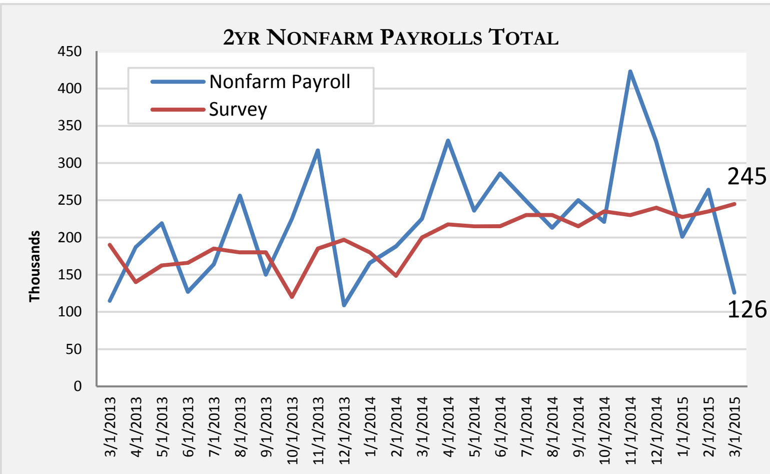
HEADLINE NEWS

Fed & Market Predictions Not Aligned

This Wednesday, the market will be looking for the FOMC minutes from the March meeting. The Fed and the market continue to differ in their forecasts for the first rate hike, with the latest nonfarm payroll disappointment causing the market to look into 2016 for the first move as opposed to this summer. Also, the market is predicting 2% rates in 2018, which is almost half of what the Fed is predicting.



Source: Bloomberg

California Combats Drought Conditions

The State of California took action last week in response to a drought that is now in its fourth consecutive year. Governor Jerry Brown approved the acceleration of $1 billion in emergency drought spending that will provide flood protection, water recycling, desalination, emergency food and water supplies and other needs. Brown also issued a mandate to reduce water usage by 25% across the state over the next nine months. The immediacy of the actions highlight the severity of conditions and the expectation that the drought will not reverse in the near-term.

Federal Government Steps Up Focus on Higher Ed

The US Department of Education released a list of approximately 500 colleges and universities that are currently being “monitored” by the department for a variety of reasons, ranging from late audit to severe financial distress. The majority of schools on the list are for-profits, although some small private, non-profits and small regional public universities are included. We note that the Department of Education has “monitored” schools for years, but this is the first time the list was made public and highlights a push for increased transparency and accountability. Increased regulatory pressure, along with changing demographic trends and overcapacity, are likely to result in continued consolidation in the higher education market.

MARKET UPDATE

Fewer Deals This Week Should Be Well Received

The AAA Municipal yield curve was lower by a small margin with 7Yrs tightening by 2bps to 1.58% and 10Yrs by 3bps to 1.93. These moves were in step with the Treasury due to the lower than expected nonfarm payroll number released on Friday to a limited audience given many markets were closed or relatively quiet. Following several heavy issuance weeks, this week’s calendar drops slightly to about $7 billion, with no real headline bond issuance. The two largest deals are $871 million North TX Tollway Authority (A3/BBB+/NR) and $650 million Dorm Authority of NY – NYU (Aa3/AA-/NR). On the demand side, Municipal bond funds showed outflows of $298 million for the period ending 4/1/15, bringing YTD inflows down to $10.4 billion

March Tops Issuance Record

The bid for Investment Grade Corporates remained strong throughout the course of the shorter holiday week and the close of the first quarter of 2015. Issuance topped out at $4.0 billion, which was only a third of the $12 billion that was expected to price. In the first quarter of 2015, there were 289 issuers who came to market with a total of $447 billion of Investment Grade debt. This was approximately 7% higher than Q1 of 2014, and the month of March trumped the previous single month issuance record (09/2013 - $146 billion) with $179 billion. Spreads were relatively unchanged over the week.

Treasury Stronger on Weaker Payroll Number

US Treasuries were well bid across all parts of the yield curve all week and finished off at levels not seen since February. The culprits were a lower than expected increase in nonfarm payrolls (126K vs. 245K survey), a continued downturn in global economic conditions, and the indication of the Fed’s Q2/Q3 rate hike seems to be waning in the distance. The short end of the yield curve saw the most action with the 2Yr down 5 bps to .54%, the 5yr down 8 bps to 1.35%, and the 10Yr finished the week down 5bps to 1.92%.

FIXED INCOME INDEX RETURNS

	MTD 4/3/2015	YTD 4/3/2015
Barclays 3Yr	0.02	0.43
Barclays 5Yr	0.07	0.83
Barclays 7Yr	0.11	1.20
Barclays MM Short 1-5Yr	0.04	0.51
Barclays MM 1-10Yr	0.10	1.04
ML US Gov/Corp 1-10 Yr	0.10	1.51

Source: Interactive Data

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