

HEADLINE NEWS
In a Strong Market, Chicago BOE's Deal is Delayed

- The Chicago Board of Education was slated to sell \$875 million of general obligation bonds last Wednesday, but “temporarily” delayed the deal, most likely due to heightened investor concerns.
- Despite offering yields with spreads at over 500 basis points for some long bonds, the Board was not able to attract enough investor interest or the high cost of borrowing was determined to be burdensome.
- The Board is facing a financial meltdown driven by declining enrollment, limitations on raising property taxes, poor relations with the teachers’ union, and a lack of requested state aid.
- Further hampering the Board’s ability to sell debt was the announcement two weeks ago by Illinois Republicans (and backed by the Governor) that proposed a state takeover of the school district and the potential for bankruptcy eligibility.

Macroeconomic Data in Focus

- This week will be a busy one in terms of macroeconomic data releases. Monday’s ISM release was slightly below expectations (48.2 vs 48.5 consensus), highlighting that the U.S. manufacturing economy is slowing while the service economy is growing. Auto sales will be released throughout the day on Tuesday, and the BLS jobs report will be released Friday morning.
- When we look at housing, the labor market, auto sales, and consumer confidence, we do not believe that the U.S. is facing an imminent threat of recession. Growth in the fourth quarter was below 1% and could certainly be revised lower. However, as we look forward, we believe that the consumer has the potential to boost spending should they finally decide to spend the savings they’ve realized at the gas pump. We will be monitoring this week’s data releases carefully for any signs that may change our view.

MARKET UPDATE
Muni Market Overview

- Municipals were 3 to 5 basis points lower across the curve following Treasuries, but not as significantly. Despite lower rates, we continue to see strong demand for Munis, as indicated by \$595 million in flows for the week (ending 1/27/16) and \$1.250 billion 4 week average. Supply is building, but is still relatively low with \$6.7 billion expected this week and 30-day visible at \$10.2 billion.

Corporate Market Overview

- Investment Grade corporate bonds continue to widen in conjunction with the weak equity markets and the persistent losses in commodities. With that said, last week’s new issuance calendar was lackluster as issuers sidelined deals due to volatility and Fed speak. The week’s total was \$23.135 billion and was the lowest weekly volume for far this year. AT&T’s (T Baa1/BBB+) 4 part \$6 billion deal was the week’s largest. Issuance in the month of January was 28% more than the same time last year, but is skewed due to Anheuser-Bush’s (ABIBB A3/A-/A) mega \$46 billion deal earlier in the month.
- The U.S. Treasury curve continues its flattening trend. Spreads between 2 and 10 years, currently at 114.33 bps, haven’t been this tight since December 2007 when it hit 97.49bps. The UST 2yr benchmark finished the week lower by 10 bps to .97%, the 5y year dropped 15bps to 1.33%, and the 10yr fell 13 bps to 1.92. The last time the 10yr closed in the 1.90 range was in April 2015. The long bond ended the week lower by 8 bps to 2.74%

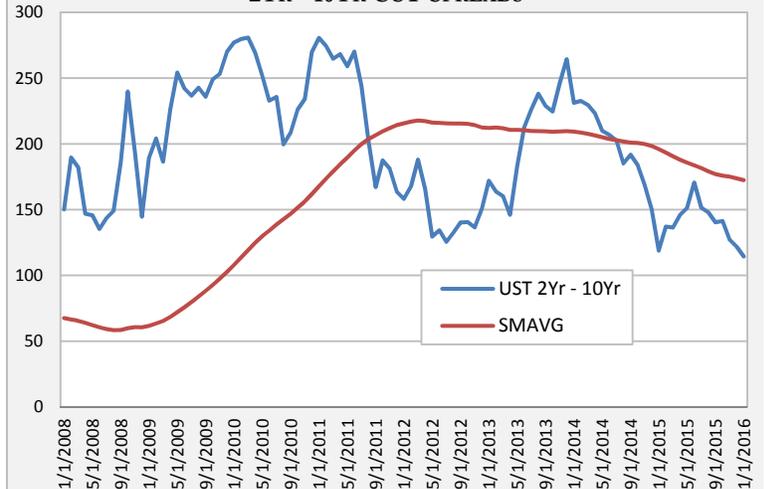


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FIXED INCOME INDEX RETURNS AS OF 1/29/16

	MTD	YTD
Barclays 3Yr	0.63	0.63
Barclays 5Yr	1.15	1.15
Barclays 7Yr	1.43	1.43
Barclays MM Short 1-5Yr	0.76	0.76
Barclays MM 1-10Yr	1.31	1.31
ML US Gov/Corp 1-10 Yr	1.40	1.40

Source: Interactive Data

2YR - 10YR UST SPREADS


Source: Bloomberg

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