TAX-EXEMPT MARKET COMMENTARY

TREASURY & MUNICIPAL BOND MARKET

Week Ending February 9th, 2018

MUNICIPAL BOND MARKET:

- As investors shy away from risk in the equity markets, Municipal bond fund inflows were positive for the ***5th straight week posting $675 million net inflows*** for the week ended February 9th.
- Despite the low supply and strong inflows into the municipal market, ***investors still remain cautious in their buying decisions as many still expect yields to rise.***

GENERAL MARKET:

- ***Monday, the DOW index plummeted 1,597 points intraday (the most points it had ever falled in a single day) before closing down 1,175 points***, the biggest single-day point drop in DOW history. The S&P index closed down 114 points.
- The DOW would go on to rebound 567 points Tuesday before losing 1,052 points Wednesday/Thursday. ***Intraday trading fluctuated over 2,100 points throughout the week, and after a 330 point rebound Friday the DOW closed the week down 1,330 points to 24,190.***
- ***The volatility spread globally with stocks in Germany, Sweden and Spain hitting a correction. The Nikkei*** fell 4.7% Tuesday before rebounding some and finishing the week down 2.32%.
- The ***fallout of the volatility last week pushed the DOW and S&P into a correction mid-week with the 10% decline from their recent highs on January 26,2018.*** Both indices finished the week down 5.2%.
- Much of the volatility has been attributed to investors ***expectations for increased economic growth and the belief that the growth will spur higher inflation and rising interest rates.***
- ***The 10-year Treasury yield fluctuated 15 bps throughout the week.*** Yields decreased 14 bps on Monday, an inverse response to the sell-off in equities, before closing the week at 2.85%. During ***intraday trading yields hit 2.88%, marking a four-year high.***

THE WEEK AHEAD:

- ***Next week investors will focus on the Consumer Price Index report on Wednesday as it is used as a measure of inflation.*** Additionally, reports for retail sales, PPI, Import price index, housing starts and building permits will be released.
- The ***muni market is scheduled to price $4.2 billion*** in new issues next week.

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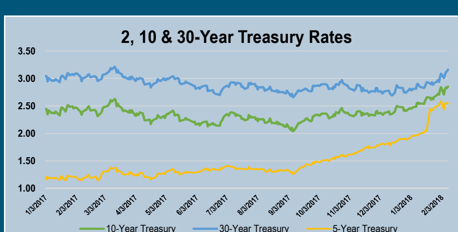
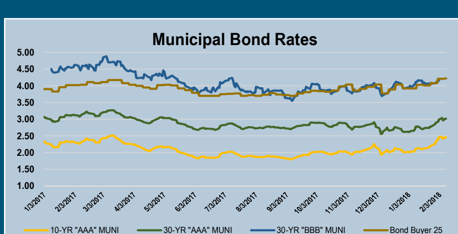
TREASURY BONDS MARKET DATA RESULTS:

Week Ending	February 9th, 2018	1-Week Change
10-YR "AAA" BVAL	2.456%	UNCHANGED
30-YR "AAA" BVAL	3.014%	+2.9 BPS
30-YR "BBB" BVAL	4.188%	+2.3 BPS
30-YR "A1" B.B. Rev.	4.22%	+1.0 BPS
10-YR Treasury	2.852%	+1.0 BPS
30-YR Treasury	3.16%	+7.3 BPS

BVAL is a municipal benchmark yield curve maintained by Bloomberg LP.





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

TAX-EXEMPT
MARKET COMMENTARY
MUNICIPAL BOND SHORT TERM MARKET
Week Ending February 9th, 2018

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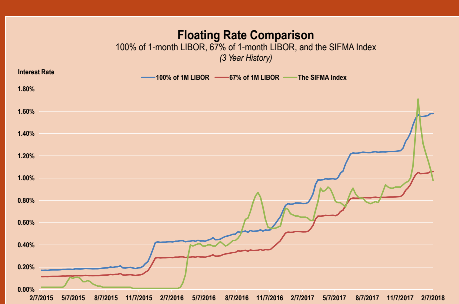
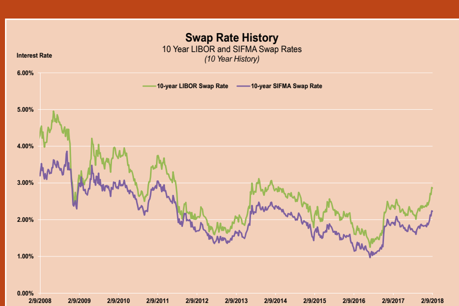
TREASURY BONDS MARKET DATA RESULTS:

Week Ending	Februaary 9th, 2018	1-Week Change
SIMFA	0.98%	-10 BPS
1-MTH LIBOR	1.58%	FLAT
3-MTH LIBOR	1.82%	+3 BPS
2-YR LIBOR SWAP	2.35%	-2 BPS
10-YR LIBOR SWAP	2.86%	-2 BPS
30-YR LIBOR SWAP	2.97%	+2 BPS





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

MUNICIPAL BOND SHORT TERM MARKET:

- The SIFMA Index ***reset at 0.98%,*** down 10 basis points week over week and down 73 basis points in 2018.
  - Assets at tax-exempt money market funds were ***up $520 million to $138.06 billion.***
  - The SIFMA Index is now ***62% of one-month LIBOR after being 109% to end 2017.***
- Jerome Powell took over as Chair of the Federal Reserve last week.
  - ***Market expectations for three or more rate increases in 2018 declined a bit last week after the equity sell-off. Fed funds futures indicate a 40% chance of at least three rate increases vs 57% the week before.***
  - ***In the wake of last week's volatility, Chairman Powell has asked Janet Yellen to return (only kidding)!***
- LIBOR swap rates followed the early week Treasury rally and mid/late week sell-off.
  - ***The recent rise in Treasury yields (and swap rates) were one of the causes of the equity decline meaning Treasuries did not act as a safe-haven as equity investors de-levered and took profits.***
  - ***Despite the decline in stocks, swap rates were mostly flat on the week with a slight bias towards a curve steepening.***
- Institutions providing ***new or replacement letters of credit*** or liquidity facilities last week included US Bank.
- 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.

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