

Tax-Exempt Bond Market Commentary

George K. Baum & Company | Treasury & Municipal Bond Market | Week Ending September 8, 2017



EDMUND J. STEINAUER
steinauer@gkbaum.com
Executive Vice President & Co-Manager, Municipal Finance Division



MARC R. DISPENSE
dispense@gkbaum.com
Executive Vice President & Manager, Syndicate, Underwriting & Sales



JOSEPH M. CROWE, JR.
crowe@gkbaum.com
Senior Vice President, Syndicate & Underwriting



LISA N. MAY
mayl@gkbaum.com
Senior Vice President, Syndicate & Underwriting



JACK LOGAN
logan@gkbaum.com
Senior Vice President, Sales & Trading

MUNICIPAL BOND MARKET:

- **Light new issue supply and secondary trading activity** dominated the holiday shortened trading week for municipal bonds.
- The low volatility and light new issue supply (down 15% year-over-year) are helping bond rates grind lower to the **lowest levels of 2017**.
- Insurance companies are one of the largest holder groups of municipal bonds and despite expectations for large coverage payouts due to the back-to-back U.S. hurricanes, this past week saw **no material change to their demand profile** for bonds.
- The mayor of Hartford, the capital of Connecticut, stated in a letter to the Governor the city may be **forced to bankruptcy within two months** if the state does not pass a budget or provide other support to help offset liabilities.
 - The City has posted a notice for an investor call on September 25th to in part lay the groundwork for a possible restructuring of debt.
- Municipal bond funds posted an **8th consecutive week of net inflows** the past week, with \$250 million added by investors (Lipper).

GENERAL MARKET:

- After being closed for the Labor Day holiday on Monday, **markets activity seemed lethargic** at times as the approaching Hurricane Irma dominated news stories.
- **Tensions remain high** in the markets following North Korea's largest nuclear test two-weeks ago, and now North Korea is warning the U.S. of "greatest pain" should the United Nations Security Council approve new sanctions put forth by the U.S., U.K. and France.
- The unknown total economic impact of Hurricanes Irma and Harvey coupled with continually escalating rhetoric around North Korea led **investors to put cash in safe, liquid assets benefitting the Treasury market**.
 - Treasury rates decreased by more than -10 bps over the trading week, the largest weekly since June.

THE WEEK AHEAD:

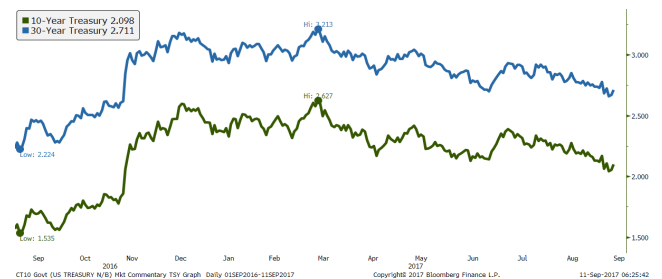
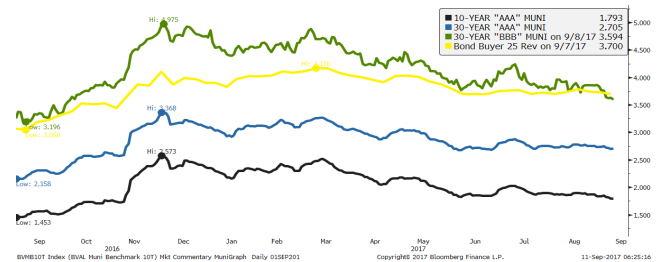
- After the holiday week, municipal **new issue supply will return to near-average** for 2017 with approximately \$8 billion expected.
- Federal Reserve officials are now under their silence period ahead of next week's FOMC meeting, so there will be no new commentary on possible Fed actions. . . although the market is not expecting any FOMC moves until mid-2018.
- **Inflationary data** from PPI and CPI along with August's Retail Sales report will be the highlight of economic releases and the Treasury will auction \$56 billion of 3, 10 and 30-year securities.

TREASURY & MUNICIPAL MARKET DATA INDEX RATES:

Week Ending	September 8, 2017	1-Week Change
Ten-Year "AAA" BVAL	1.793%	- 5.5 bps
Thirty-Year "AAA" BVAL	2.705%	- 4.1 bps
Thirty-Year "BBB" BVAL	3.594%	- 16.2 bps
Thirty-Year "A1" Bond Buyer Rev	3.70%	- 2.0 bps

BVAL is a municipal benchmark yield curve maintained by Bloomberg LP

Week Ending	September 8, 2017	1-Week Change
Treasury 10-Year	2.052%	- 11.5 bps
Treasury 30-Year	2.670%	- 10.8 bps



Tax-Exempt Bond Market Commentary

George K. Baum & Company | Municipal Bond Short Term Market | Week Ending September 8, 2017



ELIZABETH A. BARBER
barber@gkbaum.com
Executive Vice President,
Specialty Financial Products Desk

ALEC LEHRER
lehrer@gkbaum.com
Senior Vice President,
Specialty Financial Products Desk

JEREMIAH L. MILLER
millerj@gkbaum.com
Senior Vice President,
Specialty Financial Products Desk

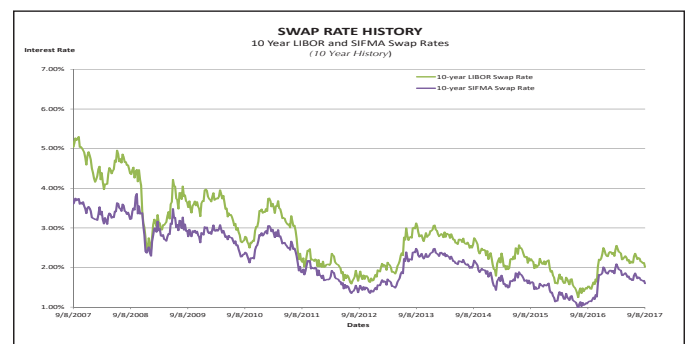
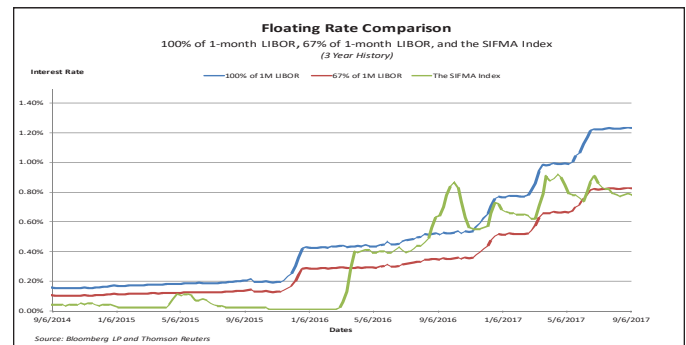
JAIME DE SENA
desena@gkbaum.com
Assistant Vice President,
Specialty Financial Products Desk

MUNICIPAL BOND SHORT TERM MARKET:

- **The SIFMA Index reset at 0.78%**, down one basis point week over week.
 - **Assets at tax-exempt money market funds** were up \$210 million.
 - **The SIFMA Index is now 63% of one-month LIBOR.**
- As inflation remains in check and the flight to safety trade continued, bond markets rallied last week and starting to converge with the markets expectations for limited future rate hikes by the Fed.
 - **Fed funds futures point to 0% chance of a third 2017 rate increase in September and a 35% chance by the end of the year (unchanged from the previous week).**
- The LIBOR swap curve flattened substantially last week as long term rates outperformed.
 - **The 2-year LIBOR swap rate decreased by 5 basis point while the 10-year LIBOR swap rate decreased by 11 basis points last week.**
- Institutions providing new or replacement letters of credit or liquidity facilities last week included **Bank of Nova Scotia, Royal Bank of Canada and TD 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.**

MUNICIPAL BOND SHORT TERM MARKET DATA:

Week Ending	September 8, 2017	1-Week Change
SIFMA	0.78%	- 1 bp
1M LIBOR	1.23%	Flat
3M LIBOR	1.31%	- 1 bp
2-Year LIBOR Swap	1.50%	-5 bps
10-Year LIBOR Swap	2.01%	- 11 bps
30-Year LIBOR Swap	2.33%	- 11 bps



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

This report was prepared from publicly available information believed to be reliable but not guaranteed by us, without further verification or investigation and does not purport to be complete. It is not to be considered as an offer to sell or a solicitation of an offer to buy the securities of the entities covered by this report. Opinions expressed are subject to change without notice. George K. Baum & Company may act as a principal for its own account or as agent for another person, in connection with the sale or purchase of any security which is subject in this report.



George K. Baum & Company
INVESTMENT BANKERS SINCE 1928

Member FINRA SIPC