HEADLINE NEWS

After Weak Jobs Report, Investors Take June Off the Table

- Last Friday's jobs report missed Wall St. expectations by a wide margin with nonfarm payrolls coming in at +38k versus consensus estimates of +160k. The labor strike at Verizon took 35k off of the number, but adding that back still leaves investors with a disappointing result. With a margin of error of +/- 100k, a single report should not cause panic, but we will be curious to see how this number is revised in subsequent labor reports.
- The weak labor report reset expectations of a June rate increase with the implied odds of a hike falling to less than 4% (http://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html). Investors initially doubted that the FOMC would raise rates in the face of the Brexit vote, but odds had been on the rise over the past few weeks after a number of Fed officials publicly took a hawkish tone. As you can see in the link noted above, implied odds of a rate increase do not get above 50% until the December meeting.
- Given the weak jobs figure and the lowered odds of a summer hike, many investors were focusing on Chairwoman Janet Yellen's speech in Philadelphia Monday afternoon. Yellen took a fairly neutral stance, claiming that the FOMC will likely remain data dependent, while at the same time telling everyone not to read too much into the jobs data from Friday. She did note that gradual rate increases may be warranted if labor and inflation data consistently improves.

Key Macroeconomic Data Due this Week

Date	Time	Event	Period	Consensus	Prior
6/6	12:30 PM	Yellen speaks on economic outlook and monetary policy - United States			
6/8	10:30 AM	EIA Crude Oil Stocks	06/03		-1.4M
6/9	8:30 AM	Initial Claims SA	06/04	270K	267K

Source: API

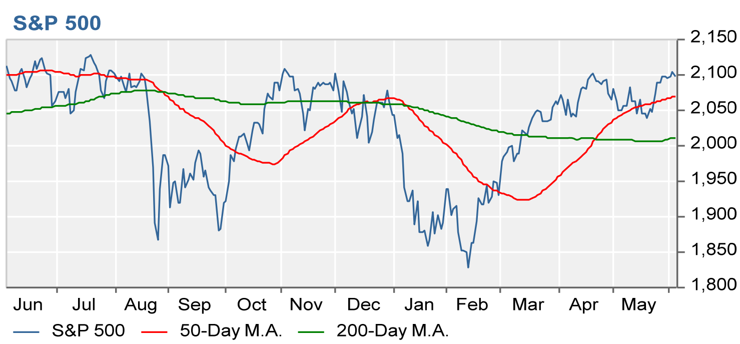
Notable Earnings Due this Week

DATE	TIME	TICKER	COMPANY NAME
No	Notable	Earnings	This Week

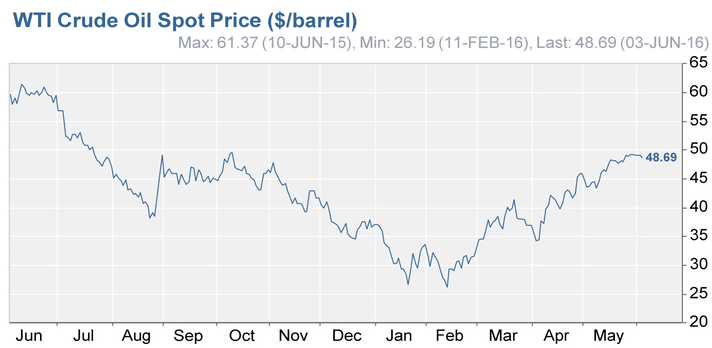
Source: API

INDEX RETURNS (AS OF 6/3/16)	MTD	YTD
S&P 500	0.13	3.71
Dow Jones Ind. Avg.	0.15	3.49
Barclays MM Short 1-5 Yr.	0.07	0.97
Barclays MM 1-10 Yr.	0.14	1.91
ML US Gov/Corp 1-10 Yr.	0.47	2.78

Source: Interactive Data



Source: FactSet Prices



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FIXED INCOME UPDATE

Municipal Defaults Remain a Rarity

- A default by a municipal bond issuer is a rare occurrence and even more uncommon among those issuers with a rating. Moody's Investors Service released its annual default study and reported four defaults in 2015 among the rate agency's portfolio of approximately 15,000 public finance ratings. This compares to zero defaults in 2014 and seven in 2013. Since 1970 there have been only 99 Moody's-rated defaults and the one-year cumulative default rate remains miniscule, at 0.016%.
- Defaults remain concentrated in sectors that are competitive and are exposed to higher degrees of operational risk. Housing and health care (which includes senior living) account for 45.5% and 23.2% of the 99 defaults in Moody's portfolio over the last 45 years.
- 2016 defaults may be higher. Puerto Rico's Public Finance Corporation was one of the 2015 defaults, missing a payment due in August. The Commonwealth's Infrastructure Finance Authority and Government Development Bank defaulted in January and May of this year. Given a sizable debt payment due July 1st and indications from Puerto Rico's government that the island is insolvent, 2016 could see a higher number of defaults, primarily driven by the Commonwealth.