HEADLINE NEWS

The Tone of the Week Will Hinge on Friday's Employment Data

With the equity markets and many global markets closed on Friday, and an abbreviated trading day for bonds, any surprises in the employment report could be met with short term volatility. Market Expectations According to Bloomberg Consensus:

- Non-Farm Payrolls: 245,000 (Prior 295,000)
- Unemployment Rate: 5.5% (Unchanged)

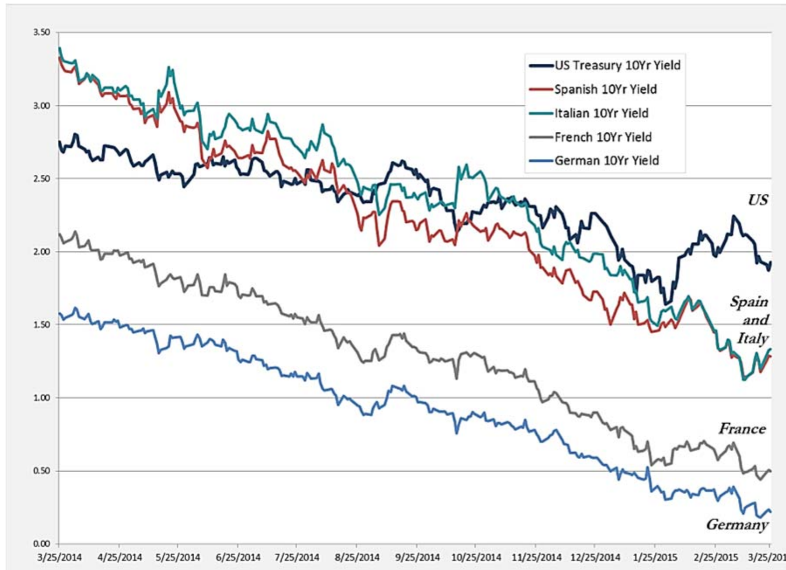
Yellen Still Dovish, Hints at Rate Hike Later This Year

Fed Chair Janet Yellen delivered prepared remarks in San Francisco on Friday (3/27/15) stating that she expects the Fed to raise interest rates this year, yet noted further increases will not follow a predictable path. Yellen's comments follow closely after the FOMC lowered forecasts for both GDP and the Fed Funds Target almost 2 weeks ago (3/18/15). On Friday, Yellen said, "I expect that conditions may warrant an increase in the federal funds rate target sometime this year," reiterating the importance of the economic data as opposed to a specific timeline.

Pension Obligation Bonds Making a Comeback

With taxable borrowing rates at attractively low levels and some pension plans struggling to recover to pre-recession funding levels, a number of large issuers have recently contemplated the use of pension obligation bonds ("POBs") to help chip away at sizeable unfunded liabilities. The states of Pennsylvania, Kansas, and Kentucky have all discussed the use of POBs with proposed financings ranging from $1.0 - $3.3 billion. Perceived as quasi-deficit financing and largely reliant on market timing, issuers need to weigh whether POBs are a way to structurally improve the funding of pension plans or just a short-term budget fix.

In the Past Year European Sovereign Debt Yields Have Declined Steadily, While US Treasury Debt Remains Undervalued on a Relative Basis



Source: Bloomberg

MARKET UPDATE

Municipal Issuance for 1Q Expected to Top 10 Year Average

The Municipal market traded slightly wider on the week, with the 5Yr ending 3bps cheaper at 1.24% and the 7Yr 2bps cheaper at 1.60%. The strong supply story continues this week with $8.2 billion on the calendar. The total long-term primary market tally for 1Q15 appears to be around $100 billion, which is significantly higher than the trailing 10-year average of $83 billion. The jump in supply for the quarter is due almost entirely to an increase in advanced refundings. This week, refundings make up over 70% of the calendar.

Record IGC Issuance in First Quarter

Investment grade and high-yield issuers issued bonds at a torrid pace in the first quarter of 2015. According to Dealogic, U.S. corporations sold $438 billion of new bonds through March 24th. As we close the first quarter this week, it could be a period of multiple records. Led by several large healthcare related takeovers, we have already surpassed the record for first quarter bond issuance in support of corporate takeovers with $87 billion of issuance. We are also on track to surpass the record for overall issuance in a quarter, with the previous record of $455 billion set in the second quarter last year. The U.S. corporate market has held up well in the face of abundant supply, likely, in part, due to the more than $20 billion of inflows we have seen into taxable bond mutual funds and ETFs since late February.

FIXED INCOME INDEX RETURNS

	MTD 3/27/15	YTD 3/27/15
Barclays 3Yr	-0.02	0.41
Barclays 5Yr	-0.07	0.76
Barclays 7Yr	0.13	1.08
Barclays MM Short 1-5Yr	-0.05	0.48
Barclays MM 1-10Yr	0.12	0.94
ML US Gov/Corp 1-10 Yr	0.38	1.26

Source: Interactive Data