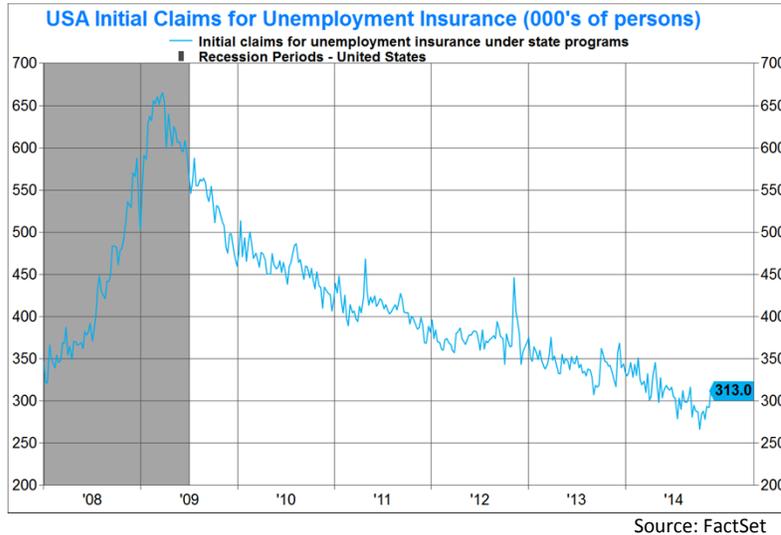


HEADLINE NEWS
Jobless Claims Rise Unexpectedly

The unexpected jump in new US jobless claims to 313K surprised many as it came in 21k more than the 294k four-week moving average and consensus. The additional 21K new claims is the largest weekly increase since the beginning of August.


Bond Managers Preparing for a Volatile 2015

Despite what the Fed Funds futures market continues to indicate, bond managers appear to be preparing for potential volatility in 2015. The Wall Street Journal, citing data from Morningstar, noted on Nov. 30th that the top 10 U.S. bond funds by assets held an average 6.6% of assets in cash as of the latest reporting

period. This figure is double the level of cash held at this time last year and the largest position since 2007. The WSJ cited a number of variables driving the shift to cash, including ongoing liquidity concerns in the bond market, increased volatility in the fourth quarter, and the pending Fed Funds rate increases widely expected in 2015.

Illinois Pension Reforms Ruled “Unconstitutional”

An Illinois circuit court judge ruled that the State’s pension reforms passed in December 2013 were “unconstitutional” and therefore “void in its entirety.” Illinois’ state constitution grants relatively strong protection rights to pension benefits, making reform efforts difficult to achieve. The State Attorney General has stated she will appeal the ruling, most likely setting up a hearing with the Illinois Supreme Court. A prior opinion from the state Supreme Court, which validated the state constitutional rights of health care benefits, does not bode well for Illinois. A negative ruling by Illinois’ highest court would leave the state and local governments with limited options going forward when it comes to pension reform.

California Revenues See Positive Growth Trends

Through the first four months of fiscal 2015, the State of California has experienced strong and robust revenue growth. According to a release from State Controller John Chiang, California has received \$27.8 billion in total revenues for the period of July through October. That marks a 9.4% increase over the same period last year and \$1.2 billion in above-budget revenues for the current fiscal year. Coinciding with the recent voter support for strengthening California’s rainy day fund, positive trends continue for the state’s financial profile.

MARKET UPDATE
Light Holiday Week Followed by Jump in Muni Supply

The municipal market is coming off a shortened holiday week marked by limited new issuance and light secondary market activity. The latter was evidenced by the limited participation of the municipal market in the Treasury Market’s rally last Friday. To kick off the final trading weeks of 2014, new issuance has jumped to almost \$14 billion, driving the 30-day visible supply to an intra-year high of \$18.1 billion. The largest deals of the week are the \$1.6 billion Texas Transportation deal (Aaa/AAA/AAA) and the \$750 million NY State Thruway deal (A2/A). In addition to these two large deal, there are a number of other high grade deals, which should satiate the continued strong demand for municipals. Municipal mutual funds saw inflows of \$564M bringing the YTD total to \$17.7billion, which has driven demand for municipals.

US Treasuries Continue to Rally

All was fairly quiet on the Investment Grade new issuance front, as only \$10.675 billion was issued in the first two days of the

week. Kinder Morgan’s (KMI Baa3, BBB-, BBB-) \$6 billion 5 tranche offering was the largest deal of the week. Spreads were generally tighter on the week. The US Treasury 10Yr continues to flirt with year-to-date lows and closed out the month of November at 2.16%. The US Treasury 30Yr did hit its low of the year on Friday at 2.89%.

FIXED INCOME INDEX RETURNS

	MTD 11/28/14	YTD 11/28/14
Barclays 3Yr	0.06	1.52
Barclays 5Yr	0.07	3.52
Barclays 7Yr	0.08	5.99
Barclays MM Short 1-5Yr	0.05	1.49
Barclays MM 1-10Yr	0.05	4.32
ML US Gov/Corp 1-10 Yr	0.53	3.31

Source:
Interactive
Data

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