

HEADLINE NEWS

Illinois: Moody's Follows Fitch into BBB Category

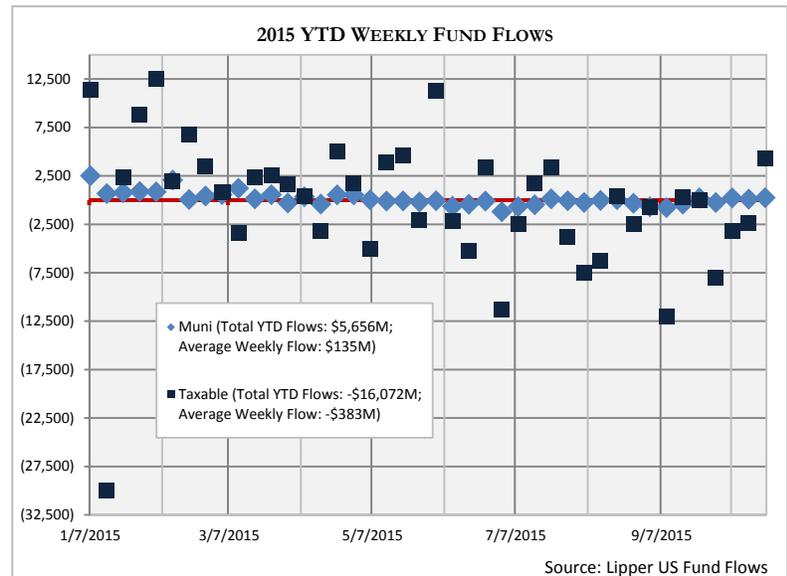
- Following Fitch's downgrade of Illinois' GO rating to BBB+ on Monday, Moody's also downgraded the State to an equivalent Baa1 during the week.
- The negative rating actions were driven by the lack of progress in closing the State's structural budget imbalance and growing unfunded pension liabilities, exacerbated by political gridlock that has stymied budget negotiations over 100 days into the current fiscal year.
- Illinois is now the only State with ratings in the "BBB" category and is two notches lower than New Jersey, the next lowest rated state.

Federal Intervention Escalates in Puerto Rico Crisis

- The White House is asking Congress to approve a proposal aimed to restore Puerto Rico's economy and turn around its fiscal mess, marking the most aggressive federal support yet for the Commonwealth.
- The proposal is not without controversy. The Administration wants to extend bankruptcy protection not only to Puerto Rico's underlying government agencies, but also to the Commonwealth itself. In addition, Medicaid funding and federal subsidies would be increased for citizens of the island.
- To help assuage Republican opposition, the plan includes the implementation of an independent financial control board, although it is still uncertain what level of overall Congressional support the plan has at this point.

Taxable Fund Flows Correlated with Equity Volatility

- As equity volatility has impacted the markets in 2015, Taxable fixed income has often been linked more closely with stocks. Municipal fund flows, however, have seen very little change. Municipal inflows for the period ending 10/21/15 were \$241 million, which brings the total for the year to about \$5.7 billion. Taxable fund flows also reversed their trend of outflows in the previous few weeks with inflows of \$4.31 billion for the period ending 10/21/15, bringing total YTD flows to -\$16.07 billion. It is important to note, however, that the overall size of the Taxable Fixed Income fund universe far outweighs the size of the Municipal Bond fund universe.



MARKET UPDATE

Muni Market Overview

- Muni yields were minimally higher over the week. The 7Yr started this week 1bp higher at 1.59%. Last week's new issuance calendar was above average, at \$8.1 billion, but secondary trading seemed muted. We move into this week with a smaller calendar, under \$7 billion, which includes a \$1.2 billion Posey County, Indiana note deal with a mandatory put on 8/2/2016.

Corporate Market Overview

- It was another quiet week for investment grade new issuance, as earnings season is in full swing. There were 16 issuers that priced just over \$25 billion on the week. Demand in the primary and secondary markets was very strong, as volatility seemed to be under control and risk was back on the table. Spreads were generally tighter across all sectors. The US Treasury market sold off slightly last week on debt ceiling fears and the postponement of the 2Yr note auction on Tuesday. The 10Yr Treasury ended

the week up 5 basis points to 2.09% and the 30Yr rose 2 bps to 2.90%. This month's Fed meeting began today with a rate decision due to hit the wire at 2PM on Wednesday. Consensus holds that the rate will remain unchanged.

FIXED INCOME INDEX RETURNS AS OF 10/23/2015		
	MTD	YTD
Barclays 3Yr	0.15	1.35
Barclays 5Yr	0.40	2.16
Barclays 7Yr	0.44	2.41
Barclays MM Short 1-5Yr	0.23	1.55
Barclays MM 1-10Yr	0.32	2.25
ML US Gov/Corp 1-10 Yr	0.08	2.11

Source: Interactive Data