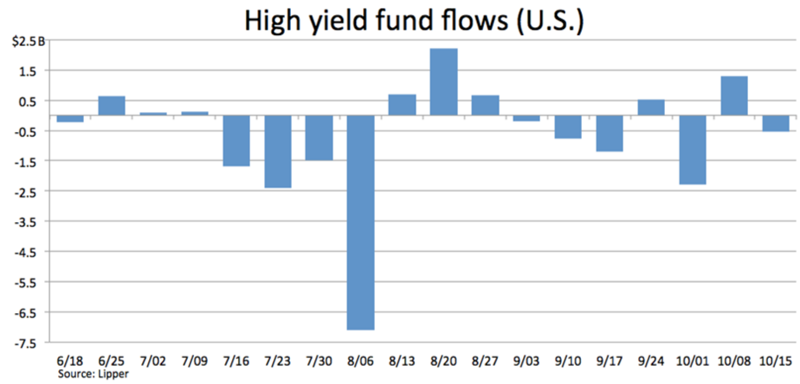
HEADLINE NEWS

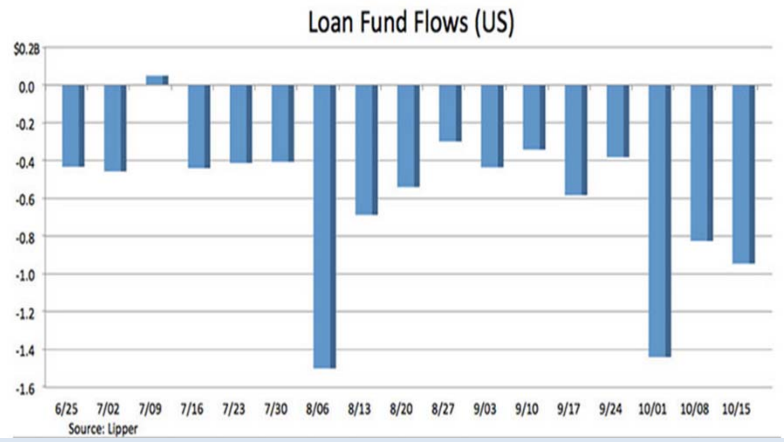
Painful Technicals for Non-Investment Grade Assets

Both high-yield and leveraged loan funds and ETFs continue to see technical pressure from ongoing outflows. Loans, in particular, have seen significant outflows with last week marking the 14th consecutive outflow. While both markets have likely been impacted by fears over increasing credit risk and a general "risk-off" attitude in the last several weeks, loans are also facing pressure from the prospects of lower interest rates for a longer period of time.

National League of Cities Survey Sees Improving Trend

Local government fiscal conditions continue to improve, albeit at a relatively slow pace. According to a survey conducted by the National League of Cities, 80% of the 354 city finance officers participating responded that their cities are better equipped in fiscal year 2014 to meet their financial needs than they were in fiscal year 2013. By contrast, 72% and 57% of city finance officers responded positively in 2013 and 2012, respectively. Officers indicated that inflation-adjusted general fund revenues increased year-over-year in fiscal year 2013 for the first time since 2006. However, revenues still remain 10% below their pre-recession peak.





MARKET UPDATE

Municipals follow Treasury volatility

The Municipal market saw significant volatility last week (Wednesday) initially set off by the below expectations retail sales release which created a disorderly market. By the end of the week, yields were more stable, yet lower, with the 5Yr AAA down 5bps to 1.03% and the 10Yr AAA down 10bps to 1.89%. The new issue calendar this week, at $7.5B, is larger than previous week's and offers 20 deals over $100M. The largest deal of the week is the $1 billion San Joaquin Hills (CA) Transportation Corridor Agency Senior bonds (NR/BBB-/BBB-) and Junior Lien (NR/BB+/BB+). Demand continues as Municipal bond funds had inflows of $443 million for the week ending 10/15/14, bringing the Year-to-Date total to $14.9 billion. 30-day visible supply at $10.3 billion is above the average for the year of $7.6 billion.

Volatility in Treasury Markets Leads to Decrease in IG Supply

Investment Grade issuance fell well short of expectations last week with only $7.5 billion coming to market. It was the 3rd lowest week of issuance so far this year. That's not surprising given the volatility in the equity and the Treasury markets. Most issuers were watching from the sidelines. Investment Grade trading last week was fickle, as the capricious action of the Treasury market drove spreads wider as risk aversion stole the show. There were plenty of sellers in the market, but many were reluctant to hit down bids and stuck to their guns on levels at which they were comfortable. By week's end the markets settled and spreads were wider by about 7bps.

FIXED INCOME INDEX RETURNS

	MTD 10/17/14	YTD 10/17/14
Barclays 3Yr	0.19	1.53
Barclays 5Yr	0.61	3.72
Barclays 7Yr	1.10	6.38
Barclays MM Short 1-5Yr	0.26	1.59
Barclays MM 1-10Yr	0.95	4.77
ML US Gov/Corp 1-10 Yr	1.19	3.24

Source: Interactive Data

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