

**HEADLINE NEWS**

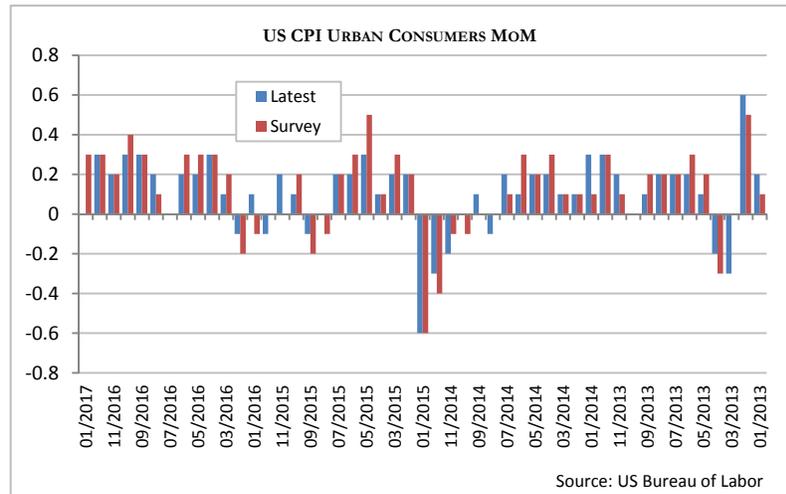
**Busy Week with Spotlight on FOMC and Economic Data**

Several key macroeconomic data releases this week indicated improving economic trends and contrast with a moderate drop in “soft” data. On Tuesday, PPI increased 0.6%, the largest advance since fall 2012 and above the consensus estimate of 0.3%. CPI on Wednesday was just as solid, increasing 0.6% over one month and 2.5% for the 12-month period through January. Wednesday also saw retail sales growth of 0.4% in January and a revised upward figure of 1.0% for December. All three data points contrast with a drop in the University of Michigan’s consumer sentiment survey released last week, which showed a reading of 95.7, below the consensus of 97.6 and the prior month’s 98.5. Improvement in “hard” data, such as inflation and retail sales, most likely reflects a follow-through of stronger “soft” data since the election and some modest improvements in the labor market.

**Connecticut’s Governor Attempts to Shift Costs**

Connecticut’s Governor Malloy released his 2017-2019 biennium budget proposal last week, which included shifting a portion of the burden to fund teachers’ pensions to local cities and towns. If approved, this would mark a significant change in how Connecticut addresses the costs of long-term liabilities, and could be a bellwether for other states in similar predicaments.

Like many states, Connecticut funds the full annual cost of making contributions to its Teachers Retirement System. In the upcoming fiscal year beginning on July 1<sup>st</sup>, that contribution is \$1.29 billion. If his proposal is approved, municipalities would be required to pay \$408 million, or a third of the cost. This would require an increase in local property taxes, cuts to existing services, new fees or a combination of those measures to finance the additional



expense. For some cities, such as Hartford, Bridgeport, or New Haven, that cost may be burdensome without offsetting increases from the state in other categories, such as education.

Connecticut’s Teachers’ Retirement System had a net pension liability of \$10.9bn and a funded ratio of 59.5% as of the last valuation report. Many other states, such as New Jersey and Illinois, are struggling with employee benefit costs but also fund teachers’ retirements on behalf of local schools. If these costs continue to climb and force officials to contemplate cutting essential services, we could see others follow in the footsteps of Governor Malloy’s proposal.

**MARKET UPDATE**

**Muni Market Overview**

The Muni curve is lower over the week by 7bps in 5yrs to 1.53% and by 4bps in 7Yrs to 1.89%.

Municipal bond funds saw just under \$2 billion in inflows this week, increasing the 4 week moving average to \$781 million. The year-to-date total is still negative at about \$2.2 billion.

Supply for the week is about \$6 billion, which is below the YTD average weekly issuance of \$7.7 billion. However, month-to date issuance is up 5.5% over the same period last year. Year-to-date issuance is 26.5% higher than last year. The largest deal of the week is the \$552 million Bay Area Toll Authority, CA (Aa3/AA/AA) deal which priced on Tuesday.

**Corporate Market Overview**

The expectation for IG issuance last week was slated to be robust as earnings season wound down and as companies try to make the most of some pent up demand. However, that did not come to fruition, as only 5 names came to market with a total of \$7.5 billion. Supranationals, Agencies, and Sovereigns (SAS) accounted for the rest of the \$24.6 billion that was issued on the week.

With that said, there is still enough M&A activity in the pipeline to support the continued demand for credit. IG spread movement continues to be muted as spreads remain near 2 year tight. The treasury curve was flatter over the week as longer bond yields dipped. The 10Yr bond fell 6bps to 2.41% and the 30Yr closed the week lower by 9bps to 3.00%.

FIXED INCOME INDEX RETURNS AS OF 2/10/2017		
	MTD	YTD
Barclays 3Yr	0.24	0.96
Barclays 5Yr	0.44	1.49
Barclays 7Yr	0.55	1.51
Barclays MM Short 1-5Yr	0.26	1.08
Barclays MM 1-10Yr	0.42	1.30
ML US Gov/Corp 1-10 Yr	0.15	0.37

Source: Interactive Data