

HEADLINE NEWS
Oil's Impact on Muni Market

While declining oil prices are impacting numerous parts of the domestic and global economy, on a micro level the effects in the Municipal market could be somewhat conflicting. On one side of the equation, lower gas prices have historically stimulated use of toll roads by both commuters and leisure drivers, as there is a strong correlation between an uptick in vehicle miles traveled and lower gas prices according to the US Federal Highways Administration. However, a number of states are reliant on tax revenues associated with oil production, and sustained lower oil prices may slow exploration and production activities. Those states, particularly Alaska, New Mexico, and Texas, would most likely face budgetary adjustments if oil prices remain muted or drop lower for a sustained period.

Stockton Recovery Rates Correlate with Essentiality

Chief Judge Christopher Klein of the U.S. Bankruptcy Court for the Eastern District of California confirmed Stockton, CA's plan of adjustment Thursday, allowing the city to begin its exit from Chapter 9 bankruptcy more than two years after filing for protection. While the market is still digesting the treatment of pensions, health care benefits, and debt, the one thing we can learn from Stockton's plan of adjustment is that essential assets should continue to receive higher recoveries in restructurings. Bondholders, primarily bond insurers, will receive recovery rates ranging from 1% to 100% for lease-backed and

pension obligation bonds, with the higher payouts going to essential services (police and fire) and lower values assigned to non-essential projects (golf course, city park).

RECOVERY RATES FOR STOCKTON'S DEBT ADJUSTMENT PLAN

UNDERLYING ASSET	PRINCIPAL OUTSTANDING	PRESENT VALUE OF PROPOSED RECOVERY
Administrative buildings, including police, human resources, and public works	\$11,270	100%
Fire, police and library properties	\$12,265	100%
Stockton Arena	\$44,615	95%
Parking garages	\$30,870	77%
Pension Obligation Bonds	\$121,770	50%-55%
Office building	\$40,035	Uncertain*
Golf courses, park	\$34,555	1%

*City will transfer office building to Assured (bond insurer), who can then rent out the building or sell it
 Source: Moody's

MARKET UPDATE
Muni Market Sees Jump in Supply

The Municipal yield curve was cheaper for the week, with 3Yr yields higher by 2bps to 0.60% and the 5Yr and 7Yr each cheaper by 4bps to 1.12% and 1.61%, respectively. Muni fund flows have been light for the most recent 2 weeks at \$41 million (week ending 10/22/14) and \$37 million (week ending 10/29/14), which may be due to the recent volatility in the market. Given an increased new issue calendar, at \$7.5 billion this week, the market may have to correct slightly to digest the increased issuance. The largest deal of the week is a \$700 million NYC Transitional Finance Authority (Aa1/AAA/AAA) deal and NYC TFA is also bringing \$150 million taxable bonds in a competitive offering. There are more than 20 deals this week for over \$100 million, and 30-day visible supply has jumped up to \$13.1 billion.

IG Issuance Continues to be Robust

Investment Grade Corporate issuance did not disappoint, as \$28.23 billion was issued last week. One of the most notable deals on the week was brought by PNC Bank (PNC A2/A/A+) who came to market with \$1.75 billion across two tranches. Spreads remained steady even as the Fed officially ended its bond buying

program. The total issuance for the month of October totaled \$103.48 billion, bringing the year to date total to \$1.196 trillion. The largest deal during the month came out of the Pharmaceutical sector, as BAYER (BAYNGR A3/A-/A-) issued a six part \$7 billion deal on 10/1/14.

FIXED INCOME INDEX RETURNS

	MTD 10/31/14	YTD 10/31/14
Barclays 3Yr	0.11	1.45
Barclays 5Yr	0.35	3.46
Barclays 7Yr	0.64	5.91
Barclays MM Short 1-5Yr	0.12	1.44
Barclays MM 1-10Yr	0.47	4.27
ML US Gov/Corp 1-10 Yr	0.72	2.76

Source: Interactive Data

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