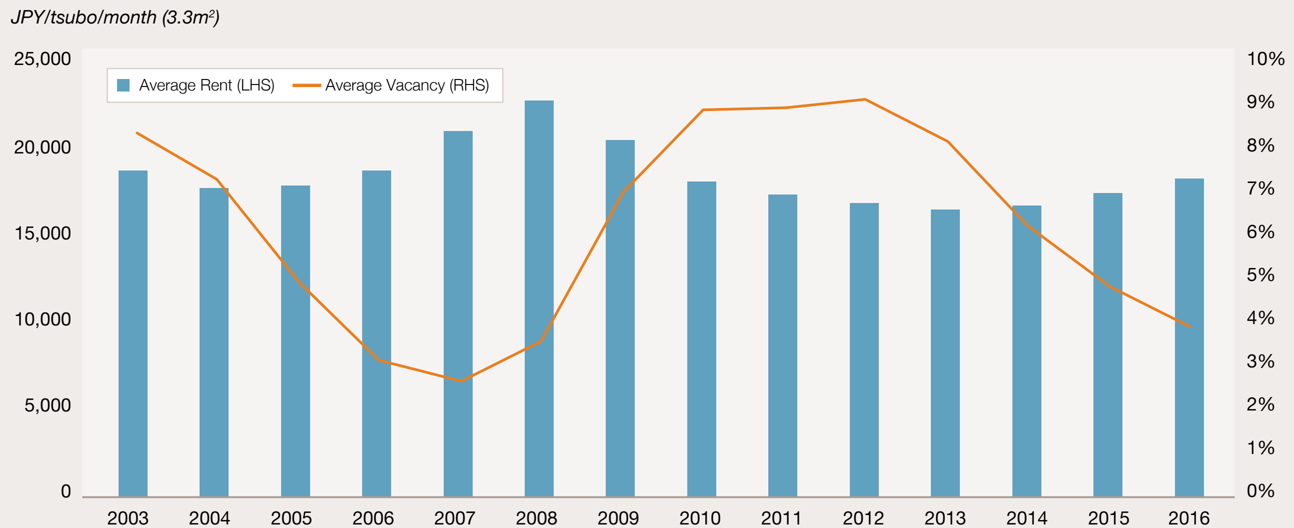
GBP/USD EXCHANGE RATE

Source: Bloomberg

Sterling drop after Brexit has been a driver for real estate sales.

JAPAN

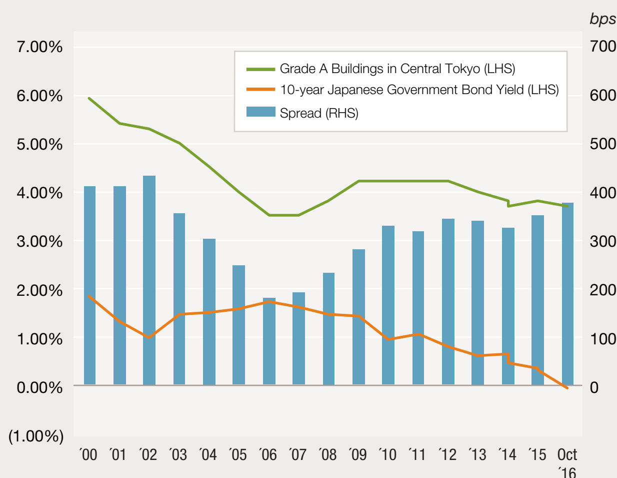
TOKYO'S 5 CENTRAL WARDS OFFICE RENT AND VACANCY RATE



Source: MIki Shoji

Occupancy in Tokyo continues to improve, with vacancy falling below 4.0% for the first time since the global financial crisis.

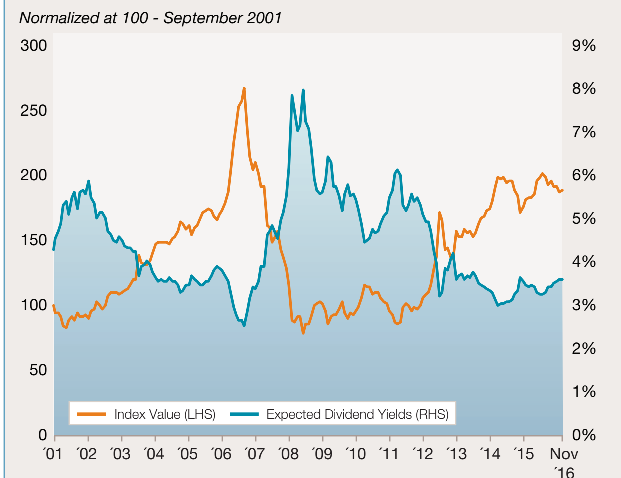
CAP RATES OF GRADE A OFFICE BUILDINGS VS. BORROWING COSTS



Source: Japan Real Estate Institute

Cap rate spreads continued to widen to nearly 400 bps as government bond yields fell into negative territory.

JAPANESE REAL ESTATE INVESTMENT TRUST (J-REIT) INDEX AND DIVIDEND YIELD

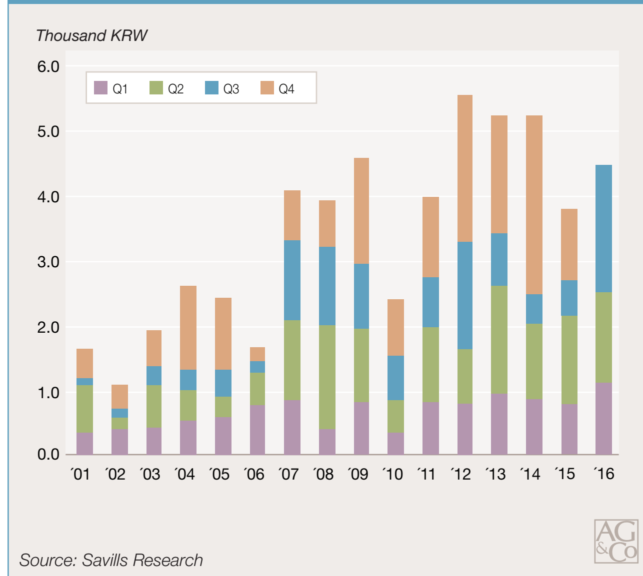


Source: Sumitomo Mitsui Trust Research Institute Co

The J-REIT index saw some volatility during the year, although yields remain low due to negative interest rates.

KOREA

TRANSACTION VOLUME OF PRIME/ SECONDARY OFFICE BUILDINGS IN SEOUL

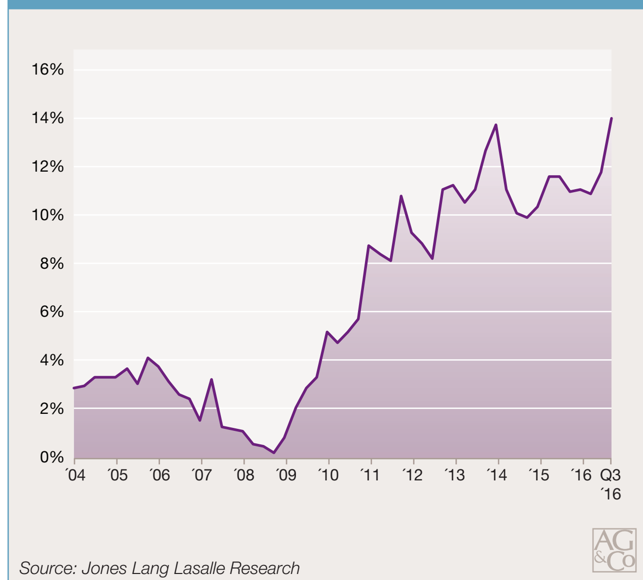


Transaction volume in the first three quarters of 2016 was strong.

KOREA GDP GROWTH

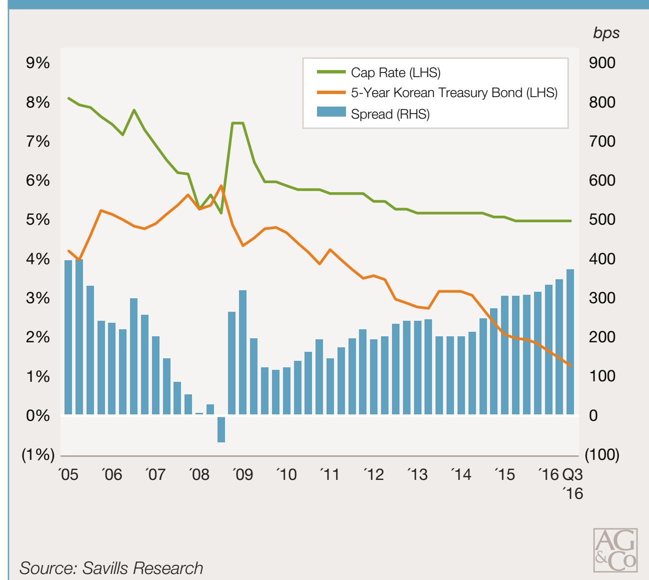
GDP growth moderated to 2.7% in Q3 2016.

SEOUL OFFICE VACANCY RATE



Seoul office vacancy increased to 13.9% due to the delivery of the Parnas Office Tower, a 1.12 million square foot office project in Gangnam.

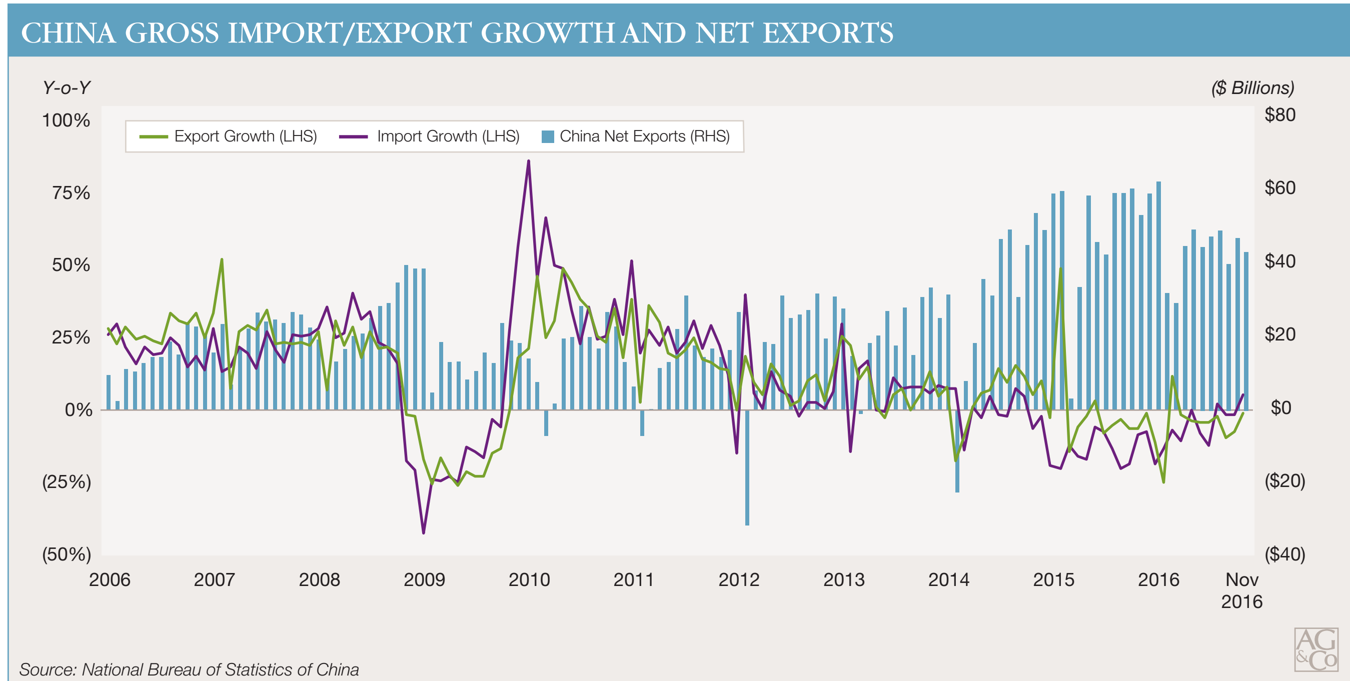
PRIME OFFICE CAP RATE AND SPREAD OVER 5-YEAR TREASURY YIELD



Cap rate spreads widened as government bond yields continued to decline.

CHINA

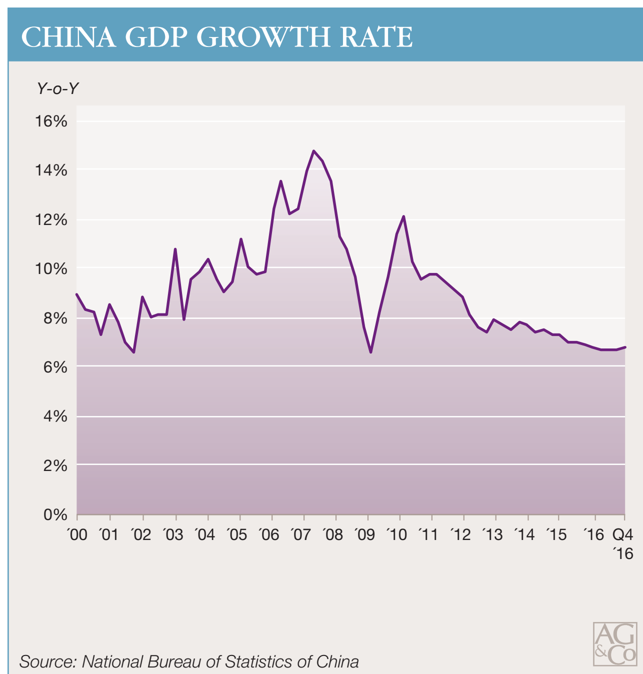
CHINA GROSS IMPORT/EXPORT GROWTH AND NET EXPORTS



Source: National Bureau of Statistics of China

The economy continued to be sluggish.

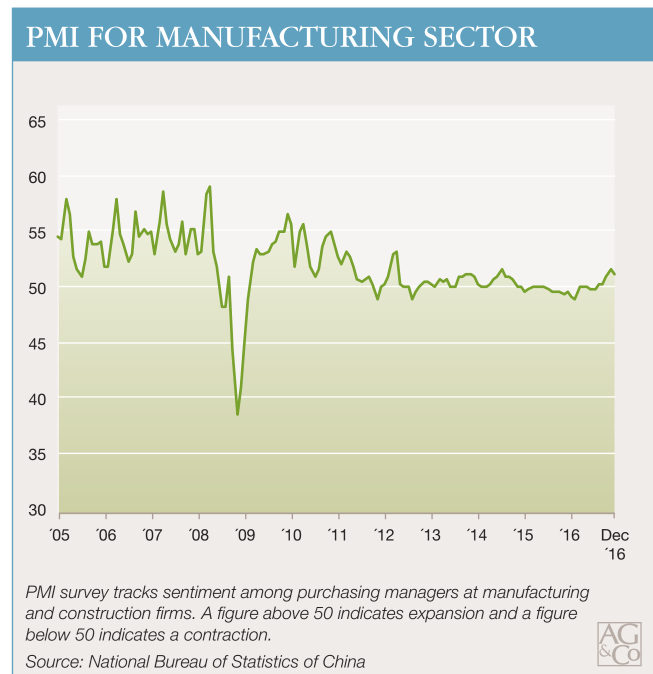
CHINA GDP GROWTH RATE



Source: National Bureau of Statistics of China

GDP growth continued to track towards 6.5%-7.0%.

PMI FOR MANUFACTURING SECTOR



PMI survey tracks sentiment among purchasing managers at manufacturing and construction firms. A figure above 50 indicates expansion and a figure below 50 indicates a contraction.

Source: National Bureau of Statistics of China

PMI figures returned to positive territory in March.

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