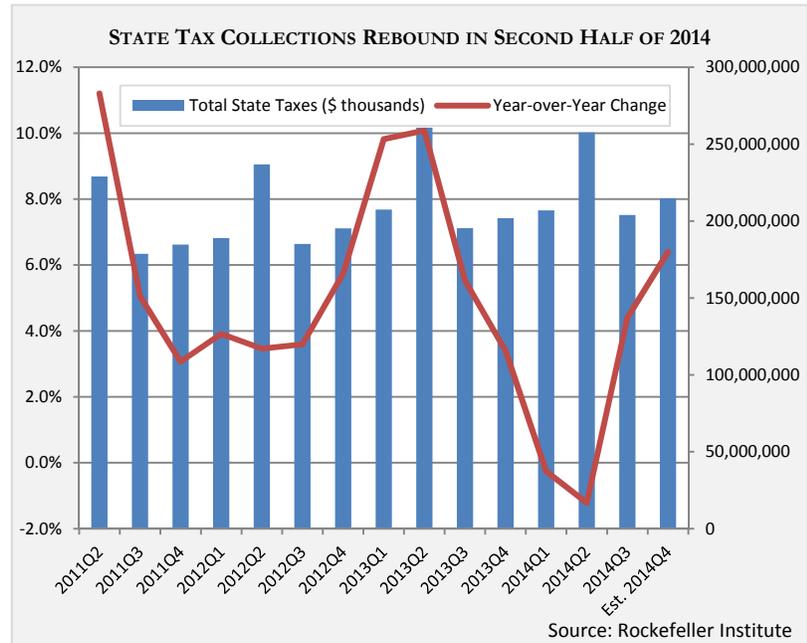


HEADLINE NEWS
State Tax Collections Rebounded in Second Half of 2014

Following two quarters of declining tax revenues, states experienced a healthy rebound in the second half of 2014. Final data from the US Census Bureau indicates total state tax collections grew by 4.4% in the third quarter of 2014, compared to the same period a year earlier. Preliminary data from 46 states indicates that total tax revenues for the fourth quarter increased by 6.4% year-over-year, driven by a robust 8.5% growth in personal income taxes. Going forward we would expect growth to slow somewhat from the strong data posted in the last two quarters, but continue to be positive overall.

Judge Rules Against Puerto Rico Restructuring Law

A US District Judge ruled that Puerto Rico's Debt Recovery Act passed in late June of 2014 does in fact conflict with the US Bankruptcy Code and also violates the Contract Clause of the US Constitution. This represents a positive development for bondholders and insurers from the standpoint that the Recovery Act provided a framework for Puerto Rico public corporations to essentially force significant court-imposed haircuts with little negotiation. However, this ruling does not eliminate the possibility of the Puerto Rico Electric Power Authority (PREPA) or another public corporation from restructuring/defaulting. Although Puerto Rico entities are



prohibited from Chapter 9 filings, a consensual, out-of-court restructuring remains on the table. This ruling ultimately provides bondholders and insurers the prospect of better recoveries in the event that PREPA or another PR public corporation does restructure.

MARKET UPDATE
Municipal Yields Higher Across the Curve

Yields across the Municipal curve are higher than last week following the Treasury sell off. The 5Yr is up 13bps to 1.13%, and the 7Yr is up 11bps to 1.58%. Demand for Munis remains high, as shown by municipal bond funds adding another \$2.1 billion for the week ending 2/11/15, bringing the year-to-date total to \$7.8 billion. This week's supply, at about \$5 billion, is lower than last week's \$6.7 billion, which will help dealers clear some of their inventory from the volatility last week. The largest deal of this week is the \$475 million New York City Muni Water Finance Authority (Aa2/AA+/AA+), which will be a good general market indicator.

IG Spreads Tighter, Treasury Curve Steeper

The Investment grade issuance tally hit \$30.6 billion last week as 15 issuers took to the market and exceed the market's expectations for supply. The largest deal of the week was Microsoft's (MSFT Aaa, AAA,AA+) \$10.75 billion jumbo deal completed on Monday the 9th. The deal was spread across

6 tranches and priced at +75 in ten years. Those bonds are now tighter by 10 – 15 bps since the deal broke. IG spreads were notably tighter for the first time this year on the week, as Treasury yields widened and the curve got steeper. The 30Yr US Treasury rose 12 bps to 2.65%, and the 10Yr rose 9 bps to 2.05%.

| FIXED INCOME INDEX RETURNS | | |
|----------------------------|----------------|----------------|
| | MTD 2/13/15 | YTD 2/13/15 |
| Barclays 3Yr | -0.16 | 0.48 |
| Barclays 5Yr | -0.53 | 0.98 |
| Barclays 7Yr | -0.93 | 0.99 |
| Barclays MM Short 1-5Yr | -0.23 | 0.63 |
| Barclays MM 1-10Yr | -0.88 | 0.87 |
| ML US Gov/Corp 1-10 Yr | -0.99 | 0.68 |

Source: Interactive Data

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