

HEADLINE NEWS
After Weak Jobs Report, Investors Take June Off the Table

- Nonfarm payrolls rose just 38k in May, significantly lower than the expected 160k. Additionally, April and March were revised down by 37k and 22k, respectively. Even adjusting by 35k to account for the Verizon strikers leaves a rather dismal number. Countering the Nonfarm Payroll number, average hourly earnings increased by 0.2% and the unemployment rate decreased to 4.7%.
- After the jobs release, the probability of a Fed Funds hike in June fell to close to 0% and July is down to around 20%. The Fed continues to be data dependent and it seems unlikely that they can justify a rate hike before we see more promising numbers.
- Given the weak jobs figure and the lowered odds of a summer hike, many investors were focusing on Chairwoman Janet Yellen's speech in Philadelphia Monday afternoon. Yellen took a fairly neutral stance, claiming that the FOMC will likely remain data dependent, while at the same time telling everyone not to read too much into the jobs data from Friday. She did note that gradual rate increases may be warranted if labor and inflation data consistently improves.

Municipal Defaults Remain a Rarity

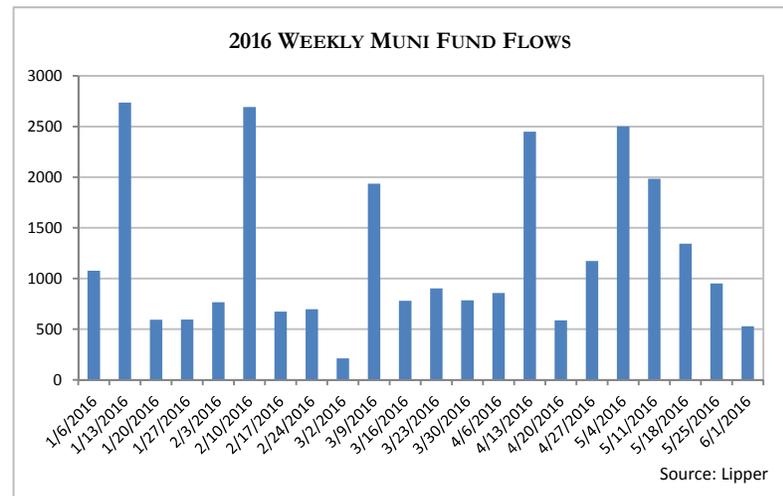
- A default by a municipal bond issuer is a rare occurrence and even more uncommon among rated issuers. Moody's Investors Service released its annual default study and reported four defaults in 2015 among the agency's portfolio of approximately 15,000 public finance ratings. This compares to zero defaults in 2014 and seven in 2013. Since 1970 there have been only 99 Moody's-rated defaults, and the one-year cumulative default rate remains miniscule, at 0.016%.
- Defaults remain concentrated in sectors that are competitive and are exposed to higher degrees of operational risk. Housing and health care (which includes senior living) account for 45.5% and 23.2% of the 99 defaults in Moody's portfolio over the last 45 years.
- 2016 defaults may be higher. Puerto Rico's Infrastructure Finance Authority and Government Development Bank have already defaulted this year, joining the Public Finance Corporation that defaulted in 2015. Given a sizable debt payment due July 1st and indications from Puerto Rico's government that the island is insolvent, 2016 could see a higher number of defaults, primarily driven by the Commonwealth.

MARKET UPDATE
Muni Market Overview

- After the slow start to the holiday-shortened week, Municipals ended stronger after a very weak jobs report on Friday. The municipal curve was lower by 3bps to 5bps inside of 10Yrs, but underperformed Treasuries for the week with the 10Yr Muni/Treasury ratio increasing to 94.7%.
- Supply this week is significantly higher than recent weeks at \$13.7 billion (last week was just \$5.4 billion). 30-day visible is \$16.5 billion, which is essentially this week's calendar without much additional supply on the horizon.
- On the demand side, Muni fund flows remain positive for the 35th consecutive week, with inflows of \$528 million. This week's inflow was lower than previous weeks, \$951 million (5/25/16) and \$1.344 billion (5/18/16), but it brought the year-to-date total to \$26.8 billion.

Corporate Market Overview

- The investment grade issuance in the month of May was the largest ever, at \$209.51 billion, and was the first time issuance broke \$200 billion since 2014. As of 05/31/16, year to date IG issuance hit \$802.965 billion, which was 5.5% ahead of last year at that time. We see this trend continuing as lower treasury yields and strong demand for yield continues to take hold.
- The largest and most notable deal that came to market last week was Aetna's (AET Baa2/A-/A-) \$17.1 billion deal issued across 8 different tranches. The deal was well received but priced slightly wider than initial price talk. For example, initial pricing in 5Yrs was +100 – 102, but final pricing rolled out to be +105. Overall, credit spreads remain steady.


FIXED INCOME INDEX RETURNS AS OF 6/3/2016

	MTD	YTD
Barclays 3Yr	0.06	0.99
Barclays 5Yr	0.11	1.54
Barclays 7Yr	0.14	2.19
Barclays MM Short 1-5Yr	0.07	0.97
Barclays MM 1-10Yr	0.14	1.91
ML US Gov/Corp 1-10 Yr	0.47	2.78

Source: Interactive Data