

HEADLINE NEWS
Infrastructure Spending Debate Continues

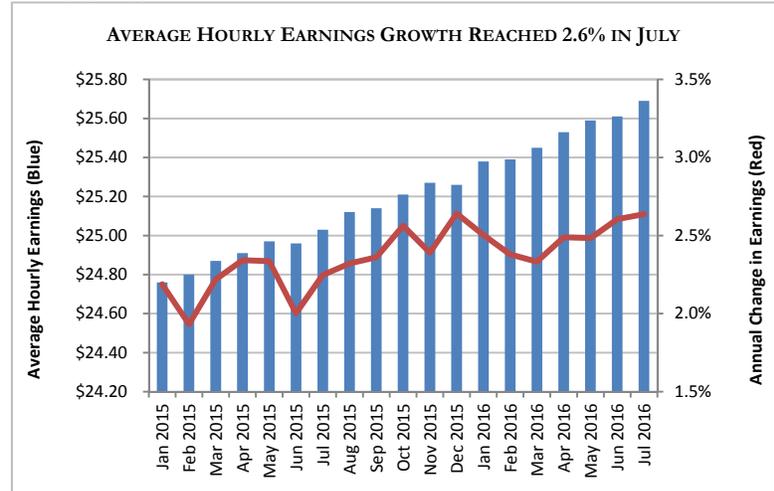
- Infrastructure spending has been much debated politically in recent years; and in an environment when borrowing is the cheapest in decades, state and local governments across the country are actually scaling back their spending in light of anti-tax sentiment.
- While states are cutting back, both major Presidential candidates are proposing massive spending on infrastructure, with Ms. Clinton calling for \$275 billion of spending over five years and Mr. Trump calling to spend double that figure.
- While these candidates' debate infrastructure spending, raising the federal gas tax has become the "third rail" of politics. The last time this tax was increased was 1993, and is currently 18.4 cents a gallon and 24.4 cents for diesel. Gas prices have declined by close to 50% over the past few years – effectively resulting in a huge tax break for consumers. By Congressional estimates, raising the gas tax by 12 cents (a penny per month) would result in \$164 billion in new revenue over the next ten years, which could be further leveraged and provide a steady revenue stream going forward.

Labor Market Stabilizing with July Jobs Report

- The Bureau of Labor Statistics reported that non-farm payroll employment increased by 255,000 in July compared to median estimates of 180,000 in a Bloomberg survey. Growth in professional and business services, health care, and financial activities led the way.
- Both June and May figures were revised upwards by a combined 18,000, and the trailing three-month average is now a solid

190,000 jobs. The unemployment rate remained steady at 4.9%.

- Adding to the positive news was the moderate improvement in wage income. Average hourly earnings increased 0.3% for the month and 2.6% on a year-over-year basis. While not a breakout number, the annual growth in wages was the strongest since 2009 and is outpacing inflation, indicating some tightening in the labor market.
- The stronger-than-expected labor report has also heightened expectations of the FOMC hiking short-term rates later this year. The Fed Funds futures is now pricing in a 26% probability of an increase in September compared to 18% at the beginning of last week. The market is placing a 46% probability of a rate hike by December.



Source: Bureau of Labor Statistics

MARKET UPDATE
Muni Market Overview

- The Municipal curve was up by about 4bps over last week in the 6-10Yr part of the curve following the Treasury sell off after the positive employment report.
- Munis have seen an unlikely surge in issuance for this time of year, with almost \$11 billion in the first 4 days of August. To end last week, year-to-date issuance was \$262.14 billion. Looking forward to this week, about \$8 billion is expected, which is higher than the trailing 3Yr average for the same week at \$5.9 billion. The largest deal this week is the \$1.2 billion Commonwealth of Pennsylvania (Aa3/AA-/AA-) competitive deal followed by the \$1 billion University of California Medical Center (Aa3/AA-/AA-) deal.
- Demand continues to be very strong with another \$1.4 billion in Municipal bond fund inflows (week ending 8/3/16). This brings the year-to-date total to \$40.1 billion and marks the 44th consecutive week of inflows. Deals are well received in the market and most continue to be over-subscribed.

Corporate Market Overview

- Low borrowing costs, M&A, and demand for yield continues to propel Investment Grade Issuance. Last week's \$48.95 billion in

new debt was the 6th highest so far this year, bringing the year-to-date total to \$1.074 Trillion. Microsoft's (MSFT Aaa/AAA/AA+) \$19.75 billion, 7 part deal was the largest deal on the week and the 3rd largest of the year. Initial price guidance in 10yrs was +110 but spreads came in tighter by 20bps by the time the deal was released. All went away with ease. Credit spreads remain at year-to-date tight.

FIXED INCOME INDEX RETURNS AS OF 8/5/2016

| | MTD | YTD |
|-------------------------|-------|------|
| Barclays 3Yr | -0.01 | 1.74 |
| Barclays 5Yr | -0.05 | 2.65 |
| Barclays 7Yr | -0.14 | 3.33 |
| Barclays MM Short 1-5Yr | 0.00 | 1.79 |
| Barclays MM 1-10Yr | -0.10 | 3.01 |
| ML US Gov/Corp 1-10 Yr | -0.33 | 3.49 |

Source:
Interactive
Data

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