

HEADLINE NEWS
Bond Authorizations Lacking in Mid-Term Ballots

November 4th Election Outlook:

As we noted in our quarterly letter, bond authorizations are lacking in this year's November ballot measures. The two largest proposed issuances include a \$7.5 billion water measure in California and \$2.0 billion in New York for school technology upgrades, but amounts fall off dramatically after that. However, we will be watching a number of initiatives that could have positive impacts on state fiscal policies. Two measures to keep an eye on:

- Three States, Maryland, Texas, and Washington, are asking voters to weigh in on transportation infrastructure. Measures in all three states are focused on setting up dedicated transportation funds and allocating

revenue sources solely for transportation infrastructure.

- If passed, the State of California's Proposition 44 would increase the size and improve the practice of reserving capital in the state's rainy day fund.

With rates declining, it comes as no surprise that flows into High Yield Funds turn positive

For the week ending October 22nd, high-yield mutual funds and ETFs saw inflows of \$1.7 billion. The inflows follow a \$549 million weekly new outflow for the same funds a week earlier. Opportunistic investors in the high-yield space were rewarded with a 2% bounce in that past week based on the latest Bank of America Merrill Lynch high-yield index data. The average junk-bond yield is back down to 5.9%, after peaking at 6.45% in early October.

MARKET UPDATE
Largest Unrated Deal in History

Last week the Municipal yield curve moved higher by 5bps in 5Yrs to 1.08% and 13bps in 10Yrs to 2.02% creating a sloppy, yet less volatile selling environment than the previous week. The calendar this week is lighter than last week at \$5.2 billion, and is dominated by the \$1.63 billion unrated New York Liberty Development Corp for the 3 World Trade Center Project. There are 12 other deals over \$100 million also on the calendar, and 30-day visible supply has dropped to \$7.9 billion, just above the yearly average of \$7.6 billion.

Strong Demand Continues to Absorb Supply

It has been rumored that the ECB has considered adding Corporate Bond purchases to its economic recovery arsenal. This decision could be made at the December meeting, with purchases possibly beginning in January. In the hopes of combating global weakness and low inflation, the ECB has already cut its interest rate to record lows. The addition of corporate bond purchases will hopefully add economic stimulus without buying its own sovereign debt. Generally, this is good news for corporate bond holders, as spreads will most likely tighten. However, on the flip side, those purchases will make it more difficult for investors to buy bonds in the secondary market. Demand for Investment Grade bonds continues to be strong and the new issue market met expectations with \$34.475 billion coming to market last week. The most notable deal on the week was Verizon's (VZ Baa1,BBB+,A+) \$6.5 billion deal across 3 tranches (7yr +115, 10yr +135, 20yr +145). Demand was heavily oversubscribed, and final pricing was significantly tighter than initial price talk. The deal broke out lower catching some off guard.

10 Year Global Govt Yields		
	10/28/2014	BPS Spread vs. US 10 yr
US	2.28%	-
UK	2.23%	-5
Australia	3.23%	96
Belgium	1.20%	-108
Canada	2.03%	-25
Denmark	1.13%	-115
France	1.28%	-100
Germany	0.83%	-144
Greece	7.37%	510
Ireland	1.81%	-47
Italy	2.52%	24
Japan	0.46%	-182
Netherlands	1.05%	-123
New Zealand	3.98%	170
Norway	2.11%	-17
Portugal	3.33%	105
Spain	2.11%	-16
Sweden	1.20%	-108
Switzerland	0.49%	-179

At 2.28%, the 10Yr Treasury is still considerably higher than most of our counterparts.

Source: FactSet

FIXED INCOME INDEX RETURNS

	MTD 10/24/14	YTD 10/24/14
Barclays 3Yr	0.15	1.49
Barclays 5Yr	0.43	3.54
Barclays 7Yr	0.79	6.06
Barclays MM Short 1-5Yr	0.18	1.50
Barclays MM 1-10Yr	0.64	4.44
ML US Gov/Corp 1-10 Yr	1.02	3.06

Source:
Interactive Data

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