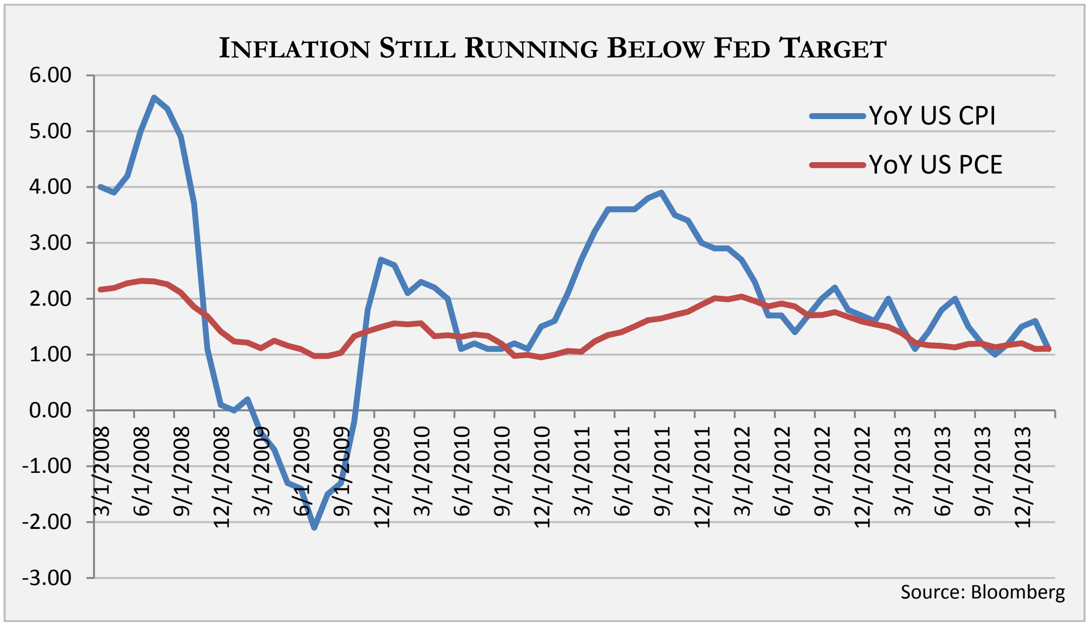
HEADLINE NEWS: YELLEN REASSURES MARKETS

- Illinois' Governor Quinn, who is up for re-election in November, released his budget proposal for fiscal year 2015, attempting to provide some clarity on a daunting revenue scenario for the state in the next few years. Faced with the partial expiration of temporary income tax increases beginning in January 2015, Illinois officials estimate that the state will lose approximately $1.6 billion in revenues in fiscal 2015 and up to $4.0 billion in fiscal 2016. Governor Quinn is proposing to make the tax increases permanent, indicating that without this legislation the state will be required to make significant cuts in government services. The State of Illinois remains in limbo as lawmakers consider the implications of the expiring tax increases at the same time that the state supreme court will review pension reforms passed in December 2013.
- Some of the most important economic data that came out last week was YoY PCE core inflation, which only rose to 1.1%. This number is still well below the Fed's ideal rate of 2.0% and that, combined with the 1.2% YoY CPI number released on 3/18/14, seems to conflict with the comments made by the Fed on 3/19/14. Seemingly, the economy still has a ways to go before the Fed enacts the potential 1.00% Fed Funds rate by the end of 2015.
- To that point, Fed Chair Yellen reassured the markets while speaking at a conference in Chicago Monday, stating that the Fed is committed to accommodative policy. She commented that "this extraordinary commitment is still needed and will be for some time, and I believe that view is widely shared by my fellow policymakers at the Fed."



MARKET UPDATE: YIELD CURVES CONTINUE TO FLATTEN

- The front end of the US Treasury yield curve continued to flatten last week with the 5Yr rising 4bps to 1.75% and the 30Yr dropping 6bps to end the week at 3.55%.
- The Municipal market is expecting about $4.3 billion in new issuance this week, which is slightly behind last week's calendar. California leads issuance with several of the largest deals, including $967 million University of CA Regents (Aa2/AA/NR) and $261 million San Diego, CA Unified School District (Aa3/AA-/NR). Last week, the Municipal yield curve flattened with the fulcrum between 6 and 7 years. The front end was soft due to uncertainty surrounding the initial Fed tightening, while longer bonds have come down because of the persistent limited new issuance and minimal concern about inflation pressures.
- The latest Non-Farm payrolls are set to be released Friday, April 4th, and markets will be looking for the employment number to come in at 200k.

FIXED INCOME INDEX RETURNS

	MTD 3/28/14	YTD 3/28/14
Barclays 3Yr	-0.37	0.31
Barclays 5Yr	-0.88	0.97
Barclays 7Yr	-0.70	2.03
Barclays MM Short 1-5Yr	-0.56	0.28
Barclays MM 1-10Yr	-0.68	1.40
ML US Gov/Corp 1-10 Yr	-0.40	0.85

Source: IDC