

Municipal Market Weekly

Ramirez Municipal Strategy



January 8, 2018

Page 1

Cautiously Constructive

Market technicals are lining up constructively for Jan and should ultimately be price supportive as strong reinvestment against lower supply kicks in (Jan effect). However, for the time being we are cautious on the market, concerned about still-low absolute rates, tight credit spreads (pg 3), and compressed ratios (e.g. 5yrs @73%). Trading accounts, which bought a significant portion of the Dec supply, are looking to pare positions and dealer inventory is at a 4.5 yr high (\$28 bil.; see chart below), both of which could create price weakness. If we care to be buyers, we like short calls and 'A' rated credits, which we still think has value (see yellow highlight in table below). This aligns with our preference for a more defensive posture in 2018 (pg 2). We also note that CAL and NY names inside 10yrs, and the now endangered species PreRefunded are all getting very strong bids.

Last Week..

Municipals outperformed Treasuries through five years and underperformed in 10yrs and 30yrs as both markets kicked off 2018. MMD 2s30s was 6 bps steeper at 104 bps while the Treasury 2s30s was 4 bps flatter at 84 bps. Several factors were at play that caused the divergent results. Last week's new issue Muni supply was very light at only \$770 mil. against large Jan 1 reinvestment (\$45 bil. est) that helped the front end outperform, while the intermediate and long end was pressured by one very large account that all week offered and sold a significant amount of bonds. The MMD scale in 2yrs-5yrs was bumped 2 bps and 10yrs and out was cut between 3-6 bps. Treasuries were weaker across the curve (notably the 2yr and 5yr notes at 12 month high yields) on hawkish Fed minutes, a stronger ADP report, a weaker employment report, and continued equity market strength.

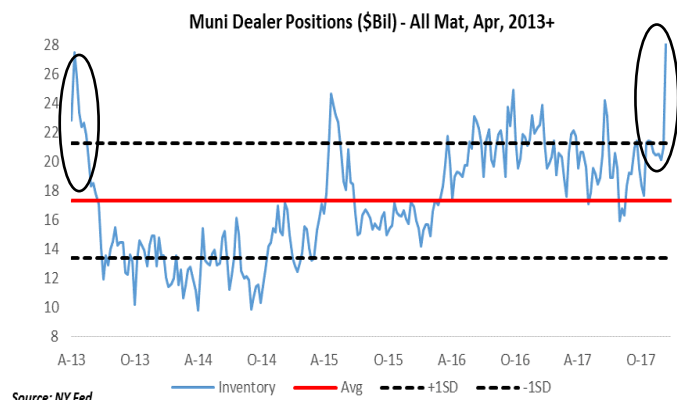
Muni new issue supply took a breather last week and is off to a slow start this week, which is typical for January, but particularly striking after Dec's monster \$62 bil. (a record) calendar that came ahead of monumental tax code revisions that banned advance refundings as of Jan 1. As mentioned, the Muni "January effect" is again operative despite the current 30-day visible supply of -\$10 bil. We expect gross supply in Jan to ramp up but come in lower than the average \$26 bil. monthly derived from our \$317 bil. total gross issuance projection (-27% YoY; discussed last week). Indeed, this week's supply is only \$4 bil., led by \$600 mil. Mass in the competitive space and PA's taxable \$413 mil. PLANCON bonds and a \$219 mil. taxable issue for Lurie Children's Hospital (IL) in the negotiated space.

This week: Fed speakers, Treasury auctions, CPI (Dec), Retail sales, Trump vs Bannon, Oprah 'actively thinking' about running for POTUS.

'A' rated bonds still have value

MUNI TAX-EXEMPT SPREADS							
		1/8/18	Avg	Min	Max	SD	Z-Scr
10Y	AA	18	21	15	31	4	-0.88
	A	51	50	35	62	6	0.22
	BBB	107	111	76	151	18	-0.25
30Y	AA	46	51	32	68	8	-0.64
	A	78	77	56	95	8	0.07
	BBB	129	123	82	167	17	0.38
	HY	253	325	241	403	42	-1.70

Dealer positions at 4.5yr high....



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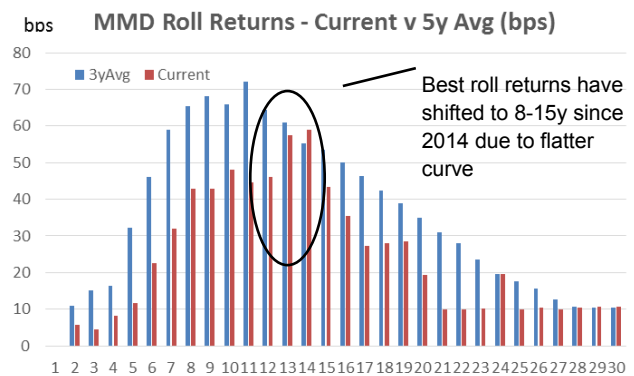
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2018 Strategy

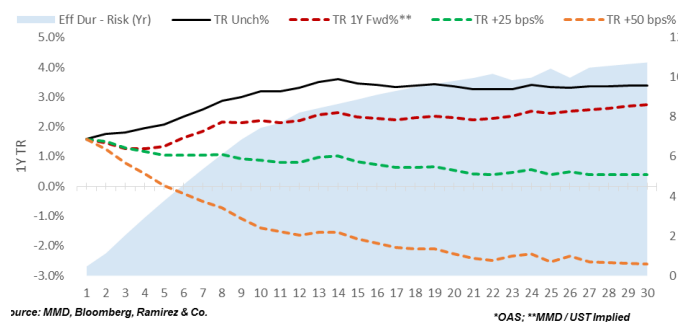
- ~25 bps shift is likely in 2018
- Ladder strategy
- Defensive posture (5yr eff dur; 7yr WAM)
- Intermediate-long bonds with shorter calls (5-8yrs vs 10y); cheaper vs longer calls, capture better spread and rolldown, faster reinvestment
- Best rolldown range has shifted over past 3yrs to belly of curve due to flatter curve
- Coupon: 5%+ (lower convexity vs 4%)
- Credit: 'AA-' rated or better Revenue Bonds;

Scenarios			
Crv Shft (avg bps)	50	25	11
Quality	>= AA-	>= AA-	>= AA-
TR % Proj.	1.36%	1.21%	3.22%
TR (Tax Equiv)	2.15%	1.93%	5.11%
OAS (bps)	15	25	63
Eff Dur (yrs)	0.8	5.0	10.2
WAM	1.4	7.2	25.6
Cnvx	0.01	0.36	-1.12

11 bps (avg) shift = FWD curve



MMD Callable Curve (5% Cpn) - 1Y Total Return Projections*



source: MMD, Bloomberg, Ramirez & Co.

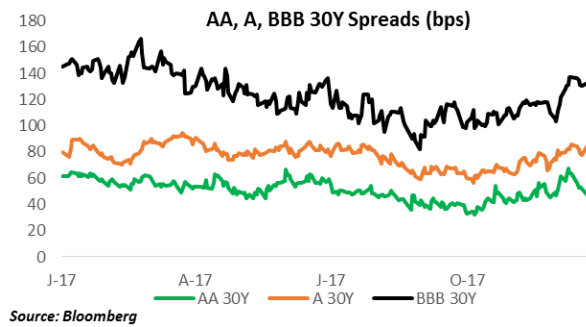
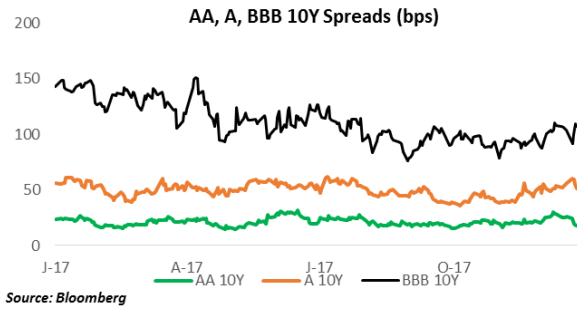
*OAS; **MMD / UST Implied

MMD Callable Curve (5% Cpn) - 1Y Total Return Projections*								
	Mty	1-30y	1-5y	6-10y	11-15y	16-20y	21-25y	26-30y
	Eff Dur	0.0	2.6	6.3	8.4	9.5	10.1	10.5
Scenarios	Unch	3.23%	1.93%	2.85%	3.41%	3.38%	3.30%	3.36%
	1Y Fwd Rates	2.31%	1.33%	2.03%	2.31%	2.30%	2.37%	2.63%
	Parallel +25 bps	0.66%	1.21%	0.98%	0.89%	0.64%	0.44%	0.41%
	Parallel +50 bps	-1.90%	0.49%	-0.86%	-1.61%	-2.09%	-2.41%	-2.53%

Rates & Ratios

	YIELDS (%)									Z-Score	
	1/5/2018	12/29/2017	1/3/2017	1/6/2017	Lo 12M	Hi 12M	Mean 12M	SD 12M	12M	4Y	
AAA MMD /											
2 Yr	79%	82%	100%	97%	62%	97%	75%	8.15	0.450	-0.239	
5 Yr	73%	76%	91%	90%	62%	89%	74%	6.38	-0.160	-0.617	
10 Yr	82%	81%	94%	94%	79%	100%	88%	4.74	-1.455	-1.894	
30 Yr	92%	92%	99%	100%	90%	104%	98%	2.85	-2.072	-1.633	
UST											
2 Yr	1.96	1.90	1.23	1.20	1.16	1.96	1.41	20.43	2.684	2.891	
5 Yr	2.28	2.22	1.97	1.90	1.61	2.28	1.91	14.02	2.578	2.488	
10 Yr	2.46	2.43	2.46	2.39	2.03	2.62	2.33	10.87	1.244	0.819	
30 Yr	2.80	2.78	3.07	2.99	2.65	3.21	2.89	11.95	-0.818	-0.327	
AAA MMD											
2 Yr	1.54	1.56	1.23	1.17	0.85	1.57	1.06	18.93	2.561	2.877	
5 Yr	1.66	1.68	1.79	1.70	1.12	1.79	1.42	18.40	1.311	1.876	
10 Yr	2.01	1.98	2.32	2.24	1.81	2.49	2.06	17.31	-0.302	-0.067	
30 Yr	2.58	2.54	3.05	3.00	2.46	3.25	2.84	17.60	-1.492	-0.896	

Legend: Rich Fair Cheap
 *Rich/Cheap: +/- 1.5 Z-score



Spreads are tight...

SECTOR CREDIT SPREADS (10Y)								
Sector	Rating	1/6/18	Avg	Min	Max	SD	2Y Z-Scr	Value
GO	AA	18	26	15	42	6	-1.22	Rich
	A	47	60	29	97	13	-1.00	Rich
HOSP	AA	34	39	25	60	6	-0.89	Rich
	A	65	66	48	102	7	-0.12	Fair
HI ED	AA	14	23	7	52	7	-1.39	Rich
	A	42	55	32	94	10	-1.40	Rich
TRANS	AA	18	27	12	47	8	-1.17	Rich
	A	38	48	28	87	10	-0.96	Rich
POWER	AA	20	17	5	32	6	0.49	Fair
	A	47	48	32	72	8	-0.13	Fair
WTR / SWR	AA	19	24	10	41	5	-0.92	Rich
	A	48	63	32	104	15	-0.97	Rich
HY	<BBB-	253	325	241	403	42	-1.70	Rich

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January 8, 2018

Page 4

Market Performance Indicators

WEEK ENDING: 1/5/18

INDEX	Eff Dur	TOTAL RETURN (%)					YIELD (%)								Z-score	
		WTD	Dec'17	2017	2016	2015	1/5/18	WTD Δ	YTD Δ	Lo 12M	Hi 12M	Mean 12M	Vol 12M	12M	3Y	
TREASURY-TERM																
TREASURY - ALL	6.3	-0.39	0.31	2.31	0.63	0.84	2.27	0.08	0.03	1.73	2.27	1.93	0.12	2.78	2.30	
SHORT	2.0	-0.10	0.03	0.87	1.25	0.67	2.11	0.07	0.03	1.39	2.11	1.62	0.18	2.80	2.76	
SHORT-INT	3.8	-0.22	0.05	1.75	1.84	1.57	2.45	0.06	0.03	1.91	2.45	2.12	0.12	2.71	2.70	
INTRMD	5.2	-0.23	0.19	2.59	1.78	1.25	2.83	0.06	0.02	2.47	2.86	2.63	0.08	2.35	1.79	
LONG-INT	6.7	-0.27	0.42	3.51	2.20	1.09	3.02	0.04	0.00	2.73	3.24	2.95	0.09	0.78	0.88	
LONG	15.3	-0.91	1.88	10.47	5.77	-3.26	3.55	0.06	-0.01	3.45	3.97	3.68	0.13	-1.01	-0.76	
MUNICIPAL-TERM																
SHORT	1.9	0.05	0.13	1.16	0.39	0.88	1.69	-0.01	-0.02	1.03	1.71	1.26	0.16	2.60	2.82	
SHORT-INT	3.3	0.08	0.37	2.39	0.12	1.96	1.86	-0.02	-0.02	1.30	1.93	1.57	0.18	1.75	2.01	
INTRMD	4.8	0.02	0.84	4.74	0.28	3.27	2.18	0.00	-0.01	1.84	2.50	2.13	0.18	0.26	0.63	
LONG-INT	5.2	0.00	0.99	5.42	0.38	3.68	2.28	0.01	0.00	1.99	2.69	2.29	0.19	-0.05	0.34	
LONG	6.6	-0.10	1.55	8.19	0.97	4.52	2.94	0.02	0.01	2.79	3.59	3.10	0.21	-0.76	-0.33	
MUNICIPAL-QUALITY																
MUNI-EXEMPT	5.0	0.00	0.95	4.95	0.90	3.32	2.37	0.01	0.00	2.05	2.64	2.33	0.16	0.24	0.44	
MUNI-TAXABLE	8.2	-0.43	0.68	6.81	4.16	1.30	3.78	0.04	0.00	3.59	4.03	3.79	0.09	-0.16	0.08	
HIGH-GRADE	5.0	0.01	0.84	4.22	-0.09	3.21	2.00	0.00	-0.01	1.54	2.15	1.83	0.18	0.95	1.20	
'A' RATED	5.0	-0.02	0.99	5.40	0.82	3.60	2.37	0.03	0.00	2.08	2.67	2.34	0.16	0.16	0.59	
'BBB' RATED	5.2	0.00	1.07	7.97	0.94	4.31	2.92	0.01	0.00	2.79	3.60	3.15	0.25	-0.94	-0.30	
HIGH YIELD	6.9	-0.12	1.30	9.69	3.52	1.81	5.18	0.04	0.03	5.05	6.39	5.72	0.45	-1.21	0.70	
MUNICIPAL-SECTOR																
PRE-RE	2.4	0.12	0.09	1.07	0.32	0.95	1.63	-0.01	-0.03	0.93	1.66	1.14	0.18	2.71	3.27	
GO	5.0	-0.03	0.98	4.56	0.08	2.99	2.21	0.01	0.00	1.76	2.32	2.05	0.15	1.11	1.12	
DED TAX	5.7	0.04	1.05	3.73	1.92	1.24	2.49	0.00	-0.01	2.21	3.12	2.66	0.27	-0.62	-0.48	
WTR-SWR	5.2	-0.03	1.12	5.31	0.53	3.92	2.27	0.02	0.00	1.97	2.60	2.25	0.16	0.09	0.47	
PUB PWR	4.7	-0.01	0.87	3.20	1.18	4.57	2.22	0.03	-0.01	1.77	2.87	2.32	0.35	-0.29	-0.33	
HEALTHCARE	5.3	-0.04	1.29	7.00	1.24	4.65	2.85	0.03	0.01	2.72	3.38	2.98	0.18	-0.74	0.10	
HIGHER ED	5.6	-0.03	1.16	6.20	0.62	3.87	2.60	0.02	0.00	2.38	2.97	2.63	0.16	-0.21	0.49	
TRANSPORT	5.2	-0.03	1.04	6.25	0.93	3.76	2.43	0.04	0.00	2.13	2.80	2.43	0.19	0.00	0.28	
HOUSING	8.4	-0.04	0.80	5.59	1.52	3.71	2.80	0.02	0.01	2.66	3.24	2.96	0.15	-1.04	-1.00	
TOBACCO	9.5	0.39	1.04	17.82	6.17	13.48	4.57	-0.20	-0.03	4.48	5.45	4.90	0.24	-1.38	-1.38	
IDB (CORP)	4.8	0.01	0.78	6.41	1.53	3.66	2.91	0.00	-0.04	2.73	3.51	3.12	0.22	-0.93	-0.24	
GLOBAL / CORP																
GLOBAL AGG	7.1	-0.10	0.35	7.39	1.77	-3.15	1.69	0.03	0.00	1.47	1.76	1.61	0.05	1.61	0.88	
US CORP-IG	7.6	-0.42	0.91	6.42	5.84	-0.68	3.31	0.07	0.01	3.03	3.50	3.23	0.10	0.89	0.43	
US CORP-HY	3.9	0.73	0.30	7.50	18.37	-4.47	5.54	-0.18	-0.18	5.31	6.14	5.65	0.17	-0.68	-1.00	

Rich Fair Cheap
*Rich/Cheap: +/- 1.5 Z-scr

Muni Primary Market

Gross Supply (\$ in millions)

	As of 1/5/18
Last Week	770.4
12wk Moving Avg	10,470.7
YTD	770.4

Source: Bloomberg

Weekly Visible Supply (\$ in millions)

	Week of 1/8/18
Total	4,020.2
Comp.	1,938.6
Neg.	2,081.6

Source: Bloomberg

30-Day Visible Supply (\$ in millions)

	Current Total	2017 High \$ Date	2017 Low \$ Date
Total	6,807.4	6,918.7 (1/5)	4,175.5 (1/2)
Comp.	3,123.4	3,123.4 (1/8)	1,556.9 (1/2)
Neg.	3,684.0	4,003.8 (1/5)	2618.6 (1/2)

Source: Bond Buyer

Top Competitive Issuances Coming to Market

Issuer	State	Amount (\$ 000's)
Massachusetts Cmwlth	MA	600,000
Fairfax Cnty	VA	225,190
Florida St Edu Brd	FL	170,000
Rooseville ISD #623	MN	139,235
Worcester Cty	MA	103,795

Source: Bloomberg

Top Negotiated Issuances Coming to Market

Issuer	State	Amount (\$ 000's)
PA Cmwlth Fin Auth	PA	412,655
IL Fin Auth Rev (Lurie Children's Hospital)	IL	218,665
Paris Lakes Med Assets	TX	135,615
Pub Fin Auth (Prime Healthcare Foundation)	WI	123,450
Kansas City	MO	121,270

Source: Bloomberg

Underwriters will attempt to market \$4.02 bil. of municipals in the week of 1/8, led in the negotiated space by \$413 mil. PA Cmwlth Fin Auth, \$219 mil. IL Fin Auth Rev (Lurie Children's Hospital), and \$136 mil. Paris Lakes Med Assets. The competitive calendar is highlighted by \$600 mil. Massachusetts Cmwlth, \$225 mil. Fairfax Cnty, and \$170 mil. Florida St Edu Brd.

Ramirez Negotiated Issuances Coming to Market

Issuer	State	Amount (\$ 000's)	Senior Manager	Ramirez Role
State of Texas	TX	62,715	Ramirez	Senior Manager

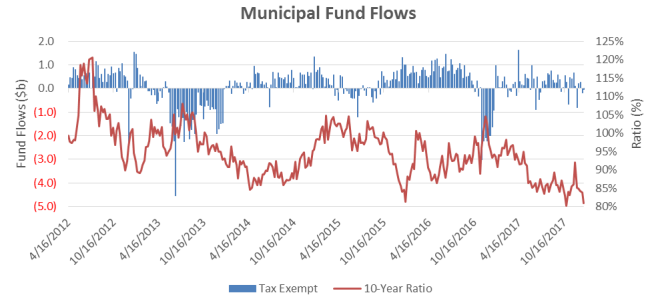
Economic Calendar

Monday (1/8)	Tuesday (1/9)	Wednesday (1/10)	Thursday (1/11)	Friday (1/12)
3-Month Bill Auction	NFIB Small Business Optimism	MBA Mortgage Applications	PPI	CPI
6-Month Bill Auction	4-Week Bill Auction	Import Price Index	Initial Jobless Claims	Retail Sales
Fed Speakers: Bostic, Williams,	3-Year Note Auction	Wholesale Inventories	Continuing Claims	Fed Speaker: Rosengren
	Fed Speaker: Kashkari	10-Year Note Reopening	Bloomberg Consumer Comfort	
		Fed Speakers: Evans, Kaplan,	Monthly Budget Statement	
			30-Year Bond Reopening	
			Fed Speaker: Dudley	

Source: Bloomberg

Muni Market Demand

Tax-exempt mutual funds started the year with outflows of \$48 million in the week ending January 3. This was below the 12-week moving average of a \$101 million inflow.

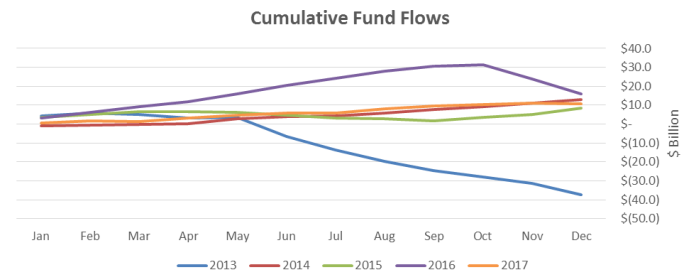


Source: Lipper Fund Flows

US Lipper Fund Flows

Sector	Flow Change (\$B)	YTD (\$B)
Tax-Exempt	Outflow: -0.048	Outflow: -0.048
Money Market	Outflow: -7.094	Outflow: -7.094
Taxable	Inflow: 3.279	Inflow: 3.279
Equities	Outflow: -8.397	Outflow: -8.397

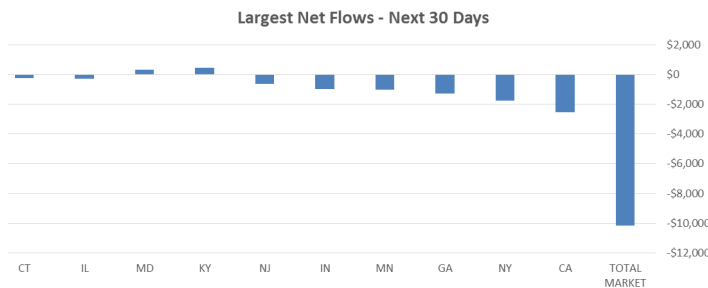
Source: Lipper Fund Flows



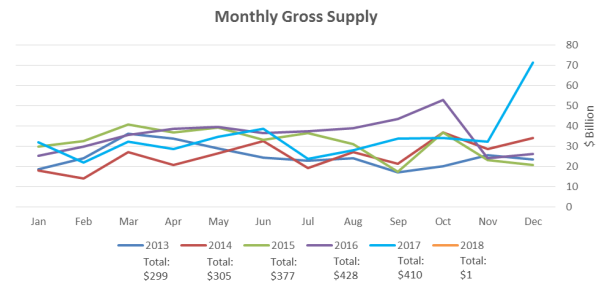
Source: Bloomberg

Muni Market Supply

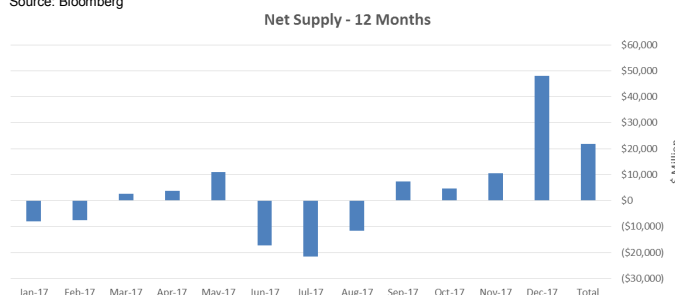
Over the next 30 days we see net muni market supply at -\$10.16 bil., comprised of \$7.53 bil. new issues, \$8.97 bil. maturing, and \$8.72 bil. announced calls. The states that stand to experience the largest change in outstanding debt include California (-\$2.52 bil.), New York (-\$1.73 bil.), Georgia (-\$1.26 bil.), Minnesota(-\$1.01 bil.), and Indiana (-\$962 mil.).



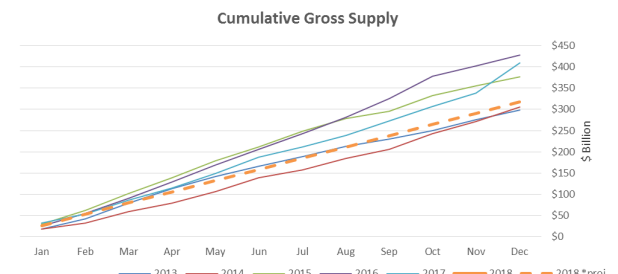
Source: Bloomberg



Source: Bloomberg, Ramirez



Source: Bloomberg



Source: Bloomberg, Ramirez

Ramirez Managed Deals

\$62,715,000
State of Texas
General Obligation Bonds
Water Financial Assistance and Refunding Bonds,
Series 2018A

Issue: Bonds are rated Aaa/AAA/AAA. Pricing Wednesday, January 10, 2018. Ramirez & Co. is **Senior Manager** of this transaction. Proceeds of the Water Financial Assistance and Refunding Bonds (Bonds) will be used to provide financial assistance (in the form of loans) to political subdivisions of the State of Texas (State) for various water related projects throughout the State and to refund certain outstanding debt.

Security: The Bonds are general obligations of the State, secured by its full faith and credit pledge. In practice, the bonds are expected to be paid from revenues available in the Financial Assistance Account, which is funded by bonds and borrower loan repayments. In the event that the account is funded in an amount insufficient to pay debt service, the State is required to appropriate funds in an amount sufficient to cure the deficiency.

Credit Overview: Texas is the second largest state by area, population, and economic output. The State spans nearly 270,000 square-miles in the southern portion of the United States, bordering Mexico to the south. The State's estimated 2016 population of 28.3 million represents about 8.7% of the total U.S. population. The State's 2016 GDP was 1.6 trillion, second only to California. As the nation's largest producer of crude oil and natural gas, the State's economy is heavily concentrated in the energy sector. Resident wealth levels are below average, with the State's median per capita and household incomes at 93% and 99% of their respective national medians. As of October 2017, the State's unemployment rate was 3.5%, below the national rate of 3.9%. In FY16 the State's general fund revenues totaled \$96.24 billion, a 0.7% increase over the previous year. Taxes were the largest revenue source, accounting for 44% of total revenues. The state comptroller's January 2017 forecast for the 2018-2019 biennium projects a 3.9% increase in total net revenue. As of December 31, 2016, the State's rainy day reserve (Economic Stabilization Fund) held a balance of \$10.2 billion, or 9.2% of general fund revenues. Total primary government debt was \$50.81 billion (\$1,815 per capita), or 3.8% of personal income. The overall funded ratio for the state pension systems averaged 76% over the past three years.

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