HEADLINE NEWS

Low Oil Prices & Muni Credit

- We are seeing some isolated instances of low oil prices negatively effecting state and local governments. Areas where oil and gas extraction play a significant role in the economy are experiencing an uptick in unemployment, weakening oil-related taxes, and declining sales tax collections.
- From a credit standpoint, the issuers who will be most challenged will be those that rely on oil-related revenues for a large portion of their operating budget, those that built-in aggressive price per barrel projections into their budget, and those that lack the availability of reserves to offset revenue underperformance.
- With the expectation that oil prices will remain low for an extended period, structural budget changes will likely be necessary. These changes include other sources of revenue or reductions in recurring expenditures.

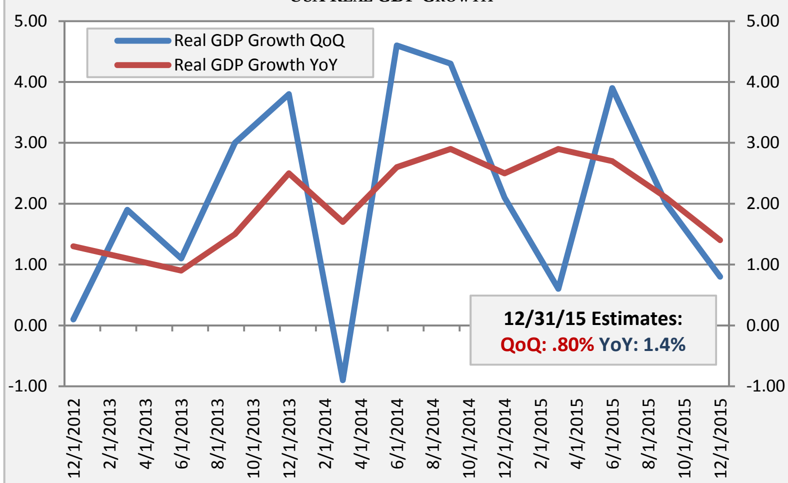
Moody's to Review Energy Companies

- On Friday, Moody's announced that it was placing 122 oil and gas companies around the globe on review for a potential downgrade. The review stems from Moody's view that even under a scenario in which oil and gas prices recover modestly, producers, drillers and service companies will experience increasing financial stress. The rating agency hinted that their review could be particularly harsh, noting there was a possibility of multi-notch downgrades for some entities.
- Particular concern was expressed for issuers whose activities are centered in North America, where both natural gas and oil prices have declined precipitously. Moody's expects its review will largely be completed by the end of 1Q 2016 and could catalyze additional restructuring/bankruptcy activity in the sector, as access to the capital markets is further cutoff for downgraded energy firms.

Fed Meeting and Q4 GDP in Focus

- Investors receive two macroeconomic updates later this week that could move markets. First, is the Fed's Wednesday afternoon decision regarding interest rate policy. We do not anticipate that the Fed will move interest rates, but we will be reviewing the statement for a few items: the influence of recent market turbulence, the impact of oil on the Fed's inflation outlook, and any hints on the future path of rates in the coming year.
- The second data release we will be watching this week is the preliminary read on fourth quarter GDP due out Friday morning. We are anticipating a weak quarter, possibly below 1% annualized, but do not believe that we are looking at a negative print. Avoiding a negative reading on GDP this Friday could go a long way in settling investors' nerves.

USA REAL GDP GROWTH



Source: FactSet

MARKET UPDATE & YEAR END REVIEW

Muni Market Overview

- The yield curve was very slightly lower inside of 5Yrs, but beyond that it was basically unchanged. Technicals continue to support Munipals with high demand versus supply not picking up yet. Another $593 million in inflows last week brings the YTD total to $4.4 billion.
- The new issue calendar is still relatively low at $5.7 billion this week and 30-day visible supply does not show that picking up in the near future at $8.29 billion.

Corporate Market Overview

- Continued weakness across the commodity and equity markets is spilling over into the bond markets. That weakness and the overall volatility has put pressure on Investment grade credit spreads during the first few weeks of the year. Last week's shorter trading session continued the trend with wider spreads. The BofA Merrill Lynch Corporate Master OAS Index currently stands at 196, levels this wide have not been seen since July 2012. The effects are additionally being felt in the new issue market, as there was only $28.825 billion in issuance last week. The largest deal was done by Morgan Stanley (MS A3/BBB+/A) who issued $5.5 billion. The bonds in 10 years came at +185 and have been trading there since the deal came on Friday.

FIXED INCOME INDEX RETURNS AS OF 1/22/2016

	MTD	YTD
Barclays 3Yr	0.51	0.51
Barclays 5Yr	0.92	0.92
Barclays 7Yr	1.14	1.14
Barclays MM Short 1-5Yr	0.61	0.61
Barclays MM 1-10Yr	1.05	1.05
ML US Gov/Corp 1-10 Yr	0.91	0.91

Source: Interactive Data