

HEADLINE NEWS
Fed Minutes Hint June Hike a Possibility

- Last week's FOMC minutes release reiterated the fact that the Fed is willing and eager to raise short-term interest rates. However, there is some doubt in the marketplace about whether or not the Fed will actually hike in June and the Fed is well aware of the market's opinion. The mention of Fed Funds Futures in the minutes was very unusual and the fact that the market is not pricing in a hike until early 2017 clearly shows the bifurcation of a rate hike possibility.
- It is important to note that prior to the release of the minutes the probability of a June 2016 rate hike was 12%; however, in the days following the release, the percentage climbed to 30%. The current probability of a July hike is 54%. Treasury yields were higher on the week with the 5Yr higher by 16 bps to 1.36%, the 10Yr higher by 14bps at 1.84%, and the long bond was up 8bps to close out the week at 2.63%.

New Jersey and Michigan Latest to See Tax Growth Slip

- This past week Michigan lawmakers were confronted with a new \$460 million deficit over the next two years, as revenue estimates from January 2016 are expected to be \$500 million lower.
- In the same week, New Jersey's nonpartisan Office of Legislative Services reported that they now expect a \$1.1 billion reduction in revenues throughout the last two months of the current fiscal year and into the next. The group indicated that underperforming gross income taxes were largely to blame.
- After California's \$1 billion underperformance in April tax collections, and similar results reported in Massachusetts and Connecticut through the first four months of the year, we believe state tax revenues are slipping in 2016. Among all states, tax revenues increased 5.5% in 2015, but the last two quarters saw decelerating growth of 3.8% (Q3) and 2.6% (Q4). Based on data released, growth in state tax revenues in the first half of 2016 will most likely be disappointing compared to a year earlier.

MARKET UPDATE
Muni Market Overview

- The Muni curve was higher over the week by 8-10bps in the 4Yr to 10Yr part of the curve. Munis outperformed Treasuries as both yield curves went higher following the Fed's suggestion that a rate hike may occur as early as June.
- Last week brought the market to 33 consecutive weeks of inflows into Municipal bond funds. Inflows were \$1.3 billion last week, bringing the year to date total to \$25.3 billion.
- On the supply side, 30-day visible supply has trended higher recently to \$15 billion. Weekly issuance is expected at about \$9 billion. The largest deal of the week is \$568 million San Diego Public Facilities Subordinated Water Revenues (Aa3/NR/AA-).

Corporate Market Overview

- It was a busy week in the Investment Grade space, as new issuance was over \$50 billion for the second straight week. A total of \$65.5 billion of new IG debt flooded the market, with about \$56 billion issued before the Fed Minuets were released on Wednesday afternoon.
- The largest deal of the week and second largest this year (behind Anheuser-Busch Inbev) was brought by Dell (DELL Baa3/BBB-/BBB-) to fund its not yet approved acquisition of EMC. The \$20 billion deal had \$80 billion in orders and tightened ~60 bps by the time the deal was priced. The \$4.5 billion 5Yr tranche priced at +312.5 to the 5Yr treasury giving it a 4.625% coupon. The other big deal of the week was the \$8.5 billion brought by Southern & Co (SO Baa2/BBB+/A-) that was also earmarked for an acquisition. High demand also drove the price on this deal 35bps tighter than initial pricing. Strong demand for yield kept credit spreads neutral on the week.

FIXED INCOME INDEX RETURNS AS OF 5/20/2016

	MTD	YTD
Barclays 3Yr	0.02	1.04
Barclays 5Yr	-0.01	1.63
Barclays 7Yr	0.10	2.28
Barclays MM Short 1-5Yr	-0.02	1.04
Barclays MM 1-10Yr	0.03	2.00
ML US Gov/Corp 1-10 Yr	-0.24	2.17

Source: Interactive Data