

HEADLINE NEWS
Impending Fed Rate Hike Continues to Consume Markets

- St. Louis Fed President James Bullard, known as a non-voting, policy hawk, was the final Fed governor to speak before the blackout period preceding the July 28-29 meeting, stating that there is a 50% probability of a rate hike in September. These comments sent shorter term rates higher and flattened the yield curve.
- The markets will scrutinize the language in the statement released at the close of the meeting next Wednesday, July 29th.

Statutory Lien Now Provided to Local California Bondholders

- Governor Brown signed Senate Bill 222, which establishes an explicit statutory lien on pledged property taxes for local general obligation bonds.
- The provision improves the underlying legal framework for California Local GOs, which already includes a dedicated, unlimited property tax pledge that is constitutionally separated from property taxes levied for operations.
- Legislation will be most impactful for investors holding both lower rated entities and local governments experiencing financial distress.
- California now joins Colorado, Florida, Louisiana, and Rhode Island as the only states which provide Local GO bondholders with an explicit statutory lien.

API INTERMEDIATE MUNI COMPOSITE CHARACTERISTICS AS OF 6/30/2015		API TAXABLE FIXED COMPOSITE CHARACTERISTICS AS OF 6/30/2015	
Average Maturity	6.02 Years	Average Maturity	4.57 Years
Average Duration	4.66 Years	Average Duration	3.84 Years
Average Coupon	4.82%	Average Coupon	4.76%
Yield to Worst	1.79%	Yield to Worst	2.16%

API Composite Data as of
6/30/2015 from Investortools
Perform and FactSet

MARKET UPDATE
Muni Market Overview

- The Municipal yield curve was basically unchanged inside of 10Yrs for the week, with the 5Yr ending at 1.30% and the 7Yr ending at 1.87%.
- Similar to last week, this week's calendar is expected to be about \$9 billion, with 30-day visible supply at \$12.6 billion, above the average for the year of \$11.3 billion. The largest deal of the week is a \$1.2 billion NY Dorm Authority Sales Tax issue, which has potential to be upsized if demand is strong.
- For the week ending 7/15/15, Municipal bond funds showed outflows of \$478 million, which represented the 11th consecutive week of outflows and brought the year-to-date aggregate inflows down to \$7.5 billion. Technicals should remain favorable for Munis, despite recent, but moderating, outflows, due to the negative net supply phenomenon. JP Morgan estimates August net supply at -\$16 billion.

Corporate Market Overview

- With Greece and China on the back burner, at least temporarily, the Treasury and Corporate markets are now focusing on supply and fundamentals. While secondary volumes continue to be low, the new issue market has picked up as we close in on \$1 trillion of issuance in the IG space for the year. Primary issuance has been partially driven by M&A activity, which accounts for 25% of overall issuance thus far in 2015, and there is more to go in the pipeline. The demand for new issues seems to have waned, as investors feel less pressure to chase yield in the face of upcoming rate hikes by the Fed.

European Bond Market Overview:

- The European corporate bond market appears to be finding some footing following a free-fall driven by the Greek crisis, which appears to be at least temporarily contained. Investment grade taxable bonds had a painful June, with record outflows of ~€6 billion from retail funds, according to JP Morgan. However, after hemorrhaging cash in May and June, the pace of weekly outflows has slowed to ~€150 million in July, and JPMorgan expects the flows to turn positive, assuming the Greece news continues to wind down.
- In further signs of life, there is an increasing pace of new deals coming to the market in Europe. The Financial Times notes there are at least four deals (of which at least two are for leveraged buyouts) totaling ~€1.5 billion that are in the market this week.

FIXED INCOME INDEX RETURNS AS OF 7/17/2015

	MTD	YTD	
Barclays 3Yr	0.23	0.62	
Barclays 5Yr	0.43	1.02	
Barclays 7Yr	0.32	0.63	
Barclays MM Short 1-5Yr	0.31	0.81	
Barclays MM 1-10Yr	0.34	0.70	
ML US Gov/Corp 1-10 Yr	-0.03	0.84	Source: Interactive Data

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