

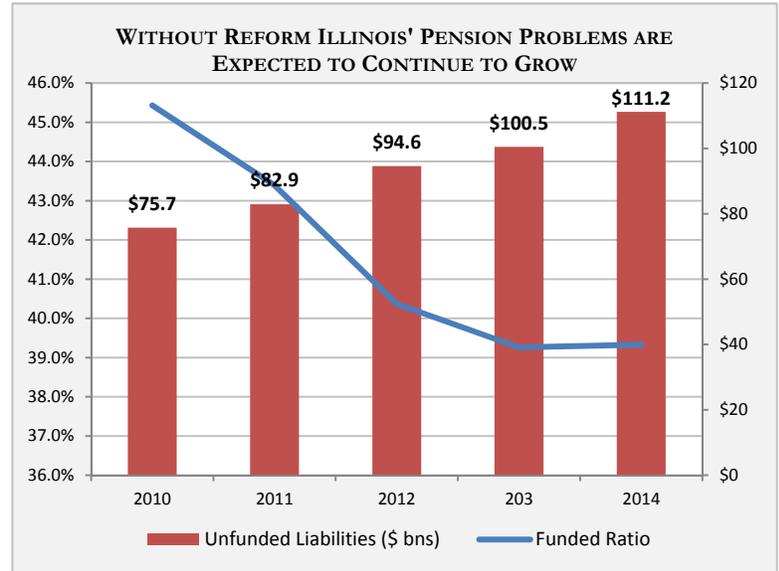
**HEADLINE NEWS**
**Labor Market Data Suggests Weakness**

There was volatility during the week culminating with the labor report released on Friday. Nonfarm payrolls were essentially as expected, coming in at 223k versus the survey of 228k. However, the March number was revised down from 126k to 85k, which marks the first sub-100k payroll change since June 2012. The unemployment rate met expectations at 5.4%. Coupled with the downward payroll revisions, the disappointing wage growth, with year over year Average Hourly Earnings at 2.2% versus the expected 2.3%, gave the labor market a weak tone.

**Pensioners Prevail in Illinois Supreme Court Ruling**

The Illinois State Supreme Court affirmed a lower court's ruling that legislation passed in 2013 attempting to reduce pension benefits at the state level was unconstitutional and violated the state's pension clause. Based on prior rulings that protected typically less-sacrosanct retiree health care benefits, the State Supreme Court's affirmation was largely expected. With approximately \$111 billion and growing in unfunded pension liabilities, it is now up to Governor Rauner and a Democrat-majority legislature to devise new pension reforms in a bid to rescue the state's fiscal health. Based on the ruling and the strength of the state pension clause, a reform package most likely requires union buy-in and/or a voter-approved amendment to the state's constitution. Both options will be

difficult to achieve in Illinois' polarized political environment. We also note that the high court ruling impacts the City of Chicago and other local governments in Illinois, as their attempts to alter pension benefits fall under the same legal protections.



Source: Illinois State Budget Fiscal 2016, Executive Proposal

**MARKET UPDATE**
**Munis Slightly Weaker, Despite Friday's Strength**

Despite the strength on Friday due to the jobs report, the Municipal curve was cheaper over last week, up 3 bps to 1.74% in 7Yrs and 2 bps to 2.18% in 10Yrs. This week's calendar is expected to be \$9.5 billion, slightly higher than the \$8.5 billion issued last week. The largest deal of the week is \$833 million Salt River Project Power District, AZ (Aa1/AA/NR). We expect supply to continue to be high given that the 30-day visible supply increased to \$14.3 billion.

**IG Spreads Hold Amidst Rate Volatility & New Issue Supply**

Secondary trading in the Investment Grade credit space held in well given the glut in supply and the Treasury sell off. On an OAS basis, the week finished flat to slighter wider overall. Financials continue to perform well, and ended the week tighter as the best performing sector. Three major deals in last week's new issue market brought the week's total to \$54.8 billion. The largest deal of the week was AbbVie with \$16.7 billion on Tuesday, followed by Apple with \$8 billion and Shell

International Finance's \$10 billion of debt issued on Wednesday. Over the near term, more merger and acquisition activity is expected which generally means new issuance flow will continue to be robust.

FIXED INCOME INDEX RETURNS		
	MTD 5/8/2015	YTD 5/8/2015
Barclays 3Yr	-0.10	0.27
Barclays 5Yr	-0.18	0.48
Barclays 7Yr	-0.22	0.64
Barclays MM Short 1-5Yr	-0.10	0.32
Barclays MM 1-10Yr	-0.20	0.45
ML US Gov/Corp 1-10 Yr	-0.18	1.15

Source: Interactive Data

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