

HEADLINE NEWS
First Gas Tax Increase for New Jersey Since 1988

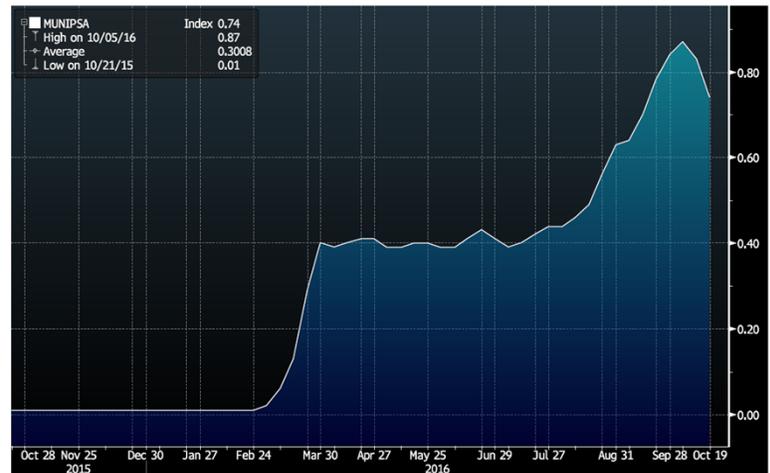
- After a months-long impasse, top state lawmakers approved a 23 cent increase to New Jersey's gas tax, raising it to 37.5 cents per gallon. The estimated \$2 billion in annual revenues will be dedicated to funding transportation infrastructure, restoring hundreds of projects that were stalled earlier this year when the Transportation Trust Fund ran out of money.
- New Jersey previously had the second lowest gas levy in the country and will now be in-line with regional peers – Connecticut (38 cents), New York (43 cents) and Pennsylvania (51 cents).
- To make the tax increase more palatable for some politicians, New Jersey will also see phased-in reductions in the sales tax rate, the elimination of the estate tax and other revenue declines. This is expected to result in lower resources for the State's general operations at a time when pension, healthcare, and debt costs are expected to continue to rise.

SEC Approves Liquidity Rules for Mutual Funds

- SEC Commissioners unanimously approved rules that will require open-ended mutual funds to provide greater details about the liquidity of their underlying holdings. Addressing concerns that some funds do not hold enough "easy-to-sell" assets to handle the risk of significant redemptions, fund managers will now be required to classify each holding by its expected trading liquidity and hold at least a minimum percentage of assets in highly liquid securities. There is also a firm cap of 15% on exposure to assets deemed "illiquid."
- Implications from the rules will most likely spur a number of operational and administrative changes across the mutual fund industry. Compliance for most funds is required by December 1, 2018.

SEC Rule 2A-7 on Money Market Funds Impacts Short Term Rates

- On October 14, new rules for governing taxable and tax-free money market funds took place. As a result of these rules, the only money market funds that may now be used as a sweep vehicle are Government money market funds, resulting in forced sales of taxable prime and tax-free money funds.
- This forced selling caused a spike in 3 month LIBOR, as many short-term investment products are pegged to the rate and dealers needed to hedge positions. Now that the rules have been implemented and the "dust has settled," 3-month LIBOR and its Municipal equivalent, SIFMA, have started to reverse themselves and move to lower rates.



Source: Bloomberg

MARKET UPDATE
Muni Market Overview

- Despite the large issuance last week, the Muni yield curve did not move significantly; however, there was a slight steepening of the curve over the week.
- Issuance has been the story of late, with this week's expected issuance at \$17 billion, which would be the highest weekly total ever recorded. The previous week saw issuance of approximately \$16 billion, adding to the expected October issuance of \$54.7 billion. This level would break the monthly issuance record of \$51.7 billion in March 2008.
- On the demand side, we saw the first week of Municipal bond fund outflows (\$130 million) following 54 consecutive weeks and \$60.2 billion of total inflows. Intermediate funds showed inflows, while Long term had the second week of outflows and High Yield had its third week of redemptions.

Corporate Market Overview

- The Investment Grade new issue market came back to life with over \$50 billion coming to market, despite the start of earnings season. The Kingdom of Saudi Arabia was the headline in the

primary market, issuing \$17.5 billion in 3 tranches. Secondary Investment Grade credit spreads continue to trade close to year-to-date tights, as investors still have an appetite for high quality fixed income.

- The Treasury market was range bound last week, with the 10Yr trading between 1.70% - 1.80%. The US Treasury will be active issuing 2Yr, 5Yr, and 7Yr notes this week.

FIXED INCOME INDEX RETURNS AS OF 10/21/2016

	MTD	YTD
Barclays 3Yr	-0.12	1.08
Barclays 5Yr	-0.44	1.85
Barclays 7Yr	-0.68	2.58
Barclays MM Short 1-5Yr	-0.19	1.07
Barclays MM 1-10Yr	-0.62	2.06
ML US Gov/Corp 1-10 Yr	-0.26	3.37

 Source:
Interactive
Data