

HEADLINE NEWS
While State Collections Decline, Local Taxes Grow

- In contrast to reports last week that states experienced a decline in second quarter tax revenues, local governments saw a 2.4% increase over the same timeframe. The period ending June 30th marks the fourth consecutive quarter of growth and 12 of the last 14 for local governments.
- Compared to weakness in personal and corporate income taxes, local government tax revenue growth is primarily driven by property taxes, which tend to be more resilient. Property taxes, which account for close to 80% of local government revenue, are not subject to short-term economic volatility and typically lag long-term changes in the economy due to the assessment process.
- Although growth may appear to be slowing down, continued increases in revenues for local governments allow them to boost reserves, fund infrastructure and address pension obligations.

Full Year of Muni Bond Inflows

- Last week municipal bond mutual funds received \$664 million of investor inflows, marking the 52nd consecutive week of positive investment dating back to last October. Over that period, investors have added \$58.3 billion to municipal bond mutual funds. Since 1999, the current streak is the third largest and the seventh longest.

Congress Avoids Government Shutdown

- Congress avoided a partial government shutdown after both chambers passed a short-term bill that will keep the federal government operating past the elections and through December 9, 2016. The continuing resolution also includes \$1 billion of funding to combat the Zika virus, \$500 million in aid to help rebuild flood-ravaged areas of Louisiana, and aid to Flint, MI through a separate, but linked, bill.

STRONG MUNI BOND INFLOWS CONTINUE

Period	Duration (months)	Total Inflows (\$mn)
Jan 09 - Oct 10	22	110,214
Sep 11 - Mar 13	18	65,057
Oct 15 - Oct 16	12	58,350
Jan 06 - Jul 07	19	38,871
Nov 00 - Oct 02	24	37,666
Feb 14 - Apr 15	14	35,456
Sep 07 - Sep 08	13	28,143
May 05 - Oct 05	6	8,270
Dec 02 - Jun 03	7	8,041
Jan 99 - Jun 99	6	5,707

Source: JP Morgan, Lipper US Fund Flows

MARKET UPDATE
Muni Market Overview

- To end the quarter, yields in the Intermediate part of the curve were down, with the 7Yr and 8Yr both down 4bps to 1.19% and 1.30%, respectively. The 1Yr and 2Yr were both up slightly.
- An unexpected surge in new money deals caused issuance for September to grow by 45% to \$35.7 billion, which is the highest monthly issuance since 1986. The previous record was September 2010 at \$35.6 billion. Looking to this week, there is over \$15.5 billion in issuance expected, which would be the highest since June '03 and the 2nd highest weekly issuance on record. The elevated calendar heightens the confidence that muni issuance for the year will beat the estimated \$400 billion. 30-day visible supply hit its high for the year on Friday at \$23 billion, compared to the average of \$11.3 billion.

Corporate Market Overview

- The last week of September closed out the month and the quarter with a paltry \$25 billion in issuance, compared to the average of \$40 billion in the 11 weeks prior. Overall, issuance in the month of September was a robust \$172 billion and the YTD total of \$1.33 trillion is an increase of 10% over last year's issuance. The balance of the year should prove to be on the slower side, as investors become weary of the recent supply glut. Investment grade credit spreads continue to be steady and have been range bound over the last five weeks.
- US Treasuries moved slightly lower from 10Yrs on out to 30Yrs, while ultra-short (1Mth – 1Yr) maturities rose. The 30Yr UST ended the week down 3bps to 2.32%, and the 1 & 3 month benchmarks were up by 10bps to .19% & .28%, respectively.

FIXED INCOME INDEX RETURNS AS OF 9/30/2016

	MTD	YTD
Barclays 3Yr	-0.41	1.20
Barclays 5Yr	-0.39	2.30
Barclays 7Yr	-0.14	3.29
Barclays MM Short 1-5Yr	-0.44	1.27
Barclays MM 1-10Yr	-0.33	2.70
ML US Gov/Corp 1-10 Yr	0.13	3.63

Source:
Interactive
Data