

**HEADLINE NEWS**
**Fed Shutdown A Possibility**

- The Senate and House of Representatives are positioning for a last minute decision on extending federal government spending prior to the September 30<sup>th</sup> expiration and coinciding with end of the government's fiscal year.
- Although some lawmakers are pushing for a government shutdown to advance certain legislation, most politicians appear eager to avoid a situation similar to the 16-day malaise that occurred at the end of 2013.
- Adding to pressure, congressional attention is required on a number of other items, including the debt ceiling, federal highway funding, and the Export-Import Bank.

**Puerto Rico Proposes Debt Exchange**

- Puerto Rico's Working Group released an outline of a proposed debt exchange that will reduce the island's debt burden through a voluntary transaction.
- All governmental entities, with the exception of PRASA and PREPA, would partake in a single, comprehensive exchange.

- The plan implied that recoveries would vary based on the issuer and the security provisions, with GO debt expected to receive the highest recovery.
- The ultimate path to debt restructuring will most likely be less straightforward, will take longer than expected, and will include creditor litigation.

**Market Digests Fed Speak and Awaits Nonfarm Payrolls**

- On Friday, we will see the labor report, which includes changes in Nonfarm payrolls, expected at 202k, and average hourly earnings, expected at 0.2%.
- Since the Fed did not raise the Fed Funds rate at the last meeting, the market will be looking at the major data releases, potentially causing volatility.
- In a speech last Thursday (9/24), Yellen stated that she expects inflation to trend towards Fed targets, and, thus, an interest rate hike will be likely by year-end. She also reiterated that the pace of future rate hikes will be gradual.

**MARKET UPDATE**
**Muni Market Overview**

- Municipal yields are lower versus last week. Inside of 10yrs, 5Yrs and 6Yrs dropped the most at 7bps, leaving them at 1.32% and 1.52%, respectively. The 10Yr was down 5bps to start this week at 2.09%.
- The calendar is higher this week at about \$6.5 billion versus previous weeks of between \$4 and \$5 billion. The largest deal is \$840 million in State of Connecticut Special Tax Obligations.
- Municipal bond funds showed inflows of \$231 million (as of 9/23/15) to bring year-to-date inflows to \$5.3 billion, down from the high for the year of \$11.464 billion (5/6/15). This week ends the trend of 4 consecutive weeks of outflows. Over the past 20 weeks, there have been only 3 weeks of inflows.

**Corporate Market Overview**

- Investment grade credit spreads edged a bit higher this week, led by the energy sector and the complete unwinding of Volkswagen. The German automobile maker's apparent concerted effort to circumvent US emissions testing drove spreads in the name from quoted markets at +90/+80 in five years on Friday to a +195 to the 5 year print on Tuesday. By week end, spreads landed in the +150 - +175 to the 5Yr range, significantly reducing the value of the company's nearly \$10 billion in debt.
- New Issuance began the week with a robust \$18.85 billion of new debt hitting the market on Monday. That start did not set the tone for the rest of the week, as only \$28.5 was issued. The largest deal was brought by UBS Group (UBS BBB+/A/A-) with \$4.3 billion issued on Monday. The 5 year issue came at T +150 (2.95%) and the 10 year was well received at T +195 (4.125%).

**FIXED INCOME INDEX RETURNS AS OF 9/25/2015**

	MTD	YTD
Barclays 3Yr	0.25	1.09
Barclays 5Yr	0.38	1.53
Barclays 7Yr	0.58	1.66
Barclays MM Short 1-5Yr	0.20	1.19
Barclays MM 1-10Yr	0.47	1.64
ML US Gov/Corp 1-10 Yr	0.41	1.69

Source: Interactive Data



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