Market Overview

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Market consensus firmed regarding expectations that the Federal Reserve would attempt to engineer its first rate rise since reaching the zero-lower bound 7 years ago in the midst of the Great Recession. The developing consensus was bolstered by improvement in the labor market following a surprisingly strong October report and a respectable November release, which combined, acted to remove most of the market skepticism surrounding the Fed's oft-stated intention to begin 'normalizing' policy sometime this year. While a directional change in Fed policy can be no small matter for capital market investors, the prevailing landscape against which this rate rise is expected to take place is far from 'normal.' Against the backdrop of increasing expectations of Fed action, yield curves flattened as rates moved higher on the shorter-end of the curve reflecting anticipation of a higher Fed Funds rate, while the longer-end of the curve benefited from weakness on the commodity and inflation fronts.

Economic growth estimates for the third quarter were marked higher as the drag from business inventory drawdown was deemed smaller than initially estimated. The second estimate of Q3 growth was revised to 2.1% (from 1.5%) with the overall reading reflecting a healthy consumer continuing to power the economic advance. Lower gasoline prices continue to enable consumers to boost spending in other areas of the economy. Some of the 'windfall' from lower pump prices continues to find its way into a marginally higher savings rate. Weak energy markets remain an important factor suppressing headline inflation, and while commodity price movements are not generally enduring factor inputs driving longer-term inflationary trends, they do, at the aggregate level, broadly influence inflation expectations. With that in mind, it is important to note that the latest meeting of OPEC oil ministers devolved into an acrimonious conclusion at which the formal production ceiling was abandoned as members favored maintaining or increasing market share over attempting any pretense at controlling market pricing.

In other policy-related developments, the International Monetary Fund announced a much anticipated and long-awaited inclusion of the Chinese Renminbi (RMB) as a part of its Special Drawing Rights Basket of currencies to occur later next year. The inclusion, while not a market moving event, is significant to the extent that it highlights the importance of developing China in the global economy as well as recognizing the progress that has been made in terms of financial reforms and monetary liberalization. Nevertheless, it provides an interesting backdrop occurring at a time of increasing expectations of further downward pressure on the RMB as a consequence of weakening economic fundamentals and the diverging monetary policies of the Federal Reserve and the People's Bank of China.

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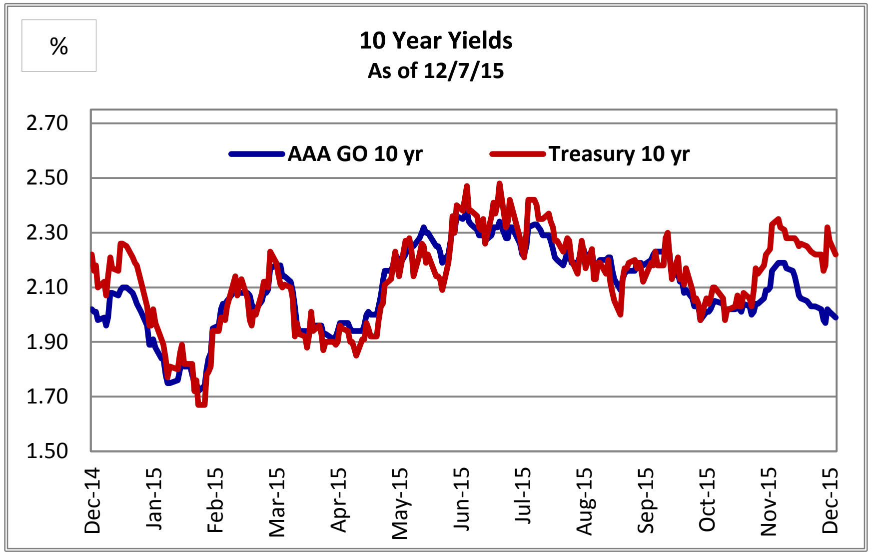

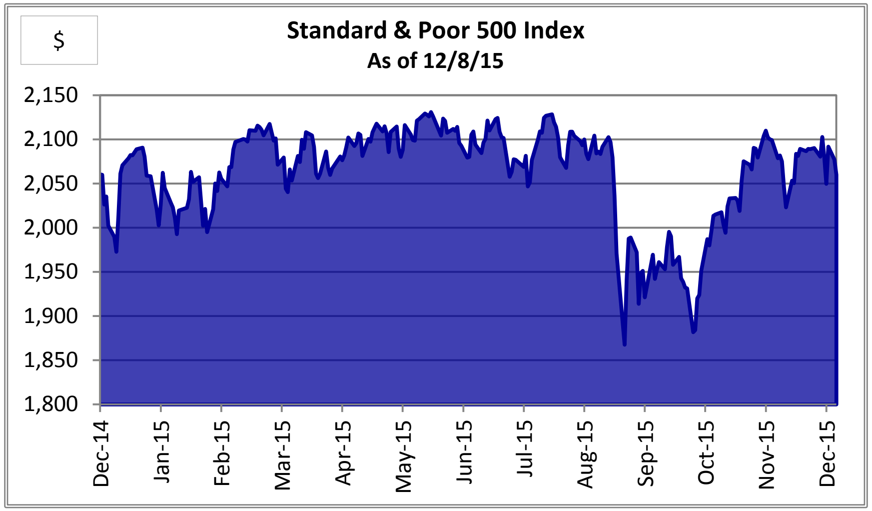

Source: Municipal Market Data; Bloomberg.
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Market Overview (cont.)

Yield curve flattening was a predominant feature in fixed income markets during November, as expectations of a Fed rate boost rose amid stronger news on the employment front. The spread from 2's to 30's narrowed by 16 basis points in the Treasury market while Municipals flattened by nearly 30 basis points. Most spread sector assets generated modest relative outperformance while High Yield Corporates proved the exception where spreads widened further. Corporate issuance continued at a blistering pace, running 10% ahead of last year's record rate. The municipal market outperformed and, in contrast, benefited from a modest slowdown in the new issue market. While year-to-date total new issue supply is up a healthy 24% versus last year, November marked the 3rd consecutive month of lower monthly issuance as compared to 2014 levels. Demand remains strong and slower issuance helped municipals outperform Treasuries for a second consecutive month. Equity markets remained relatively quiet as a continued weakening in earnings momentum helped anchor US equity markets to near flat for the year through November.

An evaluation of the current status of four key drivers of the economic and capital market landscape is as follows:

1. ***Growth in China.*** The growth slowdown scare that emerged in earnest in the third quarter has eased somewhat. In the wake of policy measures undertaken both to lower borrowing rates and ease restrictions on credit creation, the deceleration appears to have stabilized for the near term. Longer-term challenges remain significant as attempts to rebalance the economy away from an overreliance on investment and toward a greater emphasis on consumption may well contribute to slowing growth at the margin during this period of transition. Efforts are further complicated by a strengthening US Dollar, debt-bloated State Owned Enterprises and potential downward pressure on the RMB.

2. ***Commodity Prices.*** The 18-month collapse in commodity prices shows little signs of abating. Broad commodity price weakness has been a feature of the market as slower growth in China, the world's biggest importer of raw materials, hit commodity exporters hard. The strengthening US Dollar, in turn, has added to the downward pressure on prices. In addition, energy markets continue to reel from oversupply as expanded US energy production combined with a breakdown in OPEC production limitations has resulted in markets under relentless downward pressure.

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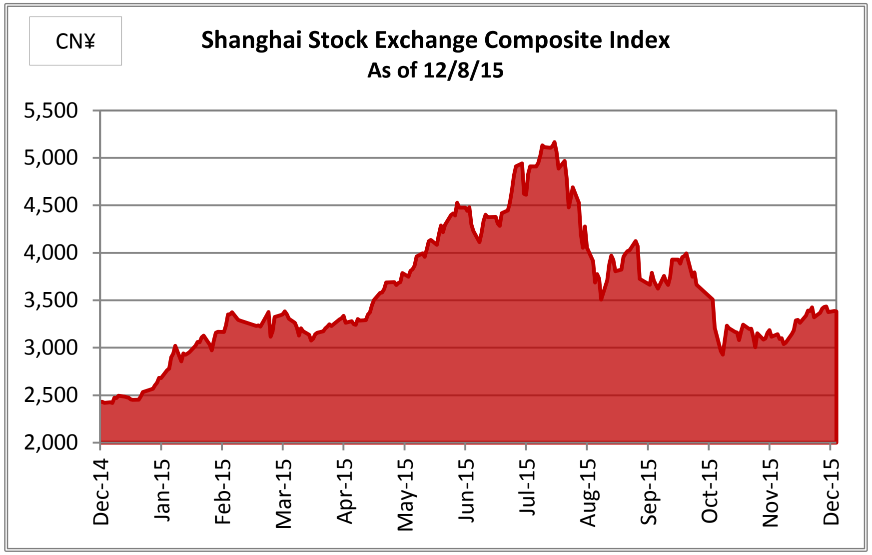

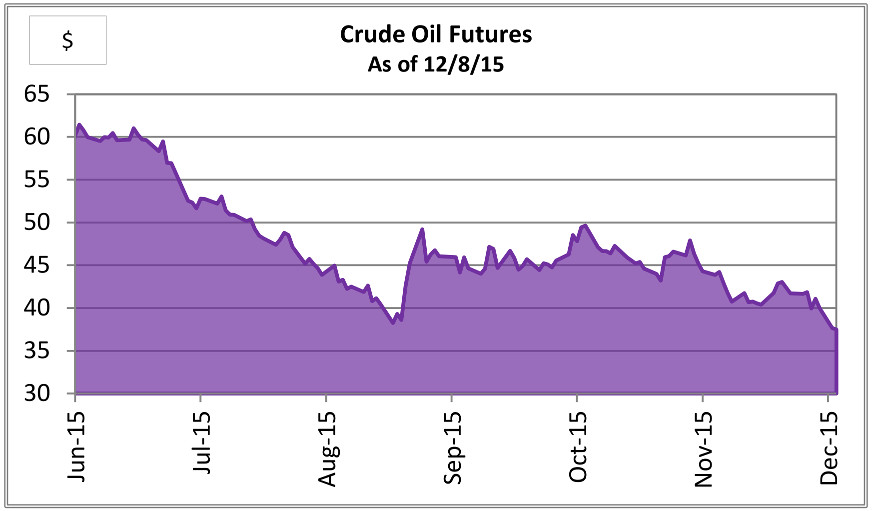

Source: Bloomberg
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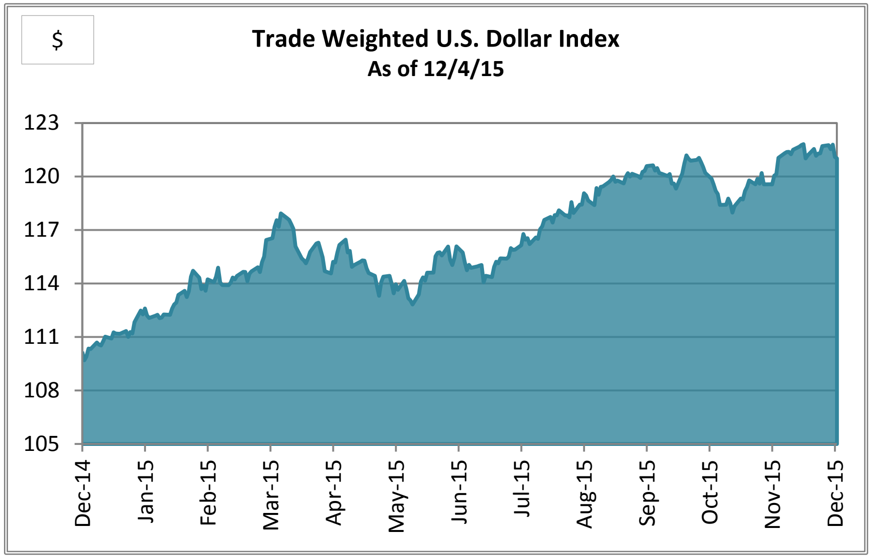
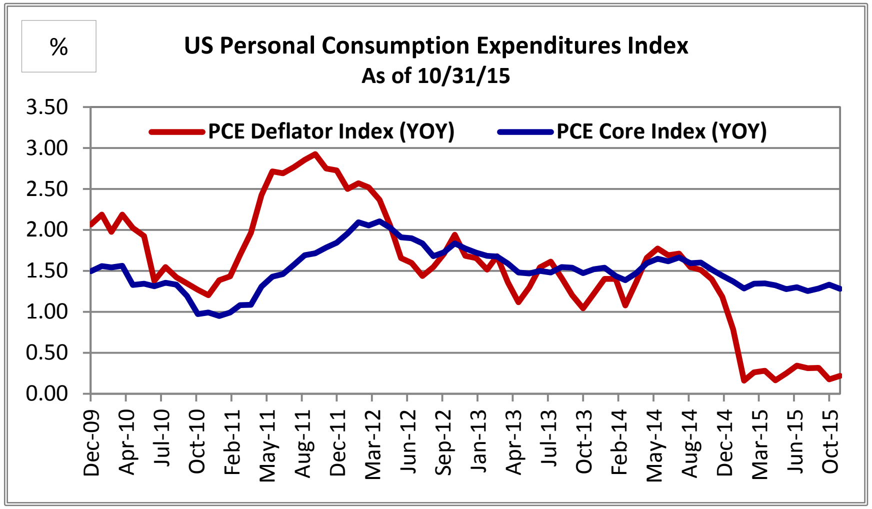
Market Overview (cont.)

3. ***US Dollar.*** The dollar continues to strengthen on the shoulders of diverging economic strength and anticipated wider monetary policy separation from major central banks worldwide. While consensus opinion regarding the direction of the dollar makes for a crowded trade, the fundamentals underlying the bullish view remain compelling. As such, while near-term volatility should not be unexpected, a longer-term trend change seems a lower probability scenario under existing circumstances.

4. ***Low Inflation.*** As a consequence of decelerating global growth, excess productive capacity and weak aggregate demand, inflation remains persistently below target in most Developed Market Economies and importantly in China. Whether inflation begins to move back toward the Fed's 2% target will be a critical determinant of potential rate increases going into 2016. Should the global deflationary environment continue to depress US prices, the Fed will be hard-pressed to justify a significant increase in rates with only modest GDP growth and to date, sub-par wage growth.





Sources: Bloomberg; Bureau of Economic Analysis.
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