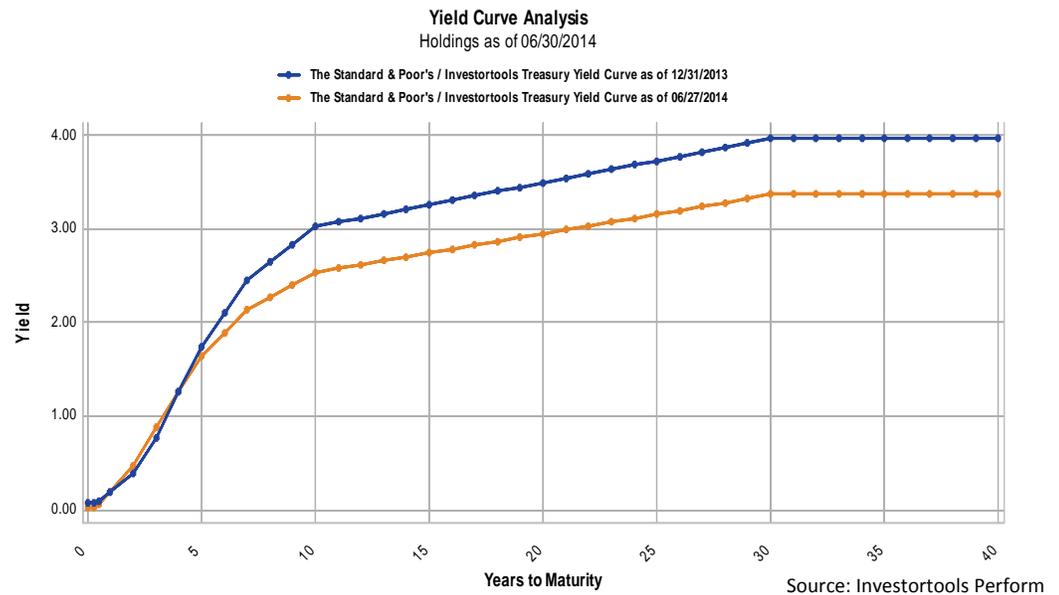


HEADLINE NEWS: JUNE EMPLOYMENT DATA TO BE RELEASED ON THURSDAY – LOOK FOR NFP TO INCREASE BY ~200,000

- The first half of the year surprised many participants who expected higher rates. Instead, the longer end of the curve, 10-30Yrs, has tightened by 50-60bps due to geopolitical concerns, limited supply, and unpredictable data. Shorter maturities are largely anchored with a slight rise in the 2-3Yr area because of uncertainty of the timing of the potential FOMC rate hike.
- The Commonwealth of Puerto Rico passed legislation last week that would allow the island's financially distressed public corporations to restructure their debts and operations. The proposal excludes a number of key entities, including the Commonwealth itself, along with the Government Development Bank and the Sales Tax Financing Corporation (COFINA). The most likely candidate for a restructuring appears to be the Electric Power Authority (PREPA), which has struggled with high fuel costs and stagnant revenues. PREPA has approximately \$8.7 billion in debt outstanding, \$2.4 billion of which is insured by Assured and MBIA. It is unclear at this time if the proposed statute is legal under the laws of the United States and if Congress will be involved. The legislation, if passed, will most likely face protracted litigation.
- Covenant-lite loans have become even more popular in today's leveraged loan market than during the lead up to the 2008 financial crisis. According to Thomson Reuters, covenant-lite loan volume reached \$95 billion in the 1st quarter of 2014, up from \$88 billion in the 4th quarter of 2013 and tracking well ahead of the \$108 billion of volume during all of 2007. A recent Moody's analysis of 423 U.S. covenant-lite borrowers between 2005 and the 1st quarter of 2014 showed an average three-year cumulative default rate of 18.8% versus 13.4% for all U.S. non-investment grade issuers during the same period. On a similar note, last week the Office of the Comptroller of the Currency voiced concerns about the leveraged loan and auto loan markets, observing "higher leverage, lower yields, tighter credit spreads and weaker covenant protections."


MARKET UPDATE: MUNI SUPPLY STILL DOWN YTD WHILE TAXABLE SUPPLY HITS RECORD HIGHS

- The bond markets strengthened late last week when the Q1 GDP data released on Wednesday saw the biggest quarterly drop in 5 years at -2.9%. Coupled with the durable goods report dropping 1.0% in May, projections for growth seem more uncertain. The markets will be watching a number of economic releases this week, most notably the nonfarm payrolls on Thursday.
- Municipal new issuance calendar, at \$2.5 billion, is very light due to the Friday holiday. The two largest deals of the week are coming competitive, following an increasing trend in large competitive deals. Alabama Public School and College Authority (Aa1/AA/AA+) is coming with \$550 million and the Commonwealth of Massachusetts (Aa1/AA+/AA+) is adding \$450 million. As of last week, MTD issuance is up about 40% from the same time period last year, but YTD issuance is still below last year by about 15%.
- In another continuing trend, YTD Investment Grade issuance stands at over \$800 billion, remaining on pace for a record year of issuance.

FIXED INCOME INDEX RETURNS

	MTD 6/27/14	YTD 6/27/14
Barclays 3Yr	0.09	1.01
Barclays 5Yr	0.03	2.26
Barclays 7Yr	0.00	4.20
Barclays MM Short 1-5Yr	0.04	0.92
Barclays MM 1-10Yr	-0.07	2.90
ML US Gov/Corp 1-10 Yr	-0.15	1.97

Source: IDC

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