

HEADLINE NEWS
Market Awaits Jobs Report, Comments from Draghi

- This week brings a number of macroeconomic data points, but our focus will be on Friday's jobs report, specifically the wage growth component. Average Hourly Earnings (MoM) are expected at 0.2% and Nonfarm payrolls are expected at 205k. Also of note: the ECB rate decision is expected on Thursday, 9/3. This is the first commentary from Draghi since the market turbulence hit and his commentary will be key.

Puerto Rico Delays Economic Recovery Plan

- Due to the potential impact of Tropical Storm Erika, Puerto Rico officials have pushed the deadline for the island's economic recovery plan to September 8th.
- Early reports indicate Puerto Rico aims to invest \$1.5 billion in capital investments into the island over the next five years in order to jumpstart economic activity. The Commonwealth will finance the plan with \$1 billion in operating expense reductions, \$1 billion in revenue enhancements, and an undisclosed amount from debt restructurings.
- We note that this will serve as an opening salvo in a most likely protracted discussion with stakeholders, and we caution against any premature reactions. Puerto Rico officials have every incentive to propose a "drastic" impairment scenario and proceed from there.

PREPA Reaches Tentative Agreement

- Puerto Rico's Electric Power Authority (PREPA) has reportedly reached an agreement with forbearing bondholders just before midnight Tuesday (9/1) to restructure the Authority's almost \$9 billion in outstanding debt.
- The agreement would entail a debt exchange, deferral of principal payments, and a \$400 million reduction in debt owed. The new debt will be secured by a separate surcharge assessed to PREPA ratepayers with the hopes of obtaining a higher credit rating.
- Although additional details of the agreement are lacking, the compromise with bondholders could set the tone and serve as a framework for future negotiations between Puerto Rico and its creditors, as the island begins the process of restructuring \$72 billion in outstanding debt spread among a number of entities.

MARKET UPDATE
Muni Market Overview

- Municipals moved higher over the week breaking the trend over the past several weeks of lower yields. The 5Yr increased 1bp to 1.33% and the 10Yr was up by 3bps to 2.16%. Given the moves so far this quarter, spread between 2Yrs and 10Yrs is just moderately flatter at 157bps on Monday versus 165bps at quarter end (6/30/15).
- Approaching the holiday weekend, the calendar is predictably light at about \$3 billion. The 30-day visible supply, at \$7.2 billion, is at the second lowest point during the year and only higher than the 4th of July holiday at \$5.6 billion (7/1/15).

Corporate Market Overview

- Last week's volatility drove issuers to the sidelines, as there was zero issuance in the investment grade space. In fact, Tuesday (9/1) represented the tenth straight trading session with no issuance. This brings the total issuance of the month of August to \$63.625 billion which was the lowest month of issuance YTD.
- Energy sector spreads remain under pressure, but Financials, Industrials, and Utility sectors were all slightly tighter on the

week. Trading the space was very lumpy and volumes were down overall.

- A reach for quality amidst the equity sell off drove US Treasuries rates to trade in large ranges last week. The UST 10yr benchmark hit 1.91% on Monday but ended the week at 2.20%. Additionally, the curve reversed its recent flattening trend as the 30 year rose 18 basis point over the week.

FIXED INCOME INDEX RETURNS AS OF 8/28/2015

	MTD	YTD
Barclays 3Yr	0.09	0.82
Barclays 5Yr	0.01	1.13
Barclays 7Yr	0.13	1.03
Barclays MM Short 1-5Yr	0.08	0.97
Barclays MM 1-10Yr	0.17	1.14
ML US Gov/Corp 1-10 Yr	0.05	1.32

Source: Interactive Data

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