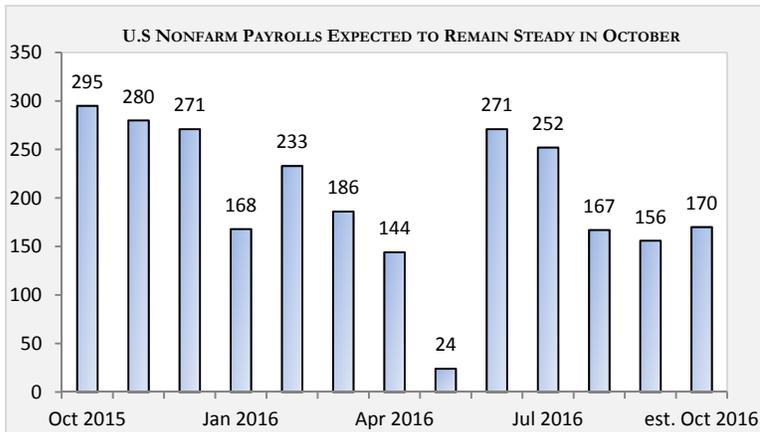


HEADLINE NEWS
Markets Wait on Fed and Nonfarm Payrolls This Week

- On the economic calendar for the week, the market will be watching the FOMC rate release on Wednesday, but with no expectations of a change. Nonfarm Payrolls will be released on Friday, expected at 170k and up from last month's miss of 156k. This release will have the market's focus given that it may be the data for which the Fed relies upon to justify a rate hike at the December meeting. Average Hourly Earnings will also be a critical data point, as it gives insight to the strength of the jobs created and the potential for wage inflation going forward.


State of Alaska Pulls \$2 Billion Deal

- The State of Alaska pulled its \$2.35 billion pension obligation bond last week, as higher interest rates and political pushback forced officials to reconsider. Proceeds were slated to be deposited into the pension system and invested alongside accumulated plan assets. The State was hoping that investment returns would beat borrowing costs over the life of the bonds.
- Although borrowing rates continue to be at relatively low rates, expectations for future investment returns remain muted. Pension bonds issued by other states and local governments over the last 15 years have experienced relatively underwhelming results.
- The deal would have significantly increased Alaska's debt from the approximately \$1 billion currently outstanding. Given Alaska's budgetary pressures and energy-driven economic woes, increasing leverage would most likely have put pressure on the State's credit profile.

Source: U.S. Bureau of Labor Statistics, Bloomberg Markets

MARKET UPDATE
Muni Market Overview

- Over the week, the muni yield curve was modestly higher by 2-3 bps, with the 10Yr ending at 1.74%. Over the month, the 10Yr yield has risen about 20bps, and the 5Yr is up 12bps.
- After several weeks of elevated issuance, this week's expected supply at \$10 billion seems low, but it is actually still above the non-holiday weekly average of \$9.3 billion. The 30-day visible supply has dropped down to \$13 billion from a recent high of over \$23 billion (10/18/16).
- Municipal bond fund flows turned back to inflows (\$335 million) this week after outflows last week. Previously, Long term and High Yield had shown outflows, and, although still modest, all are back to positive this week.

Corporate Market Overview

- This past week's \$38.875 billion in Investment Grade issuance brought the total for October to \$144.53 billion which beat expectations for the normally average month. Expectations for this week are on the lower side at \$20 billion as robust earnings calendar will be in focus. Issuance is still outpacing that of 2015 by 12%, as demand for credit remains very strong. One of the largest and most notable deals was the \$4.5 billion, four tranche deal brought by Honeywell International (HON A2,A,A). Initial price talk on the deal was +75 in 5Yrs; but, by the time the deal was priced spreads had tightened by 15 basis points to +60.

- IG credit spreads continue to hold up very well even with the recent back-up in Treasury rates and the reemergence of volatility. This week we hear from the Federal Reserve, with a rate decision due out on Wednesday. Expectations are that they will wait until December to move, as growth continues to be at the forefront of their concern. The UST curve continues to steepen with the 10Yr benchmark bond up 11 bps, ending the week at 1.85%, and the long bond up 13 bps to 2.62%.

| FIXED INCOME INDEX RETURNS AS OF 10/28/2016 | | |
|---|-------|------|
| | MTD | YTD |
| Barclays 3Yr | -0.13 | 1.07 |
| Barclays 5Yr | -0.46 | 1.82 |
| Barclays 7Yr | -0.80 | 2.46 |
| Barclays MM Short 1-5Yr | -0.20 | 1.06 |
| Barclays MM 1-10Yr | -0.71 | 1.96 |
| ML US Gov/Corp 1-10 Yr | -0.49 | 3.12 |

Source: Interactive Data