

**HEADLINE NEWS**
**Fed Remains Data Dependent**

On Wednesday (2/18/15), the Fed released the minutes from their January 28<sup>th</sup> meeting with no real surprises. The FOMC agreed that policies should continue to be data dependent, that they are inclined to keep rates lower for longer, and noted that the risks of foreign weakness had gotten worse. The release of the minutes corrected some of the US Treasury sell-off early in the week, as news that Greece and the E.U had come to a loan extension agreement.

**CPI Expected Negative from Falling Energy and Food Prices**

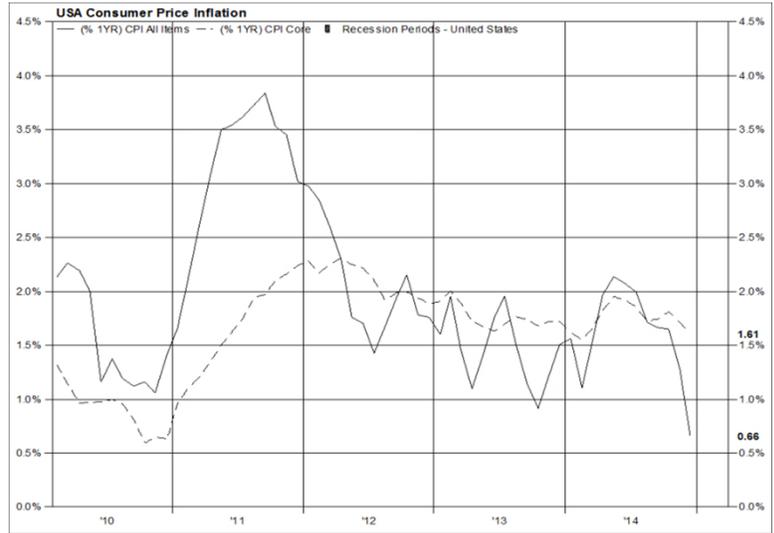
Consumer Price Index (CPI) data for January will be released on Thursday and the headline number is expected to be negative due to falling energy prices and lower food prices. Core CPI (ex Food and Energy) is expected to be positive, but still below the Fed's target inflation of 2%. This comes at a time when the market is jumpy about when the Fed will raise rates and the Fed is insistent that they are data dependent.

**Illinois Governor Draws a Line in the Sand**

Illinois' newly-elected Governor Bruce Rauner released his fiscal 2016 budget this past week that included significant proposed cuts in spending spanning a number of governmental programs to help close an estimated \$6 billion budget gap. Without relying on tax increases, the plan reduces spending on Medicaid, higher education, transit, and local governments and also aims to reduce pension costs by \$2.2 billion through benefit reforms. The Republican governor faces an uphill battle against a Democrat-controlled General Assembly, but difficult decisions will need to be made by both sides to help turn Illinois' fiscal woes around.

**Inflows for High Yield in US and EU**

High-yield bonds seem to be back in favor on both sides of the Atlantic. For the week ended February 11<sup>th</sup>, U.S. high-yield funds



Source: FactSet

took in \$2.9 billion inflows, which was the largest weekly inflow since September 2013. In the U.S., this marks the third consecutive large infusion into high-yield, boosting the trailing-four-week average to positive \$2 billion. Meanwhile, on the heels of Draghi's easing plans for the EU, European high-yield bond funds were flooded with inflows of over €1 billion in the week ending Jan. 28. That is the largest weekly inflow since J.P. Morgan began recording data in 2011. The ECB's massive bond buying program, set to begin in March, will likely lead to spread tightening for higher quality fixed income assets, thus improving the relative attractiveness of high-yield in the Eurozone. These latest data points suggest that the global search for yield continues.

**MARKET UPDATE**
**IG Issuance Slows**

The UST 10Yr benchmark closed the week up 6bps to 2.11% and the long bond closely matched it, ending the week +7 bps to 2.72%. That early sell off drove Investment Grade spreads to year-to-date tights through the end of the week as the chase for yield was activated. New I.G. issuance was slower than expectations as only \$12.5 billion came to market. This was the lowest volume week so far this year.

**Munis Have Busiest Start Since 2007**

The municipal yield curve was slightly wider over the week with the 5Yr and 7Yr both cheaper by 3bps to 1.16% and 1.61%, respectively. The cumulative move over the last 2 weeks has been even more pronounced as the 5Yr is 16bps cheaper and the 7Yr is 14bps cheaper. Some of this cheapening is due to increased refinancing issuance by various municipalities who have participated in the busiest annual start to the year since 2007,

with \$48.3 billion in issuance (as of 2/19/15). This week, issuance is expected to come in at \$9 billion which is above this year's weekly average of \$7 billion. The largest deal of the week is \$1.25 billion Atlanta, GA Water and Wastewater (Aa3/AA-/A+) bonds.

**FIXED INCOME INDEX RETURNS**

	MTD 2/20/15	YTD 2/20/15
Barclays 3Yr	-0.21	0.44
Barclays 5Yr	-0.62	0.88
Barclays 7Yr	-1.02	0.89
Barclays MM Short 1-5Yr	-0.30	0.57
Barclays MM 1-10Yr	-0.98	0.77
ML US Gov/Corp 1-10 Yr	-1.21	0.46

Source:  
Interactive  
Data

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