

HEADLINE NEWS
Current Muni Inflows Streak One of the Strongest Since 2000

- Through the week ending 7/20/2016, municipal bond mutual funds have experienced 42 consecutive weeks of inflows and \$45.9 billion in investor additions. This marks one of the strongest periods of inflow activity in the last 20 years.
- According to Lipper Fund Flow data and illustrated in the table to the right, the current period is the 7th longest and 3rd largest since 1999. Investor demand has likely been driven by a flight to quality, still relatively attractive tax-equivalent yields, seasonal trends, and/or the broad stability in municipal credit.
- While matching the \$65 billion and \$110 billion of inflows experienced in the 2009-2010 and 2011-2013 periods will be difficult, the current trend could continue for an extended period. JP Morgan noted recently that a reversal in inflow trends typically results in an increase in long-dated yields. Given the confluence of both global and domestic economic pressures, subdued inflation and the expansive use of easy monetary policy, a sharp increase in rates may be unlikely in the near-term.

Economic Highlights This Week: Fed Not Likely To Hike, GDP Expected To Improve Over Q1

- On the economic calendar this week is the FOMC rate decision on Wednesday after the 2-day meeting. While the probability of a hike at this meeting is very low (under 10%), many will be

watching the language for clues about a future rate move. Currently, the probability of a hike in September is over 25%, which only weeks ago was essentially 0%. By December, the current probability is just under 50%.

- We will also be looking for the 2Q GDP release on Friday, expected at 2.6%, which would be an improvement from 1Q at 1.1%.

Strong Muni Bond Inflows Continue

Period	Duration (months)	Total Inflows (\$mn)
Jan 09 - Oct 10	22	110,214
Sep 11 - Mar 13	18	65,057
Oct 15 - Jul 16	10	45,952
Jan 06 - Jul 07	19	38,871
Nov 00 - Oct 02	24	37,666
Feb 14 - Apr 15	14	35,456
Sep 07 - Sep 08	13	28,143
May 05 - Oct 05	6	8,270
Dec 02 - Jun 03	7	8,041
Jan 99 - Jun 99	6	5,707

Source: JP Morgan, Lipper US Fund Flows

MARKET UPDATE
Muni Market Overview

- A slow week in Munis leaves the yield curve essentially unchanged. The secondary market is reflecting the summer slowdown, so the focus is on several deals in the primary market.
- The calendar is expected at about \$6.1 billion, and the 30 day visible supply, at \$11.8 billion, is slightly above its average for the year of \$10.6 billion. The two largest deals of the week are healthcare: \$967 million Presence Health Network (Baa3/BBB-/BBB) and \$850 million Sutter Health (Aa3/AA-/AA-).

Corporate Market Overview

- All was fairly quiet in the Investment Grade bond market last week as the summer vacation calendar and the “dog days of summer” are in full swing. Although volumes were down, Investment Grade credit spreads (close to YTD tight) were steady last week as demand for high grade credit remains solid.
- The new issue market was kick-started by Teva Pharmaceutical’s (TEVA Baa2, BBB, BBB) well-advertised \$15

billion jumbo deal that priced on Monday the 18th. By the time that deal broke into the grays market, spreads were generally 40 – 50 basis points tighter than whispers early in the morning. The deal represented 45% of last week’s \$33 billion in total issuance.

- US Treasury yields were also quiet on the week with the 10Yr & 30Yr benchmark bonds down 1bps to 1.57% and 2.28%, respectively. All eyes will be focused on the Fed on Wednesday.

FIXED INCOME INDEX RETURNS AS OF 7/22/16

	MTD	YTD
Barclays 3Yr	0.10	1.56
Barclays 5Yr	0.16	2.48
Barclays 7Yr	-0.05	3.17
Barclays MM Short 1-5Yr	0.11	1.60
Barclays MM 1-10Yr	-0.04	2.84
ML US Gov/Corp 1-10 Yr	-0.21	3.47

Source:
Interactive
Data