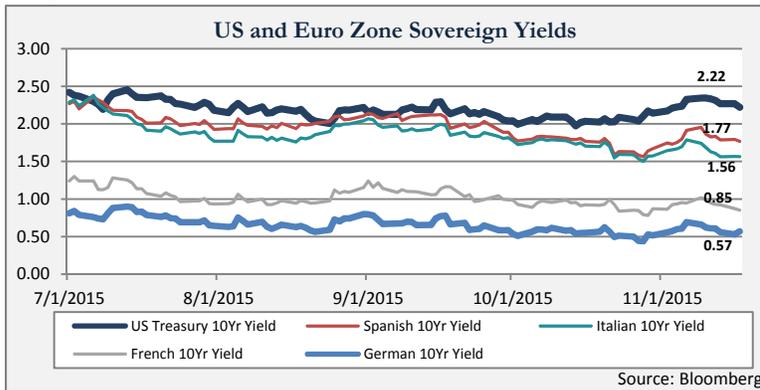


HEADLINE NEWS
Treasury Curve Expected to Flatten In 2016

With the Fed rate hike looming, the curve has already begun to flatten, with the short end rising (2Yr Treasuries at .94% on 12/8/15 versus a YTD average of .65%). Several factors should keep rates in the longer end low:

- In 2016 & 2017, the Treasury balance sheet will have \$600 Billion in coupon run-off, which the Fed will continue to replace.
- The Treasury is shortening the average maturity of its debt to accommodate bank balance sheet needs (resulting from Dodd-Frank requirements). They will be increasing the size of bills and reducing coupon issuance.
- With the German Bund benefitting from uncertainty in the EU and the market's fear of the imminence of an FOMC rate hike, the Treasury/Bund spread is wider than it has been since Q1, at 165bps. In this context, there is only limited upside to treasury yields.


Illinois Makes Pension Contribution; Lawmakers Resume Budget Discussions

- Last week political leaders from opposing parties met for the first time since May to discuss Illinois' budget, which has yet to be approved more than five months into the fiscal year. The talks were described as "productive," but a budget resolution is unlikely before the end of the year.
- Increasing taxes and limiting union powers remain key stumbling blocks, but Illinois' already tenuous financial position continues to weaken without a budget in place.
- Illinois' comptroller, Leslie Geissler Munger, also announced that the State has sufficient revenues to make the pension contribution in December after failing to make the November payment. Outperformance in sales and income tax receipts were sufficient to make the payment, and the missed November contribution will be made later in the fiscal year.

US Supreme Court to Hear Puerto Rico Appeal

- The US Supreme Court has agreed to hear Puerto Rico's appeal of a lower court's ruling that the Commonwealth's Restructuring Law passed in June of 2014 was invalid.
- A federal judge initially ruled that Puerto Rico's legislation violated the US Bankruptcy code and therefore was invalid and an appeals court upheld that judgement in July of this year.
- While the decision to hear the appeal may prolong negotiations between Puerto Rico and its creditors, the Supreme Court may also have decided to hear the case in order to reaffirm that US territories may not write their own bankruptcy laws and put the matter to rest.

MARKET UPDATE
Muni Market Overview

- The Municipal yield curve flattened again last week. Inside of 2021, the yield curve notched up by a small margin, while further out it came down slightly with the 10Yr muni ending at 1.99%, from 2.03%. Flattening has been the trend as we approach the almost certain FOMC rate hike next week. The spread between 2Yrs to 10Yrs is 128bps, beating the previous low of the year of 133bps in January.
- This week is likely the last week of significant issuance before year end, with \$8.5 billion expected. The 30-day visible supply is about \$9.5 billion, with only a few deals expected next week. While no specific deal leads the calendar, there are ten in the \$200-\$500 million range.

Corporate Market Overview

- Major US bank senior debt was downgraded by S&P last week, after the rating service concluded its review on this sector. The "government support" notch that had previously been part of their ratings was removed, and S&P noted these banks may not have enough loss-absorbing capacity in place if another financial crises were to happen.

- Credit spreads on financials remain relatively unchanged. The outlook on all the downgraded banks was left as stable.
- IG supply picked back up last week with over \$30 billion. An additional \$30 billion is expected this week with Visa in the pipeline looking to price \$15 billion, although market volatility has kept the deal from coming for a few days.
- Treasury supply returns to the market, with 3's, 10's and 30's coming this week. The curve continues to stay flat this week with 2-10Yr spreads inside of +130 level to start the week.

FIXED INCOME INDEX RETURNS AS OF 12/4/2015

	MTD	YTD
Barclays 3Yr	-0.04	1.20
Barclays 5Yr	-0.02	2.21
Barclays 7Yr	0.01	2.74
Barclays MM Short 1-5Yr	-0.04	1.35
Barclays MM 1-10Yr	0.00	2.41
ML US Gov/Corp 1-10 Yr	-0.17	1.41

Source:
Interactive
Data