

HEADLINE NEWS
Illinois Pension Ruling Hits Chicago

In the aftermath of the Illinois State Supreme Court pension ruling which we highlighted last week, Moody's proceeded to downgrade Chicago and a number of related entities, including the Chicago Board of Education, Chicago's water and sewer enterprises, and the Chicago Park District. Moody's now rates a number of these credits sub-investment grade, including the City itself. S&P and Fitch followed suit later in the week with their own downgrades of the City. As if Chicago was not already under enough pressure, the sub-investment grade rating from Moody's triggered \$2.2 billion in potential debt acceleration and swap termination payments. Chicago was scheduled to refinance \$380 million of variable-rate debt this week in an attempt to reduce short-term liquidity concerns; however, the City has chosen to delay the offering as the market digests the recent downgrades.

April Housing Starts Highest in 7 Years

April Housing Starts came in Tuesday morning at 1135k, significantly higher than the 1015k expectation, causing a further widening in the fixed income yield curves. Building permits also increased to 1143k versus the expected 1064k. The April data

represents the highest level of Housing Starts in more than seven years, and suggests the industry is improving after the winter softening. On Wednesday, the April FOMC meeting minutes will be released. Then, on Friday, the CPI data will be released with the expectation of 0.1%, which is lower than last month's 0.2%. The market will be watching for the data, and it will likely cause some volatility.

FIXED INCOME INDEX RETURNS

	MTD 5/15/2015	QTD 5/15/2015	YTD 5/15/2015
Barclays 3Yr	-0.18	-0.22	0.19
Barclays 5Yr	-0.32	-0.43	0.33
Barclays 7Yr	-0.52	-0.74	0.34
Barclays MM Short 1-5Yr	-0.15	-0.20	0.27
Barclays MM 1-10Yr	-0.38	-0.67	0.26
ML US Gov/Corp 1-10 Yr	-0.04	-0.12	1.29

Source: Interactive Data

MARKET UPDATE
Large Calendar Coupled with Heavy Inventories

The municipal curve has widened and steepened since last week, with the 3Yr wider by 2bps to 0.97% and the 7Yr wider by 6bps to 1.80%. Over the month, the 2Yr-30Yr curve has steepened by 40bps, putting it at 263bps. There was added volatility due to the Chicago downgrades (noted above). On the supply side, the calendar is expected at \$9 billion this week, which marks the third straight week of calendars over \$8 billion. It seems that dealer inventories are heavy, thereby making the market messy. The 30-day visible supply remains high at \$14.4 billion, which is above the average for the year of \$11.1 billion and offers no respite for dealers with full inventories.

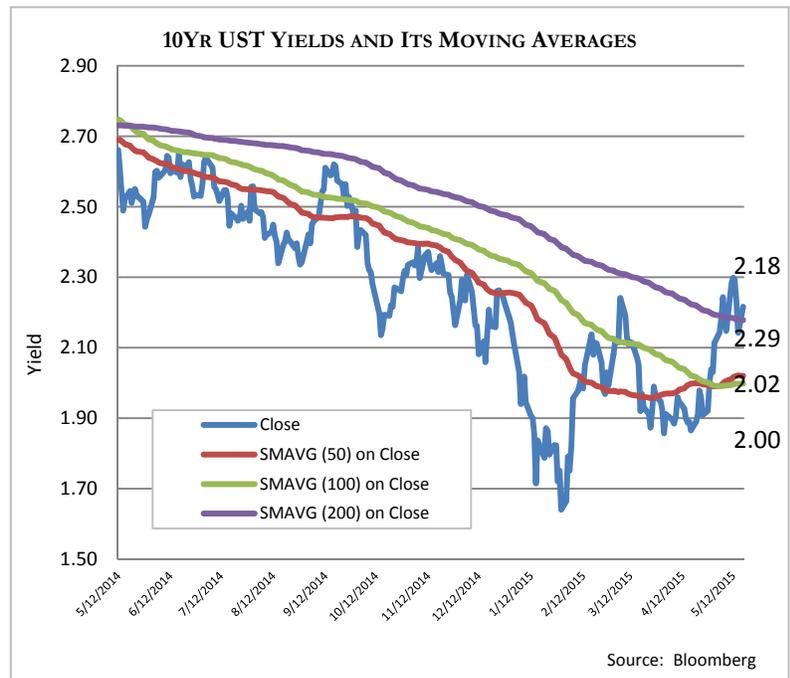
Global Sell-off & Rate Volatility Dampen New Issuance

Investment Grade new issuance slowed a bit this week, as only \$44.675 billion of debt was issued. Expectations were well over \$50 billion, but rate volatility and the global sell off took some attention away. The most notable deal of the week was Qualcomm's (QCOM A1/A+/A+) \$10 billion six tranche deal. Initial price talk guidance in 10 years was +130/135, but spreads on the name were 10 to 15 bps tighter by the time the deal was done. Maturities in 2035 and 2045 did not tighten significantly from original guidance, signaling a lack of demand for duration which is sending the curve steeper. IG spreads were generally tighter on the week, as well.

10Y UST Breaks through 200 Moving Average

The 10Yr US Treasury benchmark yield broke through its 200

day moving average of 2.19% on 05/05/15, and has been trading in a range from 2.19% to 2.30% since then. For a brief moment on Tuesday, the yield on the 10Yr hit 2.36%. This could possibly signal continued interest rate volatility and resistance in the coming weeks.



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