

Tax-Exempt Bond Market Commentary

George K. Baum & Company | Treasury & Municipal Bond Market | Week Ending December 1, 2017



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MUNICIPAL BOND MARKET:

- The municipal market continues to see a spike in new issuance as the likelihood of tax reform increases and with it a limitation on the future issuance of bonds for some issuers.
 - Supply this past week totaled \$15.1 billion, marking the **4th largest week** of issuance since Bloomberg began tracking weekly issuance in 2003.
- With issuers rushing to market to beat potential tax reform the **total supply for December may approach record levels**. The previous monthly record for issuance was December 1985, when tax reform was also the catalyst for \$54.7 billion in issuance.
- Intraweek trading showed a tale of changing investor sentiment.
 - Trading was weak Monday through Wednesday** as the market focused on new issuance and investors were concerned supply would drive bond rates higher.
 - Thursday and Friday reversed the trade** and bond rates moved lower as investors were surprised by lighter than expected allotments from the week's heavy calendar.

TAX REFORM UPDATE:

- Early Saturday morning the Senate passed its version of tax reform to be combined with the version passed by the House in the previous week.
- The next step is for the House and Senate to work through the differences between the bills in conference committee.
- With advance refundings prohibited in both versions, **it is unlikely the refinancing tool for issuers will be revived**.
- Since the bills differ on the allowance of Private Activity Bonds (PABs), the **conference committee will likely include a workout on whether PABs will be allowed after 2017** and if allowed, for what type of borrowers.
- Just before the Senate passed their bill, they **resurrected a version of the Alternative Minimum Tax (AMT)**, previously thought to be an item of elimination with reform.

GENERAL MARKET:

- Treasury markets continue to show **pressure on shorter maturities** as strong economic forecasts clear the path for the Fed to continue raising short-term rates at their December 13th meeting.
- A **strong revised report for 3rd quarter GDP (+3.3%)** helped validate economists view of a strong underlying domestic economy.
- Equity markets screamed higher** week-over-week on continued business optimism spurred by tax reform. The DOW gained 674 points on the week and futures indicate an opening of +200 points for Monday morning.

THE WEEK AHEAD:

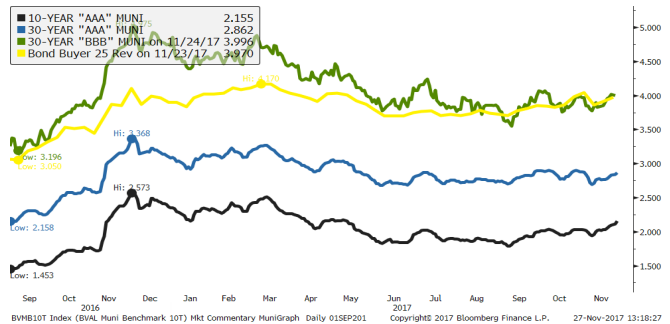
- All eyes this week will be on how municipal market will absorb one of the **largest weeks of new issuance on record**. Current estimates are for approximately \$21 billion in new supply, almost 3 times the 2017 average.
- Another Federal complication for the municipal market is the **looming potential for a government shutdown after December 8th if Congress does not pass a spending bill**. This could also impact issuers utilizing SLUGs if the window is temporarily closed.
- Looking further ahead, the week of December 11th is historically the last full week of investor participation and heavy new issuance for the municipal market, however tax reform likely means several issuers will also price bonds the week of December 18th.

TREASURY & MUNICIPAL MARKET DATA INDEX RATES:

Week Ending	December 1, 2017	1-Week Change
Ten-Year "AAA" BVAL	2.128%	+ 3.9 bps
Thirty-Year "AAA" BVAL	2.697%	- 7.7 bps
Thirty-Year "BBB" BVAL	3.880%	- 12.0 bps
Thirty-Year "A1" Bond Buyer Rev	4.04%	+ 7.0 bps

BVAL is a municipal benchmark yield curve maintained by Bloomberg LP

Week Ending	December 1, 2017	1-Week Change
Treasury 10-Year	2.362%	+ 1.9 bps
Treasury 30-Year	2.762%	- 0.3 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 December 1, 2017



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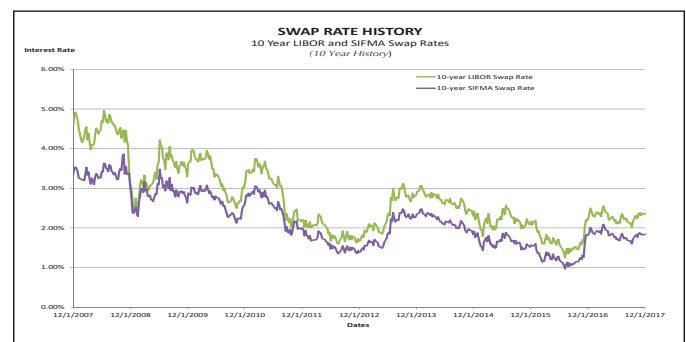
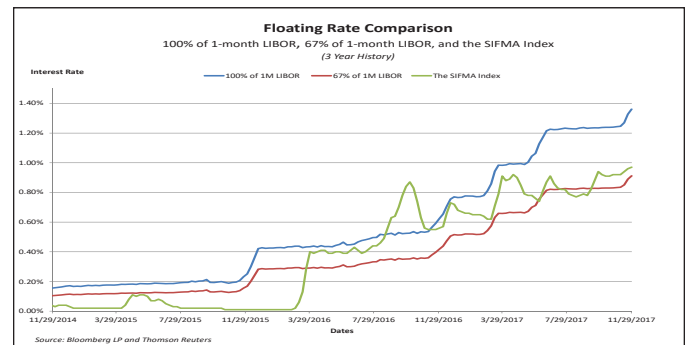
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MUNICIPAL BOND SHORT TERM MARKET:

- **The SIFMA Index reset at 0.97%**, up one basis point over week.
 - **Assets at tax-exempt money market funds** were unchanged at \$129 billion.
 - **The SIFMA Index is now 70% of one-month LIBOR.**
- As market expectations remain very high for a Fed rate increase at its December meeting, **short-term interest rates including 1-month LIBOR and 3-month LIBOR continue to increase.**
 - **Fed funds futures point to a 96% chance of an additional rate hike at its December 13 meeting.**
 - **One-month LIBOR is up 14 basis points since the end of October.**
- Tax reform moved forward over the weekend when the Senate passed its version of the overhaul.
 - **The Senate's version continues to differ from the House's version in ways that dramatically affect the municipal bond market including remaining silent on private activity bonds.** Both the Senate and the House's bills eliminate advanced refundings.
 - 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.
- The LIBOR swap curve saw a mild flattening as a Fed increase next week appears to be a lock.
 - **The 2-year LIBOR swap rate was up 4 basis points last week while the 10-year LIBOR swap rate was up 2 basis points.**
- Institutions providing new or replacement letters of credit or liquidity facilities last week included **Bank of Nova Scotia, PNC Bank and Royal Bank of Canada.**
- **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	December 1, 2017	1-Week Change
SIFMA	0.97%	+ 1 bp
1M LIBOR	1.38%	+ 4 bps
3M LIBOR	1.49%	+ 3 bps
2-Year LIBOR Swap	1.96%	+ 4 bps
10-Year LIBOR Swap	2.36%	+ 2 bps
30-Year LIBOR Swap	2.55%	Flat



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

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