

GKB PRIMARY CONTACTS:

EDMUND J. STEINAUER

Executive Vice President
George K. Baum & Company
Municipal Finance Division
(303) 391-5557
steinauer@gkbaum.com
www.gkbaum.com



MARC R. DISPENSE

Executive Vice President & Manager
George K. Baum & Company
Syndicate, Underwriting & Sales
(303) 391-5438
dispense@gkbaum.com
www.gkbaum.com



JOSEPH M. CROWE, JR.

Senior Vice President
George K. Baum & Company
Syndicate & Underwriting
(816) 283-5357
crowe@gkbaum.com
www.gkbaum.com



LISA N. MAY

Senior Vice President
George K. Baum & Company
Syndicate & Underwriting
(303) 391-5434
mayl@gkbaum.com
www.gkbaum.com



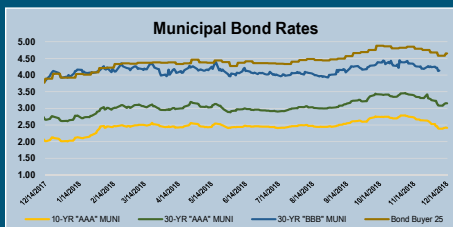
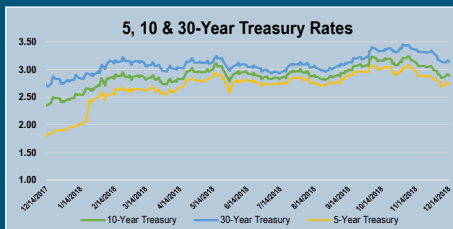
ALIX CETHOUTE

Senior Vice President
George K. Baum & Company
Syndicate & Underwriting
(214) 365-8207
cethoute@gkbaum.com
www.gkbaum.com



TREASURY BONDS MARKET DATA RESULTS:

Week Ending	December 14th, 2018	1-Week Change
10-YR "AAA" BVAL	2.416%	+2.6 BPS
30-YR "AAA" BVAL	3.150%	+7.2 BPS
30-YR "BBB" BVAL	4.277%	+14.3 BPS
30-YR "A1" B.B. Rev.	4.65%	+7.0 BPS
5-YR Treasury	2.731%	+4.1 BPS
10-YR Treasury	2.891%	+4.4 BPS
30-YR Treasury	3.140%	-0.1 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

TREASURY & MUNICIPAL BOND MARKET

Week Ending December 14th, 2018

THIS WEEK MARKS THE LAST FULL 5-DAY TRADING SESSION FOR 2018. WE WISH EVERYONE A JOYFUL AND SAFE CONCLUSION TO THEIR HOLIDAY, AND TOAST EACH TO A PROMISING 2019!

MUNICIPAL BOND MARKET:

- Municipal bond **rates edged higher** through the trading week as new issuance wrapped up for the year and secondary trading took over.
- **Municipal outflows continued for the 12th consecutive week**, as investors pulled \$317 million from muni funds.
- Year-to-date issuance is on pace to reach approximately \$317 billion for 2018. This represents a **drop of 22.7% from last year** and is about \$15 billion below the yearly average since 2003 (Bloomberg statistics).
- Even as **investors continue to pull money from municipal bond funds**, the limited new issue supply and late year Treasury rally is helping keep rates lower.
 - The Bloomberg AAA 10-year municipal benchmark touched 2.389% early last week, the lowest since January.

GENERAL MARKET:

- **Equity markets especially remain volatile** as active market participants adjust to global economic and trade concerns and domestic growth forecasts.
 - The Dow and S&P 500 are on track to post their worst year since 2008.
 - The S&P 500's -5.8% start to December is the worst December trading period since 1980 (Barron's statistics).
- Adding fuel to the "risk off" trade in equities and support for bonds was the **failure of British Prime Minister Theresa May to gain enough support for her Brexit deal**, which also led to her needing to survive a no-confidence vote midweek.

THE WEEK AHEAD:

- **Municipal issuance will barely surpass \$1 billion** with most deals pricing early in the week as investors and dealers close out 2018.
- The **Fed will hold its last meeting of 2018** and markets are pricing in a 74.1% probability the Fed will keep course, raising their benchmark by 0.25% to 2.25-2.50%. **Of greater interest to the markets will be guidance for 2019, which just recently forecasted 3 additional rate hikes, but now markets are not even pricing in 1 additional hike.**
- President Trump and Congress will need to negotiate a budget to **avoid a government shutdown**, of contention is funding for a wall between Mexico and the U.S.



George K. Baum & Company
INVESTMENT BANKERS SINCE 1928

This report was prepared from data 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. Past performance is no guarantee of future results. 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. Member FINRA SIPC

GKB PRIMARY CONTACTS:

ELIZABETH BARBER

Executive Vice President & Manager
George K. Baum & Company
Specialty Financial Products Desk
(303) 391-5599
barber@gkbaum.com
www.gkbaum.com



ALEC LEHRER

Senior Vice President
George K. Baum & Company
Specialty Financial Products Desk
(303) 391-5512
lehrer@gkbaum.com
www.gkbaum.com



JEREMIAH L. MILLER

Senior Vice President
George K. Baum & Company
Specialty Financial Products Desk
(303) 391-5576
millerj@gkbaum.com
www.gkbaum.com



EDWARD STASEN

Senior Vice President
George K. Baum & Company
Specialty Financial Products Desk
(303) 391-5588
stasen@gkbaum.com
www.gkbaum.com



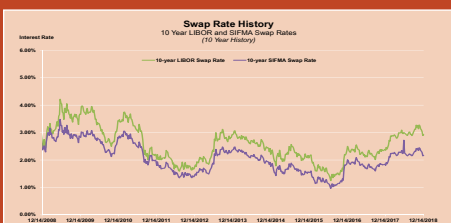
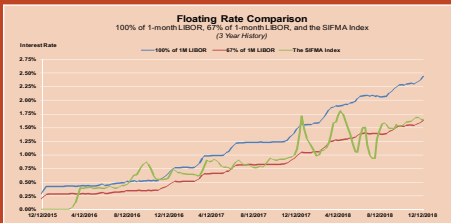
JAIME DE SENA

Vice President
George K. Baum & Company
Specialty Financial Products Desk
(303) 391-5493
desena@gkbaum.com
www.gkbaum.com



TREASURY BONDS MARKET DATA RESULTS:

Week Ending	December 14th, 2018	1-Week Change
SIFMA	1.64%	-1 BPS
1-MTH LIBOR	2.46%	+5 BPS
3-MTH LIBOR	2.80%	+3 BPS
SOFR	2.21%	-9 BPS
2-YR LIBOR SWAP	2.88%	+2 BPS
10-YR LIBOR SWAP	2.92%	+3 BPS
30-YR LIBOR SWAP	3.00%	FLAT



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

TAX-EXEMPT MARKET COMMENTARY

MUNICIPAL BOND SHORT TERM MARKET

Week Ending December 14th, 2018

MUNICIPAL BOND SHORT TERM MARKET:

- The SIFMA Index **reset at 1.64%**, down one basis point week over week.
 - Assets at tax-exempt money market funds were up \$1.53 billion to \$141.75 billion and are up \$3.27 billion over the past two weeks.
 - The SIFMA Index is now **67% of one-month LIBOR**.
- It is widely expected that despite the recent downturn in equities and concerns over growth and trade, the Fed will increase its target rate on Wednesday by 25 basis points.
 - Fed funds futures point to a **72% chance of a rate hike on Wednesday**.
 - Focus will be on indications of what to expect from the Fed in 2019. There is increasing sentiment that the Fed is growing more dovish as growth slows, trade is uncertain, and parts of the yield curve have inverted.
 - One-month and three-month LIBOR continued to rise in anticipation of the potential Fed rate increase Wednesday.**
- The rally in swap rates took a pause last week after three weeks of downward moves.
 - The 2-year LIBOR swap rate was up 2 basis points while the 10-year LIBOR swap rate was up 3 basis points.
- While large financial institutions are moving ahead with the transition from LIBOR to SOFR at a fairly good pace, smaller market participants need to show a higher sense of urgency as much work still needs to be done.
 - Regulators, market participants and trade groups continue to work to solve both the spot vs term issue along with the lack of credit spread in SOFR vs LIBOR.
- Institutions providing **new or replacement letters of credit** or liquidity facilities last week included Bank of America and 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.

gkb George K. Baum & Company
INVESTMENT BANKERS SINCE 1928

This report was prepared from data 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. Past performance is no guarantee of future results. 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. Member FINRA SIPC