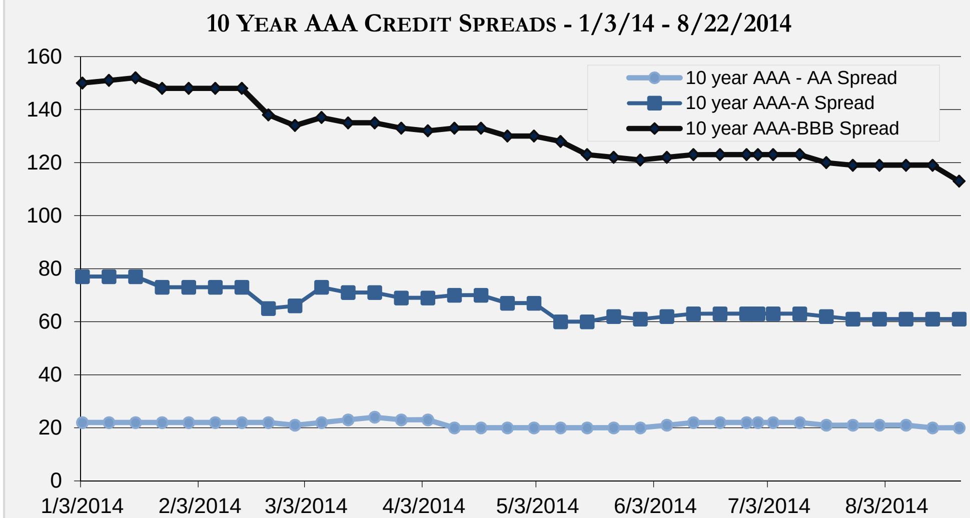
HEADLINE NEWS: MUTED MARKET REACTION TO JULY FOMC RELEASE

- With the release of the minutes from the July Federal Open Market Committee (FOMC) meeting, the divided opinions on the committee became evident. While Chairman Yellen remains in the "dovish" camp, the balance of the committee sees progress on the labor front and the risk to deflation diminishing. In the minutes: "If the convergence toward the committee's objectives occurred more quickly than expected, it might become appropriate to begin removing monetary policy accommodation sooner than they currently anticipate," noted Chairman Yellen. The market reaction was muted, with the apparent belief that when the hikes come, they will be slow and gradual.
- Sentiment towards the high-yield market appears to have rebounded quickly after record withdrawals from high-yield mutual funds and ETFs just three weeks ago. During the week ending August 20th, high-yield inflows totaled $2.2 billion, accelerating from the $680 million inflow the previous week. The high-yield market is up 1.3% to date in August and 5.6% in 2014 to date, as measured by the Bank of America Merrill Lynch index.

MARKET UPDATE: MUNICIPAL "YIELD GRAB" DRIVING CREDIT SPREADS LOWER

- The Municipal market is experiencing a "yield grab" thereby driving credit spreads tighter. This "yield grab" is seemingly a function of the "net negative Issuance" phenomenon, municipal bond fund inflows ($9 billion YTD as of 8/20/14), and low overall yields. Since the beginning of 2014, the 10Yr AAA-A credit spread has dropped 16bps to 61bps and the 10Yr AAA-BBB credit spread has dropped 37bps to 113bps. In other words, an investor buying a BBB credit now is being compensated 37 fewer basis points for assuming the same credit risk compared to 8 months ago.



Source: MMA

- The Municipal yield curve was mildly steeper over the week after yields inside of 5Yrs dropped and 6Yrs and longer were marginally higher. The 10Yr AAA curve increased by 5bps to end the week at 2.14%. New issuance falls as we approach the Labor Day holiday to about $2.5 billion, excluding the Texas Trans $5.4 billion 1Yr Revenue Anticipation Notes (RANs), which is consistent with the 3 year trailing average for the same week. Virginia Public Building Authority (Aa1/AA+/AA+) is coming with a competitive deal for $434 million.
- All was quiet on the Investment Grade Corporate issuance front last week, as only $6.16 billion was issued. Most of the issuance ($4.5 billion) came on Thursday when Bank of America (BAC Baa3/BBB+ - Subordinate debt) issued a $1 billion 3Yr at +80 and a $3 billion 10Yr at +180. Further, the High Yield market had no deals priced last week. Overall, spreads held steady and secondary trading was very slow. Long US Treasuries advanced and the curve flattened over the week as the 5Yr ended the week higher by 9 bps to 1.66% and the 30Yr was lower by 4 bps to end the week at 3.16%

FIXED INCOME INDEX RETURNS

	MTD 8/22/14	YTD 8/22/14
Barclays 3Yr	0.19	1.31
Barclays 5Yr	0.54	2.98
Barclays 7Yr	0.67	5.09
Barclays MM Short 1-5Yr	0.28	1.33
Barclays MM 1-10Yr	0.58	3.73
ML US Gov/Corp 1-10 Yr	0.45	2.22

Source: IDC