

Tax-Exempt Bond Market Commentary

George K. Baum & Company | Treasury & Municipal Bond Market | Week Ending November 10, 2017



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MUNICIPAL BOND MARKET:

- **Municipal bonds started the week with a strong trade**, pushing bond rates lower, as the initial Congressional version for tax reform likely would limit future supply of tax-exempt bonds.
- However, muni participants **appeared to take profits on Thursday and Friday** as more questions arose surrounding the details for tax reform, giving back some of the weekly gains.
- By the end of the week, market participants received **summaries of both the House and Senate plans for tax reform**, including different inclusions/exclusions for municipal bonds.
- Both the House and Senate proposals **eliminate advance refundings**, reduce or eliminate state and local tax deductions, and the alternative minimum tax.
 - The Senate's current version now allows for private activity bonds.
 - The House version of tax reform still prohibits tax credit bonds, stadium financings, advance refundings and all private activity bonds.
- The reduction or elimination of state and local tax deductions (SALT), may **likely increase investor demand for municipal bonds in high tax states** such as California, New York and others.

GENERAL MARKET:

- **The U.S. Treasury yield curve is near the flattest levels in a decade** (the spread between short and long maturities), as markets continue to balance the Fed's tightening schedule with economic outlooks and Treasury supply.
- Stock markets posted **their first weekly loss in 9 weeks** as investors seem to pause with the uncertainty tax reform.

THE WEEK AHEAD:

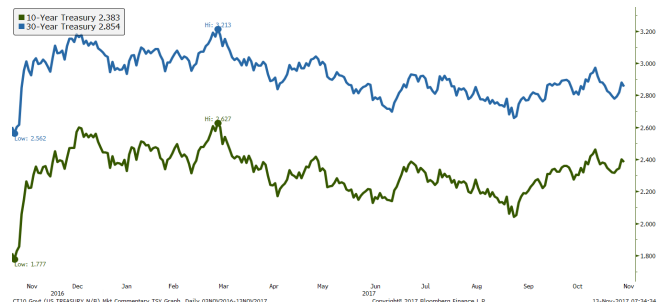
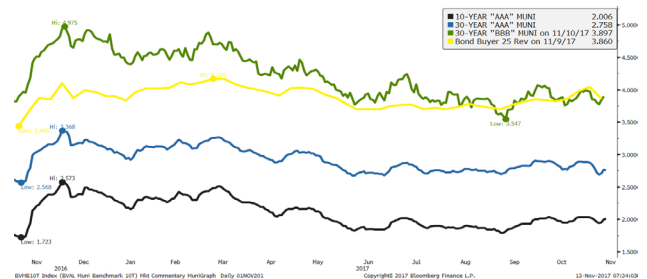
- The week ahead will be active for new issuance, with approximately **\$10 to \$11 billion expected** ahead of next week's light holiday calendar.
- **Looking beyond Thanksgiving, issuance may remain elevated through the balance of the year** as issuers rush to market ahead of potential tax reform, especially for issuers who planned advance refunding deals in early 2018.
- Economic releases for PPI, CPI, Retail Sales and Housing starts will all provide guidance on U.S. economic growth as move toward the expected FOMC rate hike on December 13th.

TREASURY & MUNICIPAL MARKET DATA INDEX RATES:

Week Ending	November 10, 2017	1-Week Change
Ten-Year "AAA" BVAL	1.996%	- 1.9 bps
Thirty-Year "AAA" BVAL	2.762%	- 8.0 bps
Thirty-Year "BBB" BVAL	3.830%	- 2.0 bps
Thirty-Year "A1" Bond Buyer Rev	3.86%	- 18.0 bps

BVAL is a municipal benchmark yield curve maintained by Bloomberg LP

Week Ending	November 10, 2017	1-Week Change
Treasury 10-Year	2.399%	+ 6.6 bps
Treasury 30-Year	2.880%	+ 6.6 bps



SOURCES: Bloomberg Markets Magazine, Municipal Market, The Bond Buyer & The Wall Street Journal

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George K. Baum & Company | Municipal Bond Short Term Market | Week Ending November 10, 2017



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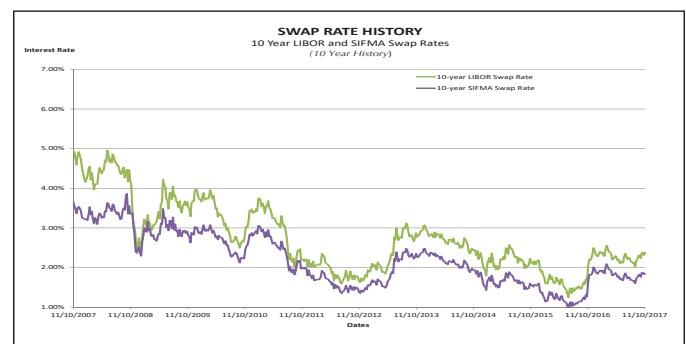
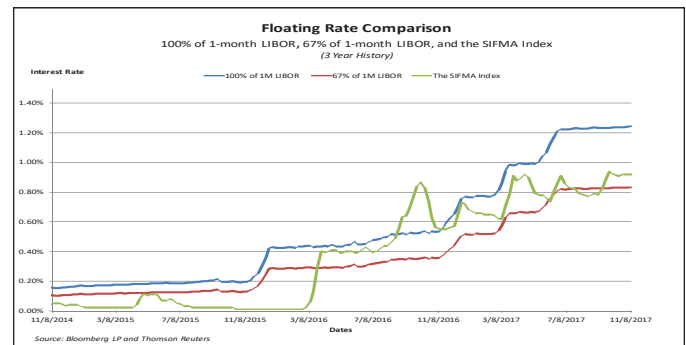
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MUNICIPAL BOND SHORT TERM MARKET:

- **The SIFMA Index reset at 0.92% flat** week over week.
 - **Assets at tax-exempt money market funds** were up \$790 million to \$129 billion.
 - **The SIFMA Index is now 74% of one-month LIBOR.**
- The initial version of the Senate's tax reform proposal was released last week with some major differences from the previously released House bill.
 - **Of note to the municipal market was no mention of repealing the tax-exemption for private activity bonds (the House bill eliminated this in many instances), the elimination of tax-exempt advanced refundings (matching the House's bill) and the elimination of ALL state and local tax deductions (the House bill had a \$10k property tax deduction).**
 - As more details are released and changes to the bill are made we will continue to keep you updated on the impact to the municipal debt market and its participants.
- Market expectations remain very high for a Fed rate increase at its December meeting.
 - **Fed funds futures point to a 92% chance of an additional rate hike by the end of the year** (unchanged from last week and up from 34% at the end of August).
- The LIBOR swap curve reversed the previous week's flattening and steepened last week.
 - **The 2-year LIBOR swap was up 3 basis points last week while the 10-year LIBOR swap rate was up 7 basis points.**
- Institutions providing new or replacement letters of credit or liquidity facilities last week included **Barclays Bank Plc.**
- **Legal entity identifier – borrowers with existing interest rate swaps should have obtained a GMEI from gmeiutility.org.**
 - Entering into new swaps, terminating or modifying swaps will also require that borrowers and issuers obtain a GMEI through gmeiutility.org.
- Clients should expect that, prior to entering into new swaps, terminating or modifying existing swaps, swap dealers will require that they either adhere to ISDA Protocols 1.0 and 2.0 or enter letter agreements that cover the same topics: **CFTC Business Conduct Standards, eligible contract participant category, End-user Exception from clearing requirements, and documentation, valuation and reconciliation matters.**

MUNICIPAL BOND SHORT TERM MARKET DATA:

Week Ending	November 10, 2017	1-Week Change
SIFMA	0.92%	Flat
1M LIBOR	1.25%	+ 1 bp
3M LIBOR	1.41%	+ 2 bps
2-Year LIBOR Swap	1.86%	+ 3 bps
10-Year LIBOR Swap	2.38%	+ 7 bps
30-Year LIBOR Swap	2.62%	+ 6 bps



SOURCES: Bloomberg Markets Magazine, Municipal Market, The Bond Buyer & The Wall Street Journal

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