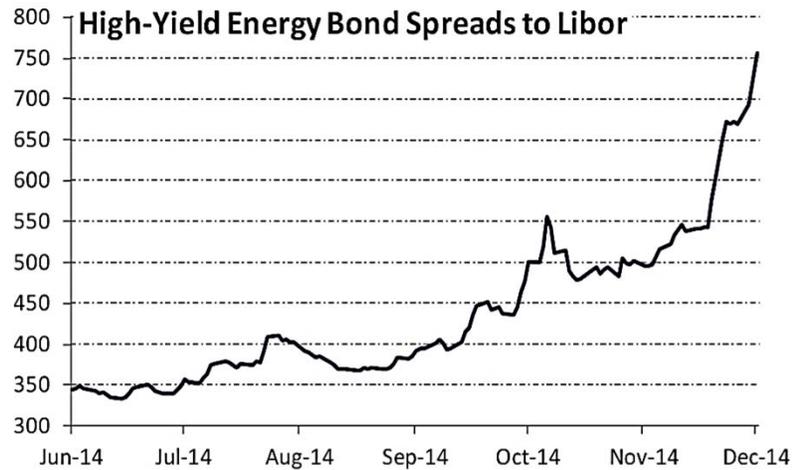


HEADLINE NEWS
Energy Continues to Lead High-Yield Lower

The pain from the decline in oil prices is becoming more widespread, with high-yield bonds, dividend paying stocks (many of which are energy names) and master limited partnerships all taking a thrashing last week. With that said, high-yield continues to be the poster child for energy-related malaise. The high-yield energy sector's average yield has surged to 9.42% from a record low of 4.87% just six months ago. Presently, the average energy-sector bond trades at 87.7 cents on the dollar. At least in the short-term, investors appear to be throwing in the towel on high-yield, with \$1.9 billion drawn from funds last week, the largest outflow in 10 weeks. The bigger concern is whether the energy rout will spill into other segments of the market- last week corporate bond spreads hit their highest level in over a year.

Detroit Officially Exits Bankruptcy

The City of Detroit officially exited Chapter 9 bankruptcy this past week, commencing payments to creditors and closing on a \$275 million exit financing. The State of Michigan also removed Detroit's fiscal emergency status, handing over all operations to the mayor and city council, although a state overview group will continue to monitor the city's progress. The 16-month



bankruptcy progressed relatively quickly, thanks in part to successful out-of-court negotiations with all major creditors, and will result in Detroit's \$18 billion in long-term liabilities being reduced by approximately \$7 billion.

MARKET UPDATE
Muni Curve Flattened Over the Week

The municipal AAA MMD yield curve was lower beyond 5Yrs and slightly higher inside of 5Yrs. The 5Yr is 1 bp cheaper from last week to 1.21%. The 7Yr is 5bps tighter to 1.65% and the 10Yr is 11bps tighter to 1.98%. While the Municipal curve underperformed Treasuries for the week, it digested 2 of the largest issuance weeks of the year: a total of \$27.3 billion over the 2 week period. Looking forward, the expected new issue calendar this week is significantly lower, at \$3.6 billion and 30-day visible supply is down from previous weeks to \$6.6 billion, indicating the holiday lull has commenced. Further skewing the supply and demand imbalance is another week of Municipal bond fund inflows. For the period ending 12/10/14, there were inflows of \$2 billion, bringing the Year-to-Date total to \$20.1 billion. The largest deal of the week is \$500 million NY Dormitory Authority Personal Income Tax bonds (Aa1/AAA/NR).

FOMC Will Adjust Forecast and May Adjust Language

The last pertinent economic news this year will come in the middle of this week as the Fed meets primarily to discuss whether or not to remove the "considerable time" language from its forward guidance. With inflation expectations low and the global economies under pressure, we may see the language remain going into 2015. The UST 10Yr closed the week 22.5 bps lower to 2.12%, and today trades at 2.05% in reaction to the Russian Ruble crisis.

Investment Grade Issuance Declines at Year End

The second week in December was much different than the first on many fronts. Only \$6.7 billion of new issuance hit the IG Credit market, which was the 3rd lowest so far this year. We may not see any additional large sessions break out in the coming weeks as the holiday season kicks into high gear. Risk assets took a hit as high-yield settles into a position not seen since the second quarter of 2012. This spread widening was largely driven by the energy sector, which accounts for a little more than 15% of the high-yield market. It also accounts for 11% of the Investment Grade market.

FIXED INCOME INDEX RETURNS

	MTD 12/12/14	YTD 12/12/14
Barclays 3Yr	-0.08	1.43
Barclays 5Yr	-0.07	3.45
Barclays 7Yr	0.21	6.21
Barclays MM Short 1-5Yr	-0.11	1.38
Barclays MM 1-10Yr	0.14	4.47
ML US Gov/Corp 1-10 Yr	0.04	3.35

Source:
Interactive
Data

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