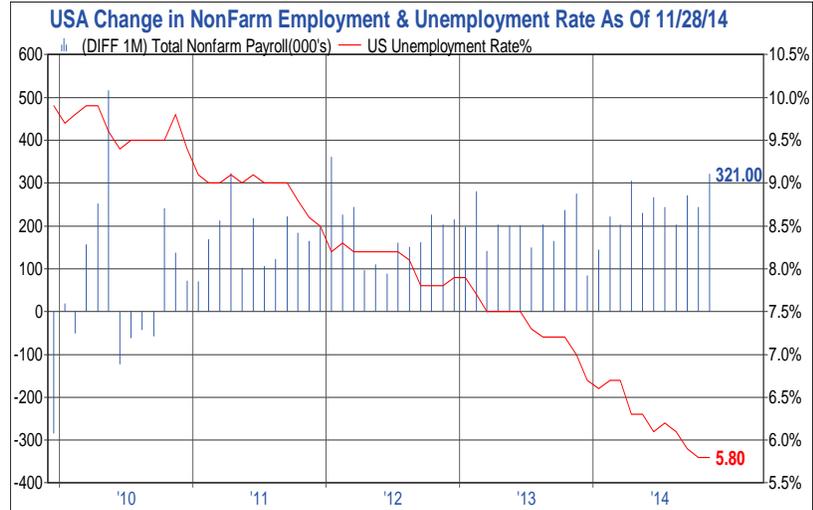


HEADLINE NEWS
Surprise Gain in NonFarm Payroll

The NonFarm Payroll number was released on Friday (12/5/14) at 321k, the most since January 2012 and above the expected 230k. The average monthly gain over the previous 12 months was 224k. Additionally, the September and October numbers were revised up 15k and 29k, respectively, adding another 44k to employment gains. The unemployment rate remained at 5.8%. The stronger than expected payroll numbers for the month of November put heavy pressure on U.S. rates, especially on maturities 10 years and in. This flattening was led by the 22 bps jump on the U.S. Treasury 3Yr to 1.07%, a level that was close to the YTD high (1.09%) reached on 09/17/14. The 2Yr U.S.T. benchmark climbed 17bps to .65%, which is the highest yield since April 2011. Longer dated treasuries performed better as the 10Yr U.S.T. rose 14 bps to 2.37%, and the 30Yr rose 7 bps to end the week at 2.97%.

Investors Welcome Acceleration in Muni Issuance

Primary issuance of long-term municipal supply increased 15% year-over-year in November reaching \$28.3 billion for the month. That leaves year-to-date issuance at \$294.4 billion, down only 3.9% over the same period in 2013. The market has experienced a pickup in issuance the past four months, as lower yields have made refunding deals once again economical. Yet, despite the stronger supply in the second half of 2014, net issuance is expected to be approximately negative \$50 billion for the year as maturities and redemptions outweigh new issues. Add in the roughly \$18 billion of municipal bond fund inflows this year, and the technical environment appears favorable for the market.


MARKET UPDATE
Increased Muni Supply Met with Strong Demand

Last week, the Municipal calendar absorbed the almost \$13 billion calendar with enthusiasm. Inside of 10 Years, the MMD AAA curve widened over the week, but not as much as the Treasury after the Nonfarm Payroll upward surprise on Friday (12/5/14). The 5Yr is cheaper by 5bps to 1.20%, and the 7Yr is cheaper by 3bps to 1.70%. This week's new issue calendar is slightly smaller than last week, but still large at \$11.8 billion. 30-day visible supply totals \$15 billion, down from the year-high of \$19 billion last Tuesday (12/2/14). The largest deal of the week is \$1.4 billion Los Angeles Community College District (Aa1/AA+/NR).

Stronger Payroll Numbers Puts Pressure on Rates

Investment Grade issuance shows no sign of slowing down as \$53.79 billion priced last week. It marked the third largest weekly volume recorded this year, as a record \$1.389 trillion has been issued year-to-date in 2014. Last week's 7-part, \$17 billion deal brought by Medtronic (MDT A3,A) was the largest deal of the

year. Proceeds will mainly be used to finance its acquisition of Covidien. Initial pricing on the issue was much tighter by the time the order period ended, as investors were eager for the name. The frenzy continued into the greys, as those who did not get allocated were bidding bonds about 10 bps tighter than where pricing was finalized.

FIXED INCOME INDEX RETURNS

	MTD 12/5/14	YTD 12/5/14
Barclays 3Yr	-0.07	1.44
Barclays 5Yr	-0.14	3.38
Barclays 7Yr	-0.07	5.92
Barclays MM Short 1-5Yr	-0.08	1.40
Barclays MM 1-10Yr	-0.09	4.23
ML US Gov/Corp 1-10 Yr	-0.53	2.76

Source:
Interactive
Data

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