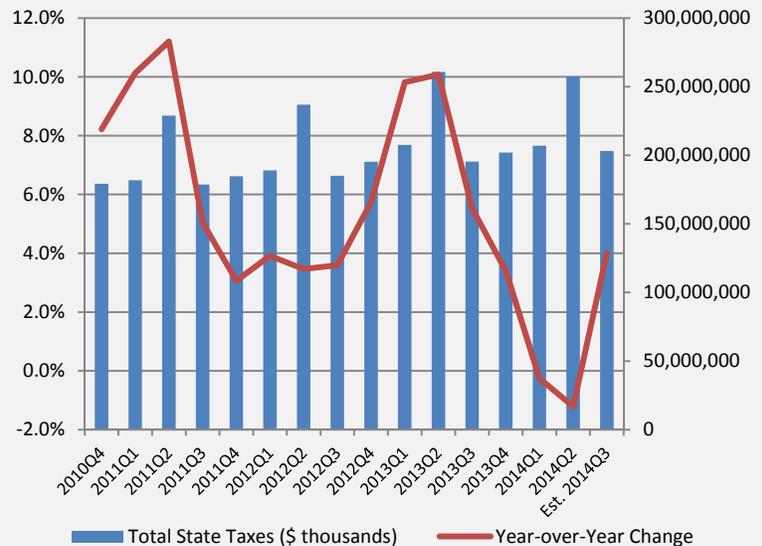


HEADLINE NEWS
State Tax Collections Bounce Back in Q3

Final data for the second quarter of 2014 confirms that state collections declined for the first half of the year. After 16 consecutive quarters of growth, a 0.3% year-over-year decline in the first quarter was followed by a 1.2% dip for the quarter ending June 30. However, according to the Rockefeller Institute, preliminary data from 45 states indicated growth in state tax revenues returned in the third quarter. Total state tax collections were up 4.0% from the same period in 2013, driven both by a 4.4% growth in personal income taxes and a 5.9% growth in sales taxes.

Voters Approve Important Ballot Measures

A number of state and local ballot measures approved last week will have regional effects on public policy, taxes, and bond issuance. Voters in California approved a \$7.5 billion bond to help with drought conditions, and New York voters approved \$2.0 billion for school technology. Transportation was a major theme in Maryland, Texas, and Wisconsin, as voters gave their support for increased state funding of infrastructure. Further, voters in California approved a mechanism to improve the state's rainy day fund, resulting in an immediate upgrade by S&P to A+ from A.

**PRELIMINARY DATA POINTS TO STATE TAXES
RESUMING GROWTH IN THIRD QUARTER 2014**


Source: Rockefeller Institute

MARKET UPDATE
Muni Market at Higher Yields

Last week the Municipal yield curve cheapened as it adjusted to the relatively large issuance calendar. The 5Yr AAA Muni curve was cheaper by 3bps, and the 7Yr was cheaper by 13bps. This week the calendar is smaller with \$5.9 billion, so the market should be able to digest, especially after last week's yield adjustments. The State of California GO, who was upgraded by S&P to A+ from A, is the largest issuer for the week with a total of \$1.2 billion in three deals. State of Hawaii (Aa2/AA/AA) is also bringing an additional \$1 billion in a negotiated deal.

Transition in Global Monetary Policy Creates Opportunity for Apple

As the Fed hands the easing baton off to other nations like Japan and the EU, it may become increasingly attractive for U.S. companies to issue in foreign currencies. Last week, Apple took advantage of ultra-low rates in the Eurozone, issuing 2.8 billion euros (\$3.5 billion) of notes due in 8 and 12 years at respective yields of 1.082% and 1.671%. Apple does not appear to be alone - in the first 45 weeks of 2014, euro-denominated corporate bond issuance rose 15% for investment-grade borrowers and 60% for high-yield companies. During the same period, dollar-denominated issuance was off (0.7%) for investment-grade companies, but up 1.4% for high-yield. With the ECB setting its sights on devaluing the Euro, companies like Apple gain an added

bonus from issuing euro-denominated debt, an economic hedge against a rising dollar.

IG Market Sees Continued Strong Supply

The Investment Grade new issuance market posted a solid start for the first week of November. The \$51.25 billion of debt issuance last week made it the 4th highest week of issuance so far this year and the largest week in two months. Demand still remains high and issuance did not disappoint investor expectations. The largest deal was Walgreens Boots Alliance Inc. (WAG Baa2/BBB/NR), which issued \$8 billion across 7 maturities. This debt was raised to finalize Walgreen's acquisition of the Swiss Pharmaceutical chain, Alliance Boot's.

FIXED INCOME INDEX RETURNS

	MTD 11/7/14	YTD 11/7/14
Barclays 3Yr	-0.01	1.44
Barclays 5Yr	-0.15	3.30
Barclays 7Yr	-0.41	5.47
Barclays MM Short 1-5Yr	-0.02	1.42
Barclays MM 1-10Yr	-0.32	3.93
ML US Gov/Corp 1-10 Yr	0.09	2.86

Source:
Interactive
Data

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