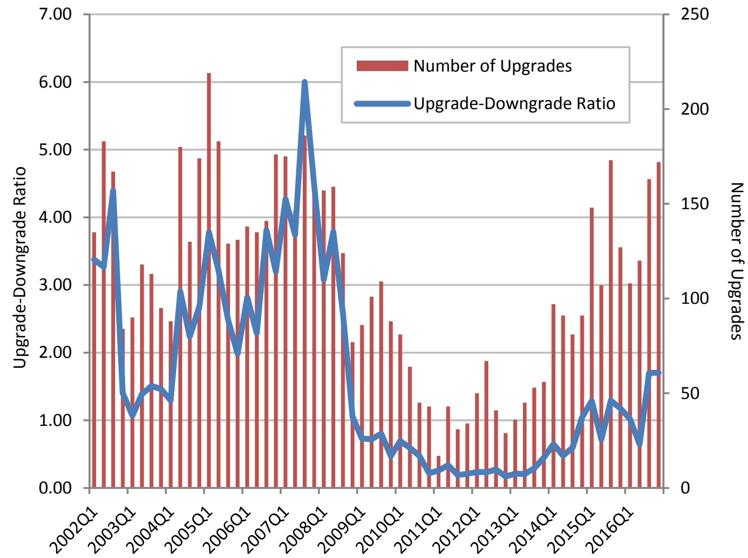
HEADLINE NEWS

Moody's Muni Upgrades Outpace Downgrades in 2016

- In 2016, Moody's upgraded 563 public finance issuers and downgraded 489, the second consecutive year where upgrades outperformed. Although rating actions typically are a lagging indicator (*i.e.*, the fundamental improvements have already occurred), greater upgrades over an extended period are a reflection of stabilizing credit conditions within the municipal market. Also reflective of this stability, only 8.5% of Moody's public finance portfolio experienced a rating change in 2016.
- Although overall credit conditions have improved, the recovery has been more modest and fragmented than historical averages. This is reflected in relatively low upgrade-to-downgrade ratios of 1.1x in 2015 and 1.15x in 2016. Following the last recession, the average ratio was a healthier 2.76x from 2002 through 2008.
- Analyzing rating actions by states, performance largely followed underlying economic and political trends. California issuers accounted for the largest number of upgrades in 2016 (139), and Illinois had the largest share of downgrades with 76.

POSITIVE TREND IN MOODY'S RATING ACTIONS CONTINUES



Source: Moody's Investors Service

MARKET UPDATE

Muni Market Overview

- Through 8Yrs on the muni yield curve, yields were down 7bps with the 5Yr at 1.50% and the 7Yr at 1.90%.
- Mutual fund demand for munis has lightened recently, with $149M of inflows this week, bringing the year to date total to -$1.537 billion.
- Weekly issuance has been low of late, with last week's issuance and this week's projected issuance in the $4 billion range. The YTD average weekly issuance is $7.3 billion. There currently is limited issuance in the pipeline, with 30-day visibly supply at $10.5 billion and $2.4 billion of that in just one deal (CA State GO- next week). The largest deal of the week is the $450 million California Infrastructure and Economic Development Bank (Aaa/AAA/AAA) new issue.

Corporate Market Overview

- Last week's lackluster week in IG issuance continues the February trend of disappointing investor expectations. Only $14.925 billion was issued during the shortened holiday week, bringing the February total to $78.59 billion. That equates to a weekly average of just under $20 billion vs the January average of $49 billion. It is expected that issuance will pick up in the near term. Credit spreads have been steady and remain unchanged over the week.
- U.S. Treasuries broke out a bit last week and posted a decent gain over the 4 trading days. The 10Yr declined 10 basis points to 2.32%, and the long bond dipped below 3.00% to end the week at 2.95%. The probability of a Fed rate hike in March remains at about 50%.

FIXED INCOME INDEX RETURNS AS OF 2/24/2017

	MTD	YTD
Barclays 3Yr	0.48	1.20
Barclays 5Yr	0.70	1.76
Barclays 7Yr	0.74	1.70
Barclays MM Short 1-5Yr	0.49	1.30
Barclays MM 1-10Yr	0.62	1.50
ML US Gov/Corp 1-10 Yr	0.57	0.79

Source: Interactive Data