

HEADLINE NEWS
Congress Moves on Highway Bill

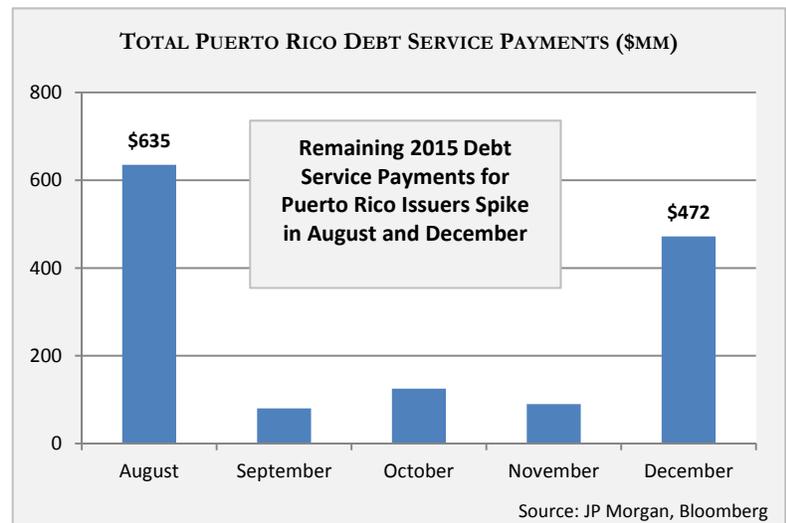
- Prior to the scheduled expiration on Friday, July 31st, the US House of Representatives and Senate approved a three-month extension for federal transportation spending authorization and the transfer of \$8.1 billion in additional revenue to the federal Highway Trust Fund. The Fund provides federal support for transportation infrastructure at the state and local level.
- This marks the 34th short-term extension over the last six years and is meant to bide time for Congress to hammer out a multi-year funding plan. Legislators appear motivated to find a solution but the political parties remain far apart on how to supplement federal gas tax revenues that have failed to keep up with the Fund's spending.

Looking for SOME Labor Market Improvement

- On Friday, the economic releases will include the July Nonfarm payroll numbers, expected at 225k, the unemployment rate, expected at 5.3% and average hourly earnings (MoM), predicted at 0.2%. Since the Fed continues to be data dependent, the market will be watching the releases as an indication of timing of the first rate hike, especially after last Friday's disappointing Employment Cost Index (ECI) release of 0.2% versus the expectation of 0.6%.
- Also, last week was the FOMC rate decision, which left rates unchanged, but added a simple, yet overanalyzed word – "some" into the language. "The committee anticipates that it will be appropriate to raise the target range for the federal funds rate when it has seen **some** further improvement in the labor market." The word seems to give the Fed flexibility that any improvement, big or small, in the labor market can be used as reasoning to increase the Fed Funds rate and continues to leave us all watching the data.

Puerto Rico Experiences 1st Default

- With no last minute heroics or deals with bond insurers, Puerto Rico's Public Finance Corporation paid only \$628,000 towards a \$58 million debt service payment due Monday, becoming the first Puerto Rico issuer to experience a true payment default.
- This event likely opens the door to more potential defaults by Puerto Rico issuers and could be a negotiating tactic by the Commonwealth. It sends a clear message to bondholders that Puerto Rico officials are willing to walk away from honoring debt service commitments and it may also encourage Congress to more seriously discuss opening up Chapter 9 bankruptcy to the island's public corporations.
- Based on Puerto Rico's well-known situation, negative pricing reaction in the broader municipal market should be muted.


MARKET UPDATE
Muni Market Overview

- The Muni yield curve continued its flattening trend this week, as 4Yrs to 7Yrs increased slightly and 8Yrs and beyond decreased by a few bps. Currently, the steepness is about 157 bps between 2Yrs and 10Yrs, which is steeper than the year-to-date low in January of about 133bps, but flatter than the high of 170bps in July.
- Supply drops a bit this week with under \$8 billion on the calendar and 30 day visible supply at just \$10 billion. Citi calculates August net issuance to be -\$1.6 billion, which will be a technical support for municipals. The largest deal of the week is the State of Minnesota (Aa1/NR/AA+) coming competitive with over a billion in several tranches.

Corporate Market Overview

- Choppy markets, a rally in rates, and the continuation of a reduction in commodity prices drove IG corporate spreads to the new wides of the year. Investment Grade new issuance last week

came in under expectations with \$20.85 billion. The largest deal of the week came on Tuesday, ahead of the Fed rate announcement on Wednesday, as Daimler Finance North America (DAIGR A3/A-) issued a 6 part \$3.5 billion deal. The spread in 10 years was +130 and demand was solid.

FIXED INCOME INDEX RETURNS AS OF 7/31/2015

	MTD	YTD
Barclays 3Yr	0.33	0.73
Barclays 5Yr	0.52	1.12
Barclays 7Yr	0.58	0.90
Barclays MM Short 1-5Yr	0.39	0.89
Barclays MM 1-10Yr	0.61	0.97
ML US Gov/Corp 1-10 Yr	0.39	1.27

Source: Interactive Data

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