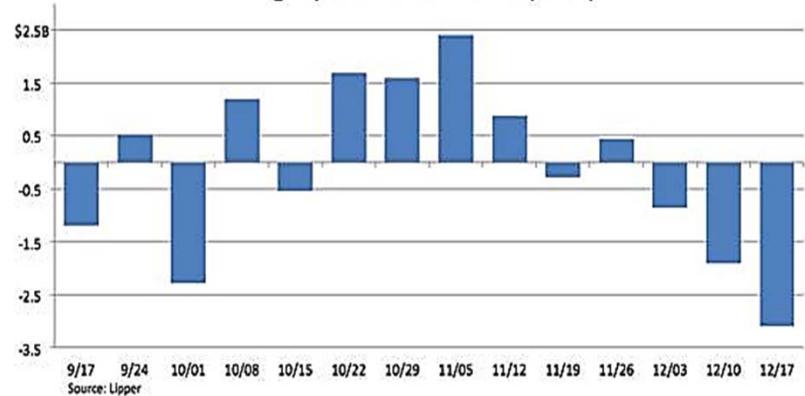


HEADLINE NEWS
High-Yield Funds Face Selling Pressure

Concerns over fundamental deterioration in energy-related borrowers' creditworthiness is currently driving technical weakness in the high-yield market. After stabilizing from mid-October to mid-November, outflows out of high-yield funds and ETFs have begun anew. In the week ended December 17th outflows topped \$2.5 billion, contributing to a vicious cycle of selling pressure.

Alaska Affected by Oil Sell Off

The State of Alaska was the first major muni issuer to fall victim to lower oil prices, with Moody's revising the state's outlook on its AAA rating to negative from stable. Alaska directly relies on oil-related revenues for almost 90% of its annual budget, exposing the state significantly to oil's sell-off since this summer. In other oil and gas news, the State of New York indicated it would prohibit hydraulic fracturing statewide, stating that economic benefits would be outweighed by potential health concerns and unknown environmental effects. The state has been under a fracking moratorium for a few years, so the decision is not a total surprise, but lower commodity prices and New York's relatively strong economy and financial position provide it with some leeway to make that decision.

High yield fund flows (U.S.)

MARKET UPDATE
Muni Yields Higher Over the Week

Over the week, the Municipal AAA MMD curve widened from the previous week as a result of the FOMC meeting conclusion on Wednesday. The 3Yr cheapened 8bps to 0.75%. The 5yr and 7yr both cheapened by 7bps to 1.28% and 1.72%, respectively. These moves were more dramatic following the meeting on renewed concerns about 2015 Fed Funds rate hikes, but strengthened a bit on Friday. There is essentially no new issuance calendar this week. However, with the strong issuance weeks in early December, the Year-to-Date issuance has essentially caught up to last year at \$331 billion after lagging throughout the year.

Zero, Zilch, Nada...What are words to describe last week's Investment Grade issuance?

Last week closed without any issuance as most market participants have decidedly closed the books on 2014. New issuance expectations for the remaining 6 trading days of the year remain very low. Last minute trading in the secondary market will carry the volume through the rest of the year. Spreads were mixed on the week as energy, the slumping Russian Ruble, and the appetite for risk contributed to the volatility early. The better than expected Jobless claims (289K vs. 295K consensus) sent rates higher as the week closed. The pivotal point of the week was on Wednesday when the Fed released their statement from the FOMC meeting in November.

Expectations were that the words "Considerable Time" would be left out of the minutes, but they were not. They did soften the tone a bit allowing themselves some wiggle room going forward. The short-end of the U.S. treasury curve was generally higher as the 5Yr benchmark rose 14bps to 1.65%, 10Yr was up 8bps to 2.16%, and the 30yr was up 2bps to 2.76%.

FIXED INCOME INDEX RETURNS

	MTD 12/19/14	YTD 12/19/14
Barclays 3Yr	-0.25	1.26
Barclays 5Yr	-0.28	3.23
Barclays 7Yr	-0.08	5.90
Barclays MM Short 1-5Yr	-0.30	1.19
Barclays MM 1-10Yr	-0.19	4.13
ML US Gov/Corp 1-10 Yr	-0.35	2.95

Source:
Interactive
Data

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