HEADLINE NEWS

Detroit Sells; PRASA Delays

- The City of Detroit "successfully" accessed the market last week, selling the City's first public debt since exiting bankruptcy in December 2014. Backed by income taxes that are segregated from the City's general operations, Detroit sold approximately $245 million. Bonds maturing in 2029 were priced at a yield of 4.5%, or 195 basis points wider than AAA municipal bonds with similar maturities, reflecting the market's continued concern with the City's credit profile, despite the enhanced security provisions.
- Puerto Rico's Aqueduct & Sewer Authority (PRASA) was scheduled to sell $750 million in debt as early as last Tuesday, but has since placed the deal on "day-to-day" status. Despite upping the offered yield to 10.0%, the Authority failed to find enough buyers. Within the same week, Puerto Rico officials requested that the US Supreme Court reinstate a law that would permit PRASA to restructure its outstanding debt.

Volatility in Equity Markets

Recently, U.S. equity markets dropped dramatically amid global growth concerns and skepticism over central banks' abilities to continue to promote growth (economic, asset, or otherwise). While we have noted that the potential for a moderate decline was possible amidst a lack of economic progress and heightened volatility, the pace at which we reached a full 10% correction was surprising. With little in the way of fresh news, many are blaming the decline in the Chinese stock markets as the catalyst for the move in our markets. Chinese markets have been declining since June, so the real fear is what their markets are telling us about the underlying economy. However, fear of a "hard landing" in China has been written about since 2011. We would attribute the decline more to an emotional response than one driven by fundamentals.

Click here for more detail on this topic.

MARKET UPDATE

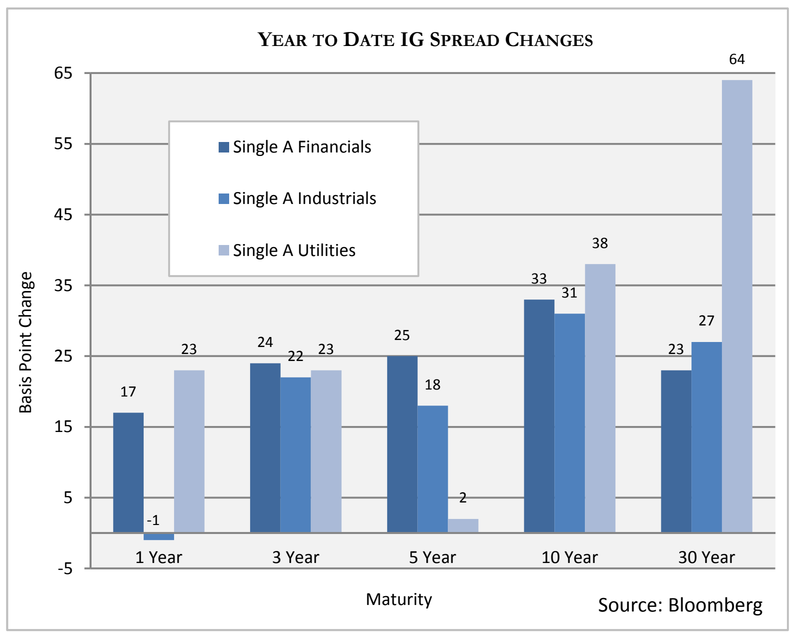
Corporate Market Overview

- Investment Grade Corporate spreads continue to widen and the YTD wide was reset yet again. Typically, a widening trend signals a deterioration in the economy and follows a recessionary pattern. In this case, signals do not point towards a recession, and the widening trend may be overblown. As stated in last week's update, this could very well be a buying opportunity, as spreads are likely to tighten into the end of the year as volatility subsides. This scenario seems to be playing out, as broker IG positions have been rising from the February's lows. Secondary trading and new issuance in IG was quite subdued last week, with only $15.65 billion of issuance last week spread across 18 issuers.
- Continued global economic stresses, volatility, and weak prices contributed to the rally in US Treasury rates last week. The reach for safety drove the curve flatter, with the 10Yr (-16bps to 2.04%) & 30Yr (-12bps to 2.74%) benchmark yields ending the week at lows not seen since late April.

FIXED INCOME INDEX RETURNS AS OF 8/21/2015

	MTD	YTD
Barclays 3Yr	0.11	0.84
Barclays 5Yr	0.09	1.21
Barclays 7Yr	0.20	1.10
Barclays MM Short 1-5Yr	0.11	1.01
Barclays MM 1-10Yr	0.24	1.22
ML US Gov/Corp 1-10 Yr	0.39	1.66

Source: Interactive Data



Muni Market Overview

- The Muni yield curve flattened further over the week, with the 7Yr 5bps lower to 1.81% and the 10Yr started this week at 2.13%. Following the sell off in US equities due to the weakness in China, the Treasury rallied significantly and munis followed (although not as dramatically). Municipal bond funds showed inflows of $44 million this week, which is only notable because it reversed a three week trend of outflows. Two deals dominate the $8 billion calendar this week: $2.2 billion NJ Economic Development Authority bonds (A3/A-/A-) and $1.9 billion State of California bonds (Aa3/AA-/A+).

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