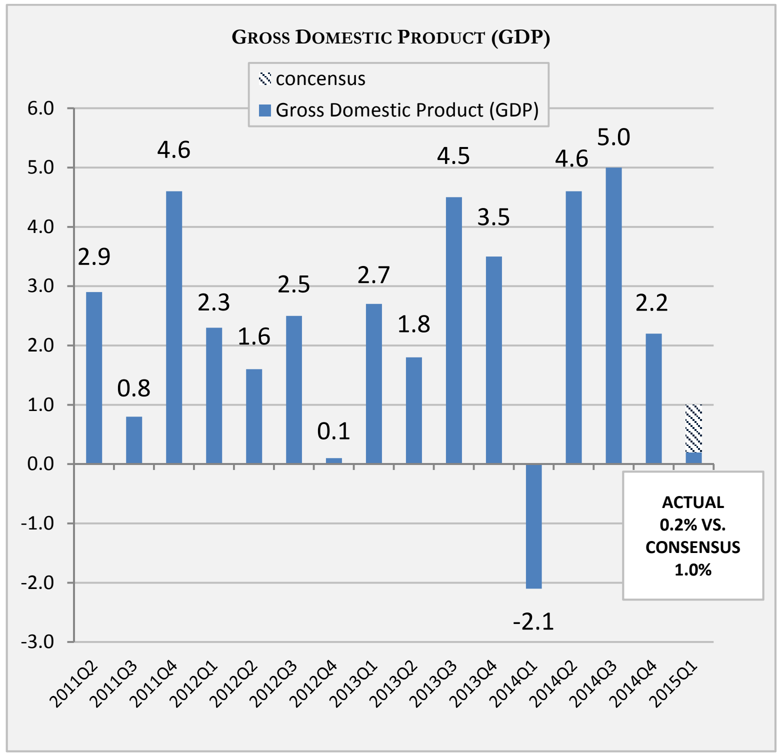
Headline News

GDP below expectation, Fed still optimistic

GDP came in at 0.2%, which is significantly below the expectation of 1.0%. Short term Treasuries tightened on the data release, suggesting that the market thinks the Fed will be slower to raise rates. The Fed released a statement last Wednesday (4/29/15) softening its assessment of the current economic conditions, stating "economic growth slowed during the winter months, in part reflecting transitory factors." Citing the transitory factors, it seems like the Fed remains optimistic that the economy will pick up in the near future, and further suggests that the Fed is eager to get the first rate hike into the books. The market will be closely watching the jobs report on Friday, with Nonfarm payrolls expected at 230k, the Unemployment rate expected to notch down by .10% to 5.4%, and average hourly earnings for April to come in at 0.2%.



Source: US Bureau of Economic Analysis

Muni Defaults Remain Limited

According to JP Morgan, first time municipal defaults in the first quarter of 2015 reached $43 million, compared to $33 million in the first quarter of 2014 and $18 million in the first quarter of 2013. These default figures excluded late payments, administrative errors, and instances where bond insurers are expected to pay. Despite the escalation in par defaults, this does not indicate a trend. Similar to other periods, defaults were largely driven by one or two entities, with the Alderson Broaddus College in West Virginia accounting for $37 million of defaulted par in the first quarter of 2015. None of the issuers that defaulted thus far in 2015 were rated.

Market Update

Higher yields due to high dealer inventories

Yields on the Municipal curve are cheaper this week by 8bps in 3Yrs to 0.92%, 11bps in 7Yrs to 1.71%, and 16bps in 10Yrs to 2.16. This sell off was partially in response to the Treasury market and partially due to higher dealer inventories. The lower new issue supply from last week moderately helped to clean up trading. However, this week's new issue calendar is expected to jump back up to $8.5 billion. Year to date, the Municipal market has issued $144.2 billion in long term debt, with $37.8 billion of that was in April. Refundings are keeping pace with previous months, with around 50%, or $17.9 billion refunded in April.

Record Long-end Corporate Issuance

Issuance of corporate bonds on the long-end of the yield curve in 2015 remains robust. According to data from Bloomberg, companies in the U.S. have issued a record $39 billion of bonds with 30+ year maturities year to date. This Issuance pace reflects a more than five-fold increase in the long-term corporate bond issuance this time last year. Notable participants in the issuance binge include Microsoft, which last week sold $1.25 billion in bonds maturing in 2055 and Oracle, which sold its first ever 40-year bond in February.

FIXED INCOME INDEX RETURNS

	MTD 5/1/2015	YTD 5/1/2015
Barclays 3Yr	-0.05	0.32
Barclays 5Yr	-0.07	0.58
Barclays 7Yr	-0.09	0.77
Barclays MM Short 1-5Yr	-0.04	0.37
Barclays MM 1-10Yr	-0.10	0.55
ML US Gov/Corp 1-10 Yr	-0.22	1.11

Source: Interactive Data

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