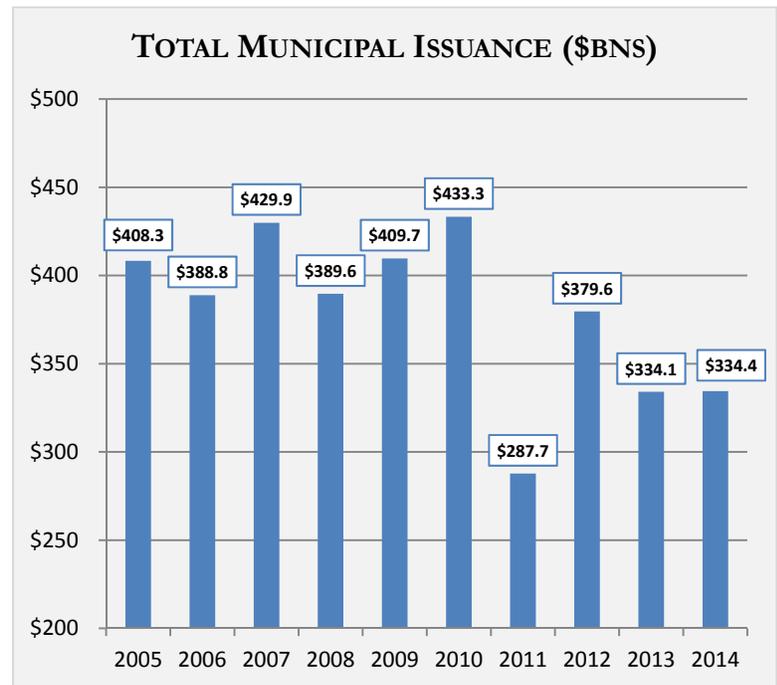


HEADLINE NEWS
Surge in Refundings Buoy Issuance

Long-term municipal issuance in December was up 39.9% from the same month a year ago, marking the fifth consecutive month of year-over-year growth. Driven by an increase in refundings, total issuance in 2014 reached \$334.4 billion, finishing just slightly above 2013's \$334.1 billion. Despite outpacing expectations, total issuance remains below the annual average of \$379.5 billion posted over the past decade.

Illinois Governor-elect Faces Tough Choices

As of January 1st, personal and corporate income taxes in Illinois automatically rolled back by 25% as part of a temporary tax hike passed in 2009. The lower tax rates are estimated to reduce the state's total revenues by more than \$2.0 billion, creating a large gap for the fiscal year-ending June 30th. Governor-elect Bruce Rauner will be sworn-in on January 12th and will immediately face tough questions on balancing the budget in the near-term and addressing pension problems for the long-term. To date, Rauner has provided limited information as to his intentions.



Source: Thomson Reuters

MARKET UPDATE
Munis Strengthen in Limited Trading

Over the year end, the Municipal AAA MMD curve flattened moderately in the lightly traded market. The 5Yr yield went down 4bps to 1.29% and the 10Yr dropped 9bps to 2.01%. Much of this strength is due to the scarcity of bonds in the market and the 1/1 maturities and calls exacerbated this effect. According to Bloomberg, outstanding municipal par contracted by 0.43%, or \$15.3 billion, between 12/31 and 1/2. This week's calendar is expected at \$4.1 billion in issuance, which is light for a regular week, but strong for the first week back after the end of year holidays. The calendar is primarily buoyed by the \$1 billion Dorm Authority of the State of New York Personal Income Tax bonds (NR/AAA/AA+). 30-day visible supply is building from the end of year low and currently sits at \$7.5 billion.

Another Quiet Week for IG bonds

Happy New Year! It was another quiet week on the Investment Grade front, as most were at home enjoying the holidays with their families. Issuance in the month of December reached \$60.5 billion, 4th quarter issuance reached just over \$303 billion, and the total for the year was \$1.395 trillion. Several issuers, such as GE Capital, JPM, BAC, and GS have historically come to market in January and are possibly lined up to issue bonds in the coming month. There is about \$774 billion of investment grade maturities coming due in 2015, and this could put pressure on

bond spreads throughout the year. The Treasury curve ended the year flatter, as the 2Yr benchmark closed the year at .666% which is 28 basis points higher than the 2013 close. The 10Yr ended 2013 at 3.03%, but rallied 86 bps to close 2014 at 2.17% and the long bond (30Yr) dropped 122 bps on the year to 2.75%. The reset button has been pushed!

FIXED INCOME INDEX RETURNS

	MTD 1/2/15	YTD 1/2/15
Barclays 3Yr	0.09	0.09
Barclays 5Yr	0.14	0.14
Barclays 7Yr	0.17	0.17
Barclays MM Short 1-5Yr	0.10	0.10
Barclays MM 1-10Yr	0.17	0.17
ML US Gov/Corp 1-10 Yr	0.13	0.13

Source:
Interactive
Data

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