

**HEADLINE NEWS**
**Looming Default in Puerto Rico**

- The Puerto Rico legislature failed to appropriate adequate funds for the Puerto Rico Public Finance Corporation to pay debt service due August 1<sup>st</sup>, signaling a default is on the horizon. Commonwealth appropriations are the sole pledged revenue source for the bonds.
- The Government Development Bank may take extraordinary measures to avoid a default, but that would require special legislative approval that appears to be unlikely.
- A default would mark the first true payment default by a Puerto Rico issuer and could open the doors to future defaults by other Puerto Rico public corporations.

**Market anticipates FOMC and GDP releases**

- The FOMC's two-day meeting will conclude with an announcement on Wednesday, July 29<sup>th</sup> with likely little change from the previous meeting. Predictions for the first rate hike are for 2015, but September versus December remains undecided.
- The Fed is expected to remain data dependent, which leads to volatility with the various data releases. The market will be anticipating the GDP release on Thursday, expected at 2.5% QoQ.

**Court Rules Chicago Pension Reforms "Unconstitutional"**

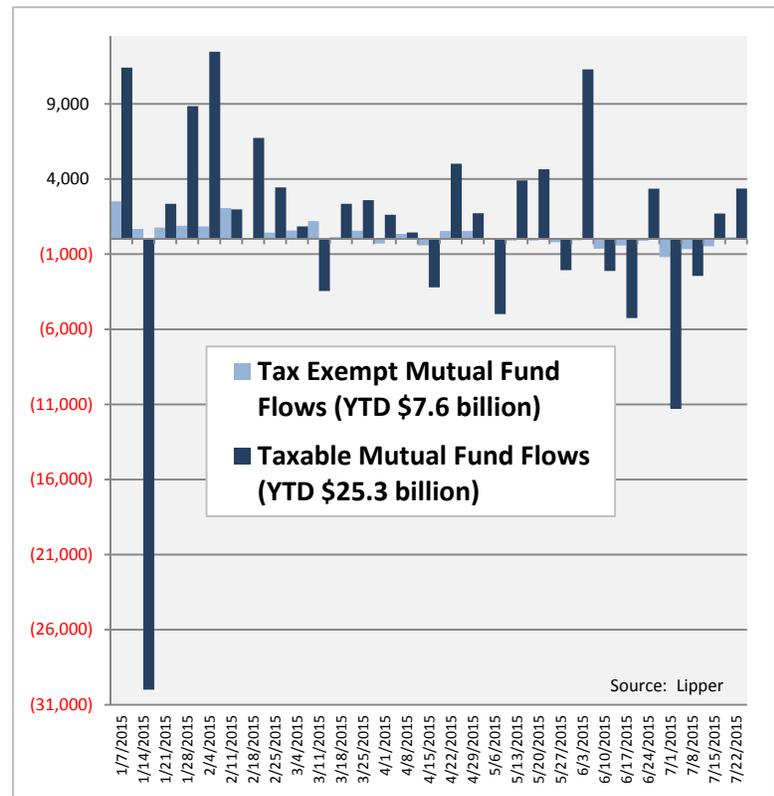
- A Cook County Circuit Court judge ruled that Chicago's reforms to two of its four pension plans were unconstitutional, mirroring a ruling from May in which the Illinois State Supreme Court struck down pension reforms at the state level. In both cases, the "Pension Clause" in Illinois' constitution was cited as providing pensioners with iron-clad protection.
- The Circuit Court's ruling reaffirms the legal difficulties both the State of Illinois and its underlying municipalities face in trying to reduce unfunded pension liabilities through benefit reforms.
- Although the decision was largely expected, we expect additional rating pressure on the City of Chicago.

**MARKET UPDATE**
**Muni Market Overview**

- The municipal yield curve was lower and flatter over the week. The 7Yr was down 6bps for the week to 1.81%, and the 10Yr was down 9bps to 2.20%.
- Municipal bond funds showed inflows of \$125 million for the week ending 7/22/15. While the number is small, it represents the first inflow after 11 weeks of outflows, bringing the year to date inflows to \$7.6 billion.
- The calendar for the week is \$6.4 billion, which is about \$2 billion smaller than last week. Demands for new issues continues to be strong.

**Corporate Market Overview**

- Investment Grade issuance continues to be robust with \$43.45 billion issued last week. This was the 13<sup>th</sup> time this year that weekly issuance was more than \$40 billion. Total YTD issuance has reached just over \$1 trillion and is on pace to surpass 2014 issuance by a large margin.
- The two most notable deals of the week were UnitedHealth's (UNH A3/A+/A-) eight part, \$10.5 billion deal and Intel's (INTC A1/A+/A+) \$7 billion deal spread across 4 tranches. Both deals were very well received, as demand continues to be robust. Investment Grade spreads are at YTD wides as the drop in commodity prices has hit related sectors, including Energy, Minerals and Mining, and Utilities.


**FIXED INCOME INDEX RETURNS AS OF 7/24/2015**

	MTD	YTD
Barclays 3Yr	0.31	0.70
Barclays 5Yr	0.57	1.16
Barclays 7Yr	0.60	0.92
Barclays MM Short 1-5Yr	0.39	0.89
Barclays MM 1-10Yr	0.60	0.96
ML US Gov/Corp 1-10 Yr	0.12	1.00

Source:  
Interactive  
Data

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