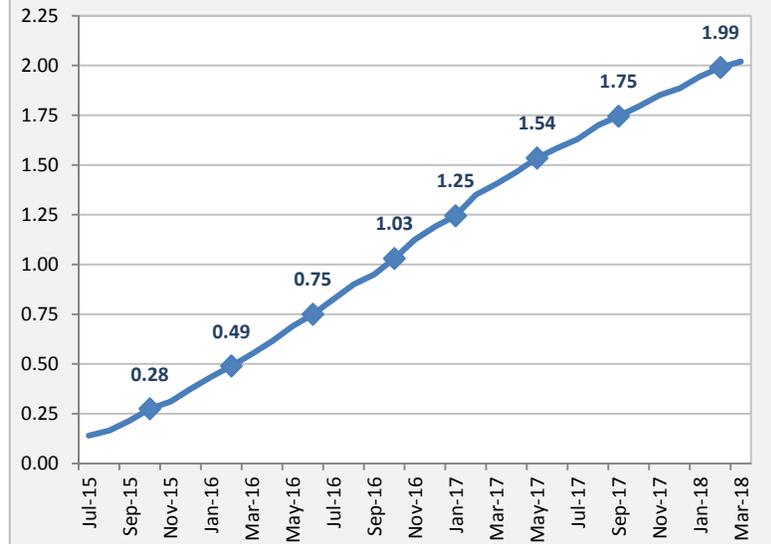


HEADLINE NEWS
Market Surprised with Greater than Expected Nonfarm Payrolls

Nonfarm Payroll data was released on Friday (6/5) at 280k, significantly over the expected 226k increase. The Unemployment Rate increased by a tenth to 5.5%, but it was considered “good” due to an increase in the Labor Force Participation Rate. Average Hourly Earnings increased 0.3%, a notch higher than the expectation of 0.2%. After the data release, Treasuries rose and Municipals followed. The Fed Funds Futures continue to predict a slow and gradual rate rise into 2018.

California Water Usage Drops in April

As mandatory conservation efforts took effect on June 1st, California urban areas reported a 13.5% decline in April water usage compared to the same month a year ago. The drop indicates an improvement from a milder 3.9% drop in March, but also will require additional reductions to reach the state-mandated 25% cuts by February 2016. The cuts are based on usage during a 2013 period, so conservation efforts made since then will go towards the final reduction. In an effort to reduce usage, water utilities are implementing a tiered billing structure to incentivize users to cut back on the amount of water they consume.

FED FUNDS FUTURES AS OF 6/5/2015:


Source: Bloomberg

MARKET UPDATE
Economic Data Puts Pressure on US Treasuries

Last week’s economic data, combined with the prior week, indicates that a better economic picture is beginning to emerge in the US. The week began with personal income coming in better than expected (0.4% vs. 0.3%), and ended with a strong change in Nonfarm payrolls. This put heavy pressure on US Treasuries and the curve got significantly steeper. The intermediate portion of the yield curve took the biggest hit, as the 7Yr & 10Yr maturities jumped 29 basis points to end the week at 2.16% and 2.41%, respectively. The last time these maturities were that high was in October of last year. Given that, Investment grade issuance was fairly quiet and missed expectations with only about \$25 billion issued on the week. A couple of deals to note, both done on Monday (6/1): (i) the \$850 million Starbucks (SBUX A3/A-/A-) 2 part deal; and (ii) the 3 part, \$2 billion Marathon Oil (MRO Baa1/BBB+/BBB+) issue. Spreads were mixed as the Finance sector was tighter on the week while Industrials/utilities/metals and mining were all slightly wider.

Municipals follow Treasuries Cheaper After Jobs Report

On the heels of the Treasury market, the Municipal yield curve is markedly higher than last week with 5Yrs increasing by 12bps

to 1.53%, 7yrs increasing by 14bps to 1.95%, and 10Yrs increasing by 17bps to 2.36%. Since the beginning of the year, the 2s-10s curve has steepened from 150bps to 169 bps. This week’s calendar is over \$7 billion, with State of Georgia (Aaa/AAA/AAA) bringing over \$1.2 billion in 5 tranches (taxable and tax-exempt) competitively. NY Dormitory Authority is also bringing a total of almost \$1.2 billion in 5 tranches, competitively backed by Personal Income Tax Revenue. Miami-Dade, FL Aviation (NR/A/A) follows with a \$534 million issue.

FIXED INCOME INDEX RETURNS AS OF 6/5/2015

	MTD	QTD	YTD
Barclays 3Yr	-0.10	-0.35	0.05
Barclays 5Yr	-0.38	-0.82	-0.06
Barclays 7Yr	-0.55	-1.33	-0.25
Barclays MM Short 1-5Yr	-0.17	-0.39	0.08
Barclays MM 1-10Yr	-0.54	-1.14	-0.21
ML US Gov/Corp 1-10 Yr	-0.91	-0.96	0.43

Source: Interactive Data

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