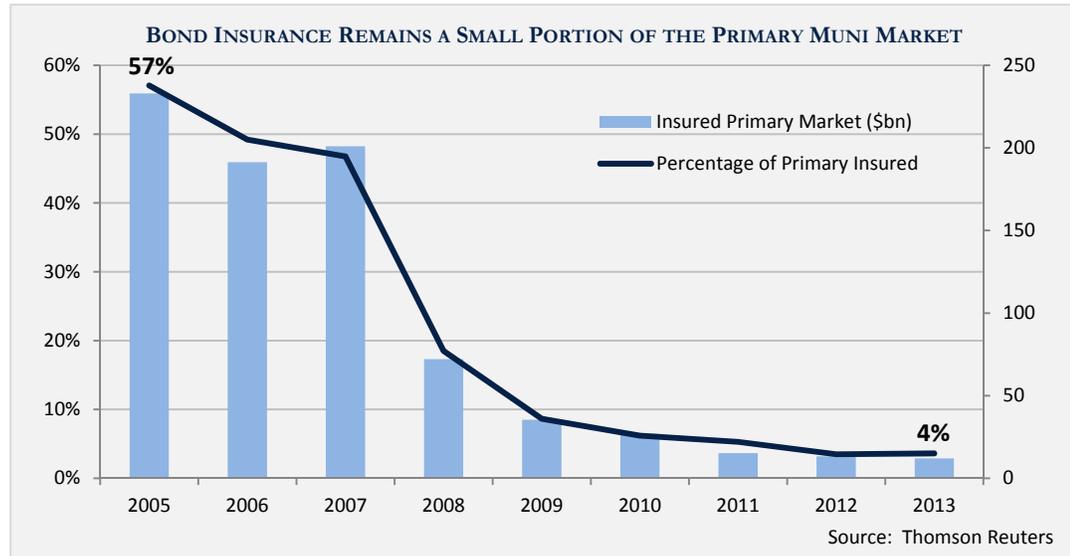


HEADLINE NEWS: THE YELLEN FED ABANDONS SPECIFICITY AND OPENS UP POLICY OPTIONS

- Last week's FOMC meeting predictably continued the balance sheet taper (purchases now at \$55 billion per month), but as is often the case, the press conference produced some less predictable results:
 - When asked what a "considerable time" might be between the end of the taper and rising Fed Funds rates, Yellen indicated it might be *six months*. While this is not meaningfully different than the market's prior expectations (mid 2015), it forced a more specific focus on the action itself and solidified it in the mind of the market, temporarily sending both stocks and bonds lower.
 - Forward guidance language became more vague, as the Fed wants to rely more heavily on a "wide range of information" pertaining to the labor market, inflationary pressures and expectations, and other factors impacting economic activity.
 - Updated guidance includes a Fed Funds rate of 2.25% at the end of 2016, versus the prior estimate of 1.75%. However, it was maintained that the Funds rate could remain historically low even after further improvements on the labor front and 2% inflation.

- Last week, S&P upgraded the ratings of bond insurers Assured Guaranty to AA and National Public Finance Guarantee, a subsidiary of MBIA, to AA-. In S&P's opinion, legacy issues have been dealt with appropriately and both insurers are now in a position to increase insurance market share. Unfortunately, that means they are competing for a much smaller portion of the primary market, as insured penetration fell to 3.6% of primary supply in 2013 from nearly 57% in 2007.


MARKET UPDATE: LOW SUPPLY AND FUND INFLOWS ARE NO MATCH FOR FED SPEAK

- The municipal market is seeing another week of below average supply at \$4.7 billion, with only two deals on the calendar for over \$500 million: \$793 million CA Public Works and \$705 million Atlanta Airport. This comes at the same time that Lipper reported a sixth consecutive week of inflows into weekly reporting municipal bond funds, totaling just over \$1.0 billion for the period. However, as we stated a few weeks ago, this streak may soon be interrupted as tax season approaches.
- While 10Yr yields increased 8 -10bps, the talk of a rising Fed Funds rate impacted the belly of the Treasury curve (in 3-6Yrs), where rates were higher by 12-15bps. On the Municipal curve, the 5Yr MMD was higher by 20bps and 10Yr rates were higher by 10bps.
- Global banks have been some of the most active borrowers in 2014, taking advantage of low funding costs and demand for corporate bonds. In 1Q14, bank debt sales in the U.S. jumped to a record of \$143 billion. In Europe, bank issuance was \$158 billion in the first quarter and experienced the first year-over-year increase since 2010. In the wake of record borrowing in 1Q14, all but one of the thirty U.S. banks passed last week's Dodd-Frank Act stress test. This year's stress test presumed a sharp rise in the unemployment rate, a drop in equity prices of nearly 50%, and a decline in house prices to levels last seen in 2001. Zions Bancorp was the sole failure, with Tier 1 capital under the stressed scenario only reaching 3.5%, falling short of the Fed's required 5% mark.

FIXED INCOME INDEX RETURNS		
	MTD 3/21/14	YTD 3/21/14
Barclays 3Yr	-0.37	0.31
Barclays 5Yr	-0.80	1.05
Barclays 7Yr	-0.81	1.92
Barclays MM Short 1-5Yr	-0.52	0.32
Barclays MM 1-10Yr	-0.75	1.32
ML US Gov/Corp 1-10 Yr	-0.50	0.76

Source: IDC

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