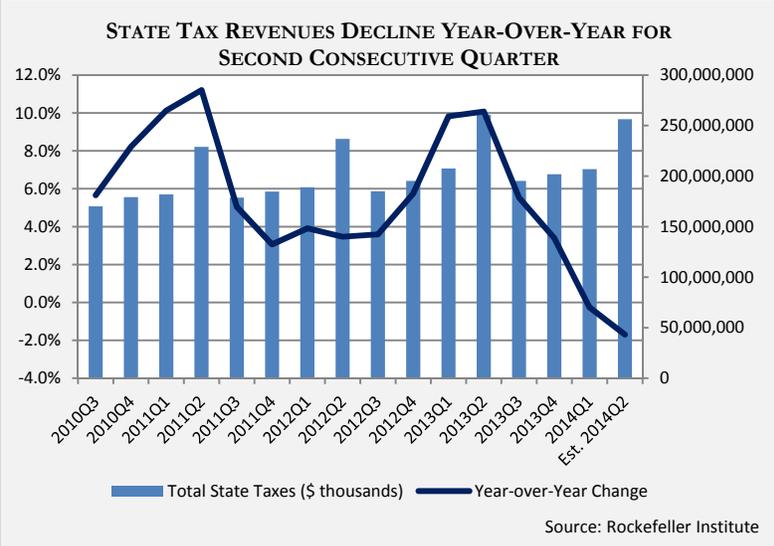


HEADLINE NEWS
Rockefeller Institute Sees Decline in State Tax Collections

According to preliminary data from 48 states, the Rockefeller Institute is reporting that total state tax collections for the quarter ending June 30, 2014 indicate a decline of 1.7% compared to the same period in 2013. It will be the second consecutive quarter of year-over-year declines in tax collections after final figures for the first quarter of 2014 were revised to a 0.3% drop. The numbers are not surprising, as many states experienced significant declines in personal income tax revenues, particularly in April. For the quarter, personal income taxes declined 7.1%, as the second quarter of 2013 significantly benefited from taxpayers accelerating taxable transactions in late 2012 ahead of anticipated higher tax rates associated with the “fiscal cliff.” We expect growth to resume in the second half of 2014, but at a muted pace. Positively, sales tax revenues increased 4.2% in the second quarter, rebounding from weaker activity at the beginning of the year.

FOMC Keeps Pace on Taper

The FOMC release last Wednesday kept short rates unchanged and continued with the pace of the taper (cut monthly bond buying by another \$10 billion). Net bond buying is expected to conclude with the October meeting when the Fed will likely cut the final \$15 billion. Of note, the Fed maintained that they will keep the Fed Funds rate target for a “considerable time” after the taper is concluded, despite the Fed’s goal of emphasizing their dependence on *data* over their dependence on *time*. The Fed remains hesitant to change their language as it may cause an over-reaction in the market.


Bleeding Continues in High Yield Market

According to Lipper, in the week ending Sept. 17, retail cash outflows from U.S. high-yield funds expanded to \$1.2 billion from \$766 million last week. Although redemptions increased, the influence of ETFs moderated to 24% of the sum, or an outflow of \$284 million this past week, from 58% the week prior. This is a third consecutive outflow, for a net withdrawal of \$2.2 billion over that span.

MARKET UPDATE
New Issue Supply Dominated by Two Large Deals

For the week, there was very little change in the Municipal yield curve. The 3Yr held steady at 0.60%, the 5Yr notched up one to 1.18%, and the 7Yr dropped by one to 1.73%. The market absorbed last week’s relatively large new issue supply without incident. We expect that the market will have no trouble digesting this week’s calendar, which is larger than we have seen recently, at about \$7 billion. The calendar is dominated by 2 deals: \$2.3 billion State of California GOs (Aa3/A/A) and \$2 billion Sales Tax Asset Receivable (STAR) Corp, NY (Aa1/AAA/AA+).

Strong Corporate Supply and Demand Continue

The beat goes on in the Investment grade taxable space. New issuance continues to meet expectations and is well received as demand remains strong. Last week’s \$27.15 billion in issuance was not as strong as the previous week’s \$39 billion and was packed into the first two days primarily due to the FOMC decision. Month to date issuance volume sits at roughly \$125 billion,

and we are closing in on the 2013 record (\$1.111 Trillion) with \$1.05 trillion issued year to date. Corporate spreads remain steady and unchanged over the week.

FIXED INCOME INDEX RETURNS		
	MTD 9/19/14	YTD 9/19/14
Barclays 3Yr	-0.06	1.30
Barclays 5Yr	-0.17	2.98
Barclays 7Yr	-0.36	4.98
Barclays MM Short 1-5Yr	-0.13	1.27
Barclays MM 1-10Yr	-0.42	3.53
ML US Gov/Corp 1-10 Yr	-0.62	1.81

Source: Interactive Data

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