

HEADLINE NEWS
Fed Leaves Rates Unchanged

- As we expected, the Fed left rates unchanged at last week's FOMC meeting. The markets reacted in a very muted fashion and US Treasuries continue to trade in a tight band. The 10Yr closed the week up 1bp to 2.47% and the 30Yr rose 3 bps to 3.09%.
- The Fed also continues to echo their message that they are in no way committed to a certain number of rates hikes in 2017, and any decision will be data dependent. Most participants are expecting 2 rate hikes (June & September), but it may take several months of outstanding economic number to get them there.
- January Nonfarm payrolls were released on Friday at 227k additions versus the expectation of 180k. The unemployment rate increased a tenth to 4.8%, and Average Hourly Earnings missed by 2 tenths, with 0.1% after expectations of 0.3%.

Meeting	Probability of Rate Hike	Rate					
		0.5%-0.75%	0.75%-1.00%	1.00%-1.25%	1.25%-1.50%	1.50%-1.75%	1.75%-2.00%
3/15/2017	32.00%	68.00%	32.00%	-	-	-	-
5/3/2017	48.60%	51.40%	40.80%	7.80%	-	-	-
6/14/2017	71.40%	28.60%	45.50%	22.40%	3.50%	-	-
7/26/2017	76.30%	23.70%	42.60%	26.40%	6.70%	0.60%	-
9/20/2017	84.40%	15.60%	36.20%	31.90%	13.40%	2.70%	0.20%
11/1/2017	86.60%	13.40%	33.20%	32.50%	16.10%	4.20%	0.60%
12/13/2017	93.00%	7.00%	23.80%	32.80%	23.90%	9.90%	2.30%

Near-term Credit Impact for "Sanctuary Cities" Appears Minimal

- Following President Trump's Executive Order to cut funding from "sanctuary cities," both S&P and Fitch stated that they believe the near-term credit impact would be minimal given established legal limitations and the fact that Federal funding represents a relatively small portion of local revenues, particularly for large municipalities.
- S&P noted that there are established statutory limitations of the executive branch withholding or deferring funding that has been appropriated by Congress. There also appears to be case law, although limited, that restricts Federal withholding of funds that are unrelated to immigration or law enforcement activities. However, if Congress were to authorize the Executive Order, the impact of the funding reduction could be more pronounced.
- If Federal funding is withheld from sanctuary cities, it most likely will be associated with grants from the Department of Homeland Security and Department of Justice, which are directly associated with immigration enforcement. According to S&P, grants from those departments represent a small percentage (less than 1%) of municipal budgets on average. All Federal grants, including payments from the Department of Homeland Security and Department of Justice, account for an average of 10% of sanctuary city budgets.

Source: Bloomberg

MARKET UPDATE
Muni Market Overview

- Inside of 10Yrs, the Muni curve was lower by 7bps in both 5Yrs and 7Yrs to start the week at 1.60% and 1.93%, respectively. The increased steepness was a reaction to the miss on Average Hourly Earnings last week (0.1% versus 0.3% expectation), pushing the likelihood of the next Fed Funds rate hike further into the future. Currently, the probability of a hike does not get above 50% until June 2017.
- Municipal bond Fund Flows were muted again this week at \$25 million of inflows.
- The calendar bumps up slightly this week over recent weeks with \$8.5 billion of expected issuance, versus the year to date weekly average of \$7.8 billion. The \$1.14 billion California State University (Aa2/AA-/NR) deal is the largest of the week.

Corporate Market Overview

- Investment Grade issuance for the month of January ended with a bang with Microsoft (MSFT Aaa/AAA/AA+), Apple (AAPL Aa1/AA+), and AT&T (T Baa1/BBB+/A-) issuing jumbo deals totaling \$37 billion (MSFT \$17B, AAPL \$10B, T \$10B). The \$227 billion issued during the month outpaced the monthly record which was set back in May of 2016. Going forward, issuance for the remainder of 2017 will most likely be very active during the first half of the year, but taper off during the latter half. Even with the glut of new debt and volatility in rates, credit spreads remain steady and relatively unchanged since the turn of the year.

FIXED INCOME INDEX RETURNS AS OF 2/3/2017		
	MTD	YTD
Barclays 3Yr	0.04	0.76
Barclays 5Yr	0.10	1.15
Barclays 7Yr	0.16	1.12
Barclays MM Short 1-5Yr	0.03	0.84
Barclays MM 1-10Yr	0.10	0.97
ML US Gov/Corp 1-10 Yr	-0.05	0.16

Source:
Interactive
Data