

Ramirez Municipal Strategy



April 8, 2019

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Municipal Market Weekly

Credit & Market Strategy

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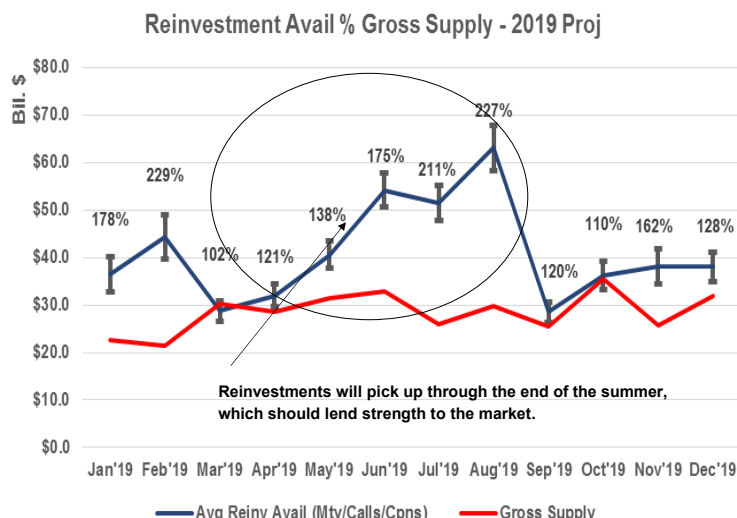
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Muni Weekly Recap. Muni new issuance last week decelerated to \$7.6 bil. from \$9.7 bil. in the prior week, including negotiated offerings from Virgin Trains (\$1.7 bil.), IL SRF (\$450 mil.), MI SBLF, and Lee Memorial Hlth (FL). All transactions were well-subscribed and repriced with multiple/substantial bumps across most maturities. Fund inflows remained strong for the 13th consecutive week at +\$713 mil. and +\$15.89 bil. YTD (highest since 1992) as investors continued to buy tax-exempts amidst Federal tax changes. Secondary trading flows, including BWICs and trades, were slightly higher than average. Dealer inventories remain manageable at ~\$16.5 bil. and are down -32% vs Jan 1, 2019. Despite the firm market tone, Muni yields were higher on the week in sympathy with Treasuries, which fell on risk-on sentiment sparked by optimism on better global growth. The MMD scale was cut by an average of +7bps across the curve, including +3 bps in 1yr (1.51%) and +10 bps in 30yrs (2.70%). MMD 2s30s bear steepened by +6 bps to 117 bps. Treasury yields rose every day of the week except Friday due to the combination of higher-than-expected US job growth (196k vs 176k exp) but with lower-than-expected average hourly earnings, indicating inflation remains muted. Treasury yields were high by an average of +4.3 bps led by the 10yr and 30yr which rose +6 bps to 2.50% and 2.90%, respectively. Treasury 2s30s bear steepened by +2 bps to 57 bps. Equities rose on the week with the S&P 500 index higher by 2.06% (15.39% YTD). Muni underperformance caused M/T ratios to cheapen a bit across the curve (+1.3 ratios avg) producing "fair" readings in 2yrs and 5yrs at 65.5% and 71.2% respectively, but maintaining still "rich" readings in 10yrs and 30yrs at 77.2% and 93.1%, respectively. Munis lost -25 bps on the week (2.51% YTD) and Treasuries lost -46 bps (1.64% YTD).

This week. Weekly muni supply this week declines slightly to \$6.7 bil, including a \$2.1 bil. GO offering from California, \$550 mil. Hunt Refining Co, \$450 mil. NYC Water. Competitive transactions of \$1.5 bil. are led by \$224 mil. VA Trans. Gross issuance YTD is +\$84 bil. (+18% YoY); however, we are projecting year-end gross supply at only +8% YoY (\$341.8 bil.). The 30-day visible net supply is -\$12.55 bil., comprised of +\$8.21 bil. new issues against -\$20.76 of maturing (-\$11.25 bil.) and announced calls (-\$9.51 bil.) The states that are expected to experience the largest change in outstanding debt include NY (-\$2.86 bil.), CA (-\$2.74 bil.), MI (-\$1.84 bil.), MA (-\$1.09 bil.), and WI (-\$911.0 mil.). This week's headline events will likely be on Wed and Thurs when Fed meeting minutes are released (Wed), along with March CPI (Wed) and PPI (Thurs). There are also various Fed speakers throughout the week and several Treasury auctions, including \$16 bil. of 30yr bonds on Thurs. Trump vs. Fed.

Trade Ideas. The frenzied clamor for tax-exempts should maintain tight ratios and low yields through the April tax-filing season and, potentially, the summer. Reinvestment is expected to pick up through the end of the summer, which should lend additional strength to the market. We estimate positive flows (avg reinv available - proj gross supply) at \$3 bil. in April, \$9 bil. in May, \$21 bil. in June, \$25 bil. in July, and \$33 bil. in August. Thereafter, it's possible the Muni market will begin to experience relatively cheaper valuations if new issuance accelerates (which we expect), equities continue to perform well, and/or fund inflows slow or reverse as investors re-assess TCJA tax effects. For now, we look for value in select spots, such as the 1-5yr spots and the 18-21yr spots. We favor a barbell posture with effective duration of between 8-9 yrs consisting of 70% in 1-6yr maturities and 30% in 18-21yr maturities. The shorter duration portion includes laddered fixed rate non-call bonds and/or floating rate bonds, while longer maturities (20-30yrs) have 8-10yr calls. This strategy captures 95% of the yield curve, limits volatility, and maximizes credit spread and rolldown in the 7-13yr range, the historical sweet spot for roll. High valuations amidst the tight spread backdrop also argue for conservative credit quality, but slightly more aggressive on duration, including bonds with lower coupons (sub-5%).



2019 Strategy

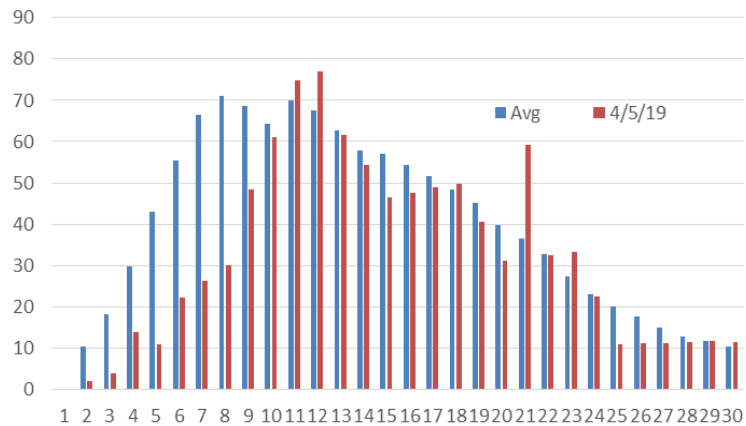
- 70/30 Barbell strategy: 70% 1-6 yrs; 30% 18-21 yrs
- Eff duration of 8-9 yrs.
- Short or floating 1- 6yrs;
- Long-intermediate and long (18-21 yrs w/ 8-10yrs calcs)
- Capture ~95% of curve, fast reinvestment, optimal rolldown
- Best rolldown is historically 7-13yrs.
- Credit: 'AA-' or better GO; 'A' or better Revenue (select names)

Scenarios (1Y)					
Scenario	Bear	Base		Bull	
Strategy	Ladder	Barbell	Ladder	Barbell	Ladder
Crv Shift (avg bps)*	50	25	25	5	5
Quality	AA GO / A Rev	AA GO / A Rev		AA GO / A Rev	
Tot Rtrn % (Proj)	1.37%	3.20%	1.42%	3.90%	4.03%
OAS (bps)*	6	47	23	56	58
Eff Dur (yrs)	1.3	8.9	4.0	9.8	11.3
WAM	1.4	19.2	4.9	22.4	26.2
Cnvx	0.03	-0.88	0.37	-1.39	-1.46

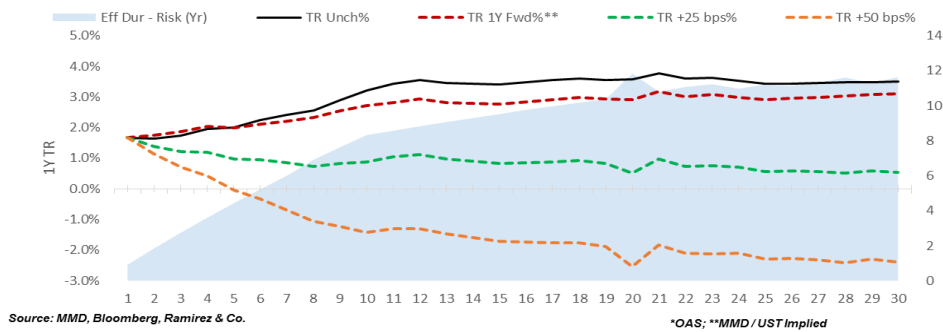
*W.A. bps shift = implied by FWD rates = 5

*OAS Vol = 20

bps MMD Roll Returns - Current v 5y Avg (bps)



MMD Callable Curve (5% Cpn) - 12M FWD Total Return Projections*

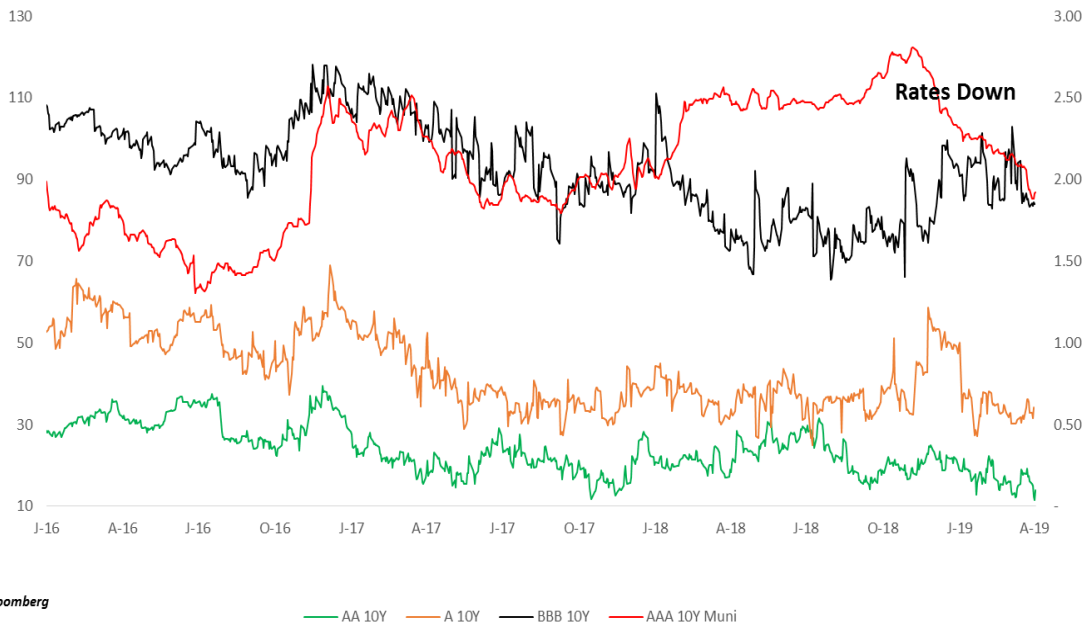


Source: MMD, Bloomberg, Ramirez & Co.

*OAS; **MMD / UST Implied

MMD Callable Curve (5% Cpn) - 12M FWD Total Return Projections*								
	M ty	1-30y	1-5y	6-10y	11-15y	16-20y	21-25y	26-30y
	Eff Dur	8.7	3.3	7.0	9.1	10.5	11.1	11.4
Scenarios	Unch	3.33%	1.86%	2.72%	3.45%	3.55%	3.59%	3.47%
	1Y Fwd Rates	2.83%	1.92%	2.42%	2.83%	2.91%	3.03%	3.03%
	Parallel +25 bps	0.79%	1.18%	0.84%	0.97%	0.79%	0.74%	0.56%
	Parallel +50 bps	-1.74%	0.51%	-1.00%	-1.49%	-1.96%	-2.10%	-2.34%

As Muni rates have declined, spreads have compressed...



SECTOR CREDIT SPREADS (10Y)									
1/1/16-Current									
Sector	Rating	4/5/19	Avg	Min	Max	SD	Z-Scr	Value	Sharpe
GO	AA	14	24	11	40	6	-1.65	Rich	0.3
	A	33	52	16	86	13	-1.38	Rich	1.6
HOSP	AA	19	36	17	60	7	-2.47	Rich	1.0
	A	42	64	42	102	7	-3.00	Rich	4.2
HI ED	AA	7	22	4	40	8	-2.04	Rich	-0.7
	A	37	50	29	94	11	-1.23	Rich	2.3
TRANS	AA	15	24	10	47	8	-1.17	Rich	0.3
	A	38	43	23	87	10	-0.56	Fair	2.5
POWER	AA	16	16	3	39	6	-0.12	Fair	0.6
	A	42	45	29	72	8	-0.39	Fair	3.8
WTR / SWR	AA	12	21	5	41	6	-1.66	Rich	0.0
	A	41	55	27	104	16	-0.87	Fair	1.8
HY	<BBB-	195	268	159	472	75	-0.97	Fair	2.4

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Market Performance

WEEK ENDING: 4/5/19																				
INDEX	TOTAL RETURN (%)										YIELD (%)									
	WTD	Apr '19	1Q19	2019	12M	12M adj	2018	2017	2016	3Y	5Y	4/5/19	WTD Δ	YTD Δ	Lo	Hi	Mean	Vol	Z-score	
TREASURY - TERM																				
TREASURY - ALL	-0.46	-0.46	2.11	1.64	3.89	1.24	0.86	2.31	0.63	0.76	2.11	2.45	0.07	-0.16	2.33	3.12	2.77	0.16	-1.97	0.56
SHORT	-0.07	-0.07	1.22	1.14	2.92	3.36	1.60	0.87	1.25	1.30	1.24	2.52	0.05	-0.24	2.41	3.14	2.80	0.16	-1.80	0.81
SHORT-INT	-0.18	-0.18	2.14	1.95	4.00	2.03	1.14	1.75	1.84	1.52	2.12	2.75	0.06	-0.23	2.63	3.40	3.06	0.16	-1.89	0.64
INTRMD	-0.20	-0.20	2.59	2.39	4.59	1.81	0.90	2.59	1.78	1.69	2.56	3.01	0.06	-0.25	2.88	3.61	3.32	0.14	-2.29	0.45
LONG-INT	-0.28	-0.28	3.08	2.79	4.89	1.58	0.16	3.51	2.20	1.58	3.12	3.14	0.05	-0.31	3.04	3.88	3.53	0.17	-2.31	0.15
LONG	-0.88	-0.88	6.45	5.51	4.79	0.67	-4.55	10.47	5.77	3.16	5.49	3.76	0.06	-0.27	3.68	4.29	4.00	0.12	-2.04	-0.02
MUNICIPAL - TERM																				
SHORT	-0.08	-0.08	1.11	1.02	2.64	6.23	1.78	1.16	0.39	1.25	1.20	1.68	0.04	-0.25	1.64	2.24	1.91	0.16	-1.41	0.55
SHORT-INT	-0.16	-0.16	1.84	1.68	3.94	5.27	1.78	2.39	0.12	1.58	2.03	1.82	0.05	-0.30	1.77	2.48	2.13	0.18	-1.78	0.21
INTRMD	-0.24	-0.24	2.74	2.49	5.39	4.20	1.55	4.74	0.28	2.32	3.50	2.16	0.06	-0.33	2.11	2.90	2.53	0.18	-2.02	-0.16
LONG-INT	-0.26	-0.26	2.99	2.72	5.82	4.03	1.46	5.42	0.38	2.55	3.97	2.26	0.06	-0.34	2.20	3.02	2.64	0.19	-2.09	-0.27
LONG	-0.44	-0.44	3.85	3.40	5.39	2.26	0.34	8.19	0.97	3.27	5.66	3.09	0.08	-0.31	3.01	3.79	3.41	0.16	-2.01	-0.05
MUNICIPAL - QUALITY																				
MUNI-EXEMPT	-0.25	-0.25	2.76	2.51	5.00	3.65	1.36	4.95	0.90	2.58	3.93	2.42	0.07	-0.30	2.35	3.08	2.72	0.16	-1.84	0.03
MUNI-TAXABLE	-0.63	-0.63	3.52	2.87	4.93	1.33	0.95	6.81	4.16	3.48	5.49	3.86	0.07	-0.19	3.78	4.38	4.11	0.12	-2.16	0.01
HIGH-GRADE	-0.25	-0.25	2.65	2.39	5.14	3.88	1.28	4.22	-0.09	1.90	3.09	1.97	0.06	-0.32	1.91	2.72	2.35	0.19	-1.99	0.02
'A' RATED	-0.24	-0.24	2.83	2.58	5.00	3.62	1.18	5.40	0.82	2.55	4.14	2.42	0.05	-0.34	2.37	3.11	2.75	0.16	-1.99	0.03
'BBB' RATED	-0.25	-0.25	3.30	3.03	5.68	3.96	1.54	7.97	0.94	3.63	5.42	3.01	0.06	-0.35	2.95	3.63	3.30	0.15	-1.95	-0.26
HIGH YIELD	-0.35	-0.35	3.83	3.47	7.54	3.46	4.76	9.69	3.52	6.42	6.80	4.75	0.07	-0.25	4.64	5.19	4.92	0.13	-1.29	-1.23
MUNICIPAL - SECTOR																				
PRE-RE	-0.10	-0.10	1.12	1.02	2.57	5.47	1.64	1.07	0.32	1.15	1.23	1.59	0.05	-0.25	1.54	2.14	1.83	0.16	-1.48	0.56
GO	-0.26	-0.26	2.68	2.42	5.00	3.47	1.14	4.56	0.08	2.14	3.29	2.23	0.06	-0.30	2.16	2.93	2.56	0.17	-1.95	0.13
DED TAX	-0.30	-0.30	3.12	2.81	5.74	3.96	1.92	3.73	1.92	2.64	3.62	2.60	0.12	-0.24	2.48	3.20	2.86	0.16	-1.64	-0.24
WTR-SWR	-0.28	-0.28	2.79	2.50	5.01	3.27	1.01	5.31	0.53	2.41	4.14	2.28	0.06	-0.31	2.22	3.01	2.63	0.17	-2.01	-0.06
PUB PWR	-0.23	-0.23	2.48	2.25	4.84	4.07	1.38	3.20	1.18	2.06	3.44	2.18	0.05	-0.30	2.13	2.85	2.51	0.16	-2.03	-0.61
HEALTHCARE	-0.25	-0.25	3.18	2.92	5.37	3.22	1.23	7.00	1.24	3.42	5.42	3.00	0.06	-0.34	2.94	3.67	3.30	0.16	-1.87	0.04
HIGHER ED	-0.27	-0.27	3.01	2.73	5.24	3.22	1.18	6.20	0.62	2.74	4.43	2.65	0.06	-0.31	2.59	3.33	2.98	0.16	-2.06	-0.04
TRANSPORT	-0.27	-0.27	3.11	2.83	5.31	3.67	0.95	6.25	0.93	2.90	4.58	2.49	0.06	-0.36	2.44	3.22	2.83	0.17	-2.02	-0.03
HOUSING	-0.20	-0.20	2.86	2.65	4.67	2.60	1.13	5.59	1.52	3.12	4.35	2.95	0.06	-0.24	2.89	3.55	3.20	0.14	-1.76	-0.31
TOBACCO	-0.12	-0.12	3.92	3.80	5.15	1.47	3.60	17.82	6.17	8.37	12.02	4.43	0.01	-0.42	3.18	5.09	4.24	0.61	0.31	-0.45
IDB	-0.20	-0.20	3.04	2.83	4.89	4.18	1.56	6.41	1.53	3.36	5.04	2.89	0.05	-0.38	2.84	3.53	3.21	0.15	-2.13	-0.52
GLOBAL / CORP / EQUITY																				
S&P 500	2.06	2.06	13.07	15.39	10.91	0.70	-8.24	19.42	10.77	13.69	11.20	2.04	-0.03	-0.27	1.83	2.34	1.99	0.10	0.12	-0.24
GLOBAL AGG	-0.48	-0.48	2.20	1.71	-0.62	-0.20	-1.20	7.39	1.77	1.06	0.85	1.83	0.06	-0.19	1.74	2.27	2.04	0.12	-1.84	0.43
US CORP-IG	-0.21	-0.21	5.14	4.92	4.69	1.38	-2.51	6.42	5.84	3.50	3.83	3.67	0.04	-0.53	3.59	4.37	4.03	0.17	-2.12	0.42
US CORP-HY	0.50	0.50	7.26	7.79	6.15	1.95	-2.08	7.50	18.37	9.34	5.20	6.25	-0.18	-1.71	5.97	8.12	6.62	0.45	-0.81	-0.04

Rich Fair Cheap
*Rich/Cheap: +/- 100 Z-scr

Rates & Ratios

	This Wk	Last Wk	End Qtr	End Yr	Mean	Value	WTD	MTD	QTD	YTD						
	4/5/19	3/29/19	3/29/19	12/31/18	12M	3Y	Perf	Perf	Perf	Perf						
AAA MMD / UST							Ratios	Ratios	Ratios	Ratios						
2 Yr	66%	65%	65%	71%	67%	76%	Fair	Fair	0.5	Under	0.5	Under	0.5	Under	-6.0	Out
5 Yr	71%	69%	69%	78%	73%	76%	Fair	Fair	2.0	Under	2.0	Under	2.0	Under	-6.8	Out
10 Yr	77%	76%	76%	86%	83%	88%	Rich	Rich	1.1	Under	1.1	Under	1.1	Under	-8.8	Out
30 Yr	93%	92%	92%	101%	98%	98%	Rich	Rich	1.5	Under	1.5	Under	1.5	Under	-8.1	Out
UST							BPS	BPS	BPS	BPS						
2 Yr	2.34	2.29	2.29	2.49	2.61	1.73	Rich	Fair	4.5		4.5		4.5		-15.5	
5 Yr	2.30	2.27	2.27	2.49	2.73	2.10	Rich	Fair	3.4		3.4		3.4		-18.2	
10 Yr	2.50	2.44	2.44	2.65	2.88	2.42	Rich	Fair	5.5		5.5		5.5		-15.0	
30 Yr	2.90	2.84	2.84	2.98	3.10	2.90	Rich	Fair	6.3		6.3		6.3		-8.4	
AAA MMD							BPS	BPS	BPS	BPS						
2 Yr	1.53	1.49	1.49	1.78	1.76	1.26	Rich	Fair	4.0		4.0		4.0		-25.0	
5 Yr	1.64	1.57	1.57	1.94	1.99	1.58	Rich	Fair	7.0		7.0		7.0		-30.0	
10 Yr	1.93	1.86	1.86	2.28	2.40	2.11	Rich	Fair	7.0		7.0		7.0		-35.0	
30 Yr	2.70	2.60	2.60	3.02	3.06	2.83	Rich	Fair	10.0		10.0		10.0		-32.0	

*Rich/Cheap: +/- 1.0 Z-Score

Muni Primary Market

Gross Supply (\$ in millions)

	As of 4/5/19
Last Week	7,626.9
12wk Moving Avg.	6,330.7
YTD	84,060.5

Source: Bloomberg

Weekly Visible Supply (\$ in millions)

	Week of 4/8/19
Total	6,734.7
Comp.	1,520.5
Neg.	5,214.2

Source: Bloomberg, Ramirez

30-Day Visible Supply (\$ in millions)

	Current		2019 High		2019 Low	
	Total	\$	Date	\$	Date	
Total	8,358.7	11,487.5	(3/26)	4,339.1	(2/14)	
Comp.	2,113.1	6,043.5	(3/26)	1,791.7	(2/5)	
Neg.	6,245.6	7,151.7	(2/1)	1,482.4	(3/6)	

Source: Bond Buyer

Top Competitive Issuances Coming to Market

Issuer	State	Amount (\$ 000's)
Virginia Cmwlth Transprtn	VA	224,875
Round Rock ISD	TX	159,485
Florida St	TX	150,000
East Side Union HSD	CA	140,000
New York	NY	121,500

Source: Bloomberg

Top Negotiated Issuances Coming to Market

Issuer	State	Amount (\$ 000's)
California St	CA	2,100,000
Tuscaloosa Co Indl Dev (Hunt Refining Co)	AL	550,000
New York City Muni	NY	450,000
California Cmnty Hsg	CA	194,090
Oregon St Univ	OR	140,000

Source: Bloomberg

Ramirez Negotiated Issuances Coming to Market

Issuer	State	Amount (\$ 000's)	Senior Manager	Ramirez Role
Huron Redev Agy	CA	2,970	SAR	Senior
New York City Muni	NY	450,000	Siebert	Co-Senior
Houston - Hotel Occupancy	TX	115,000	JPM	Co-Senior
California St	CA	2,100,000	MS	Co-Manager
DASNY (Cornell)	NY	114,165	Citi	Co-Manager

Underwriters will attempt to market \$6.7 bil. of munis in the week of 4/8, led in the negotiated space by \$2.1 bil. California St., \$550 mil. Hunt Refining Co., and \$450 mil. NYC Muni Water. The competitive calendar is highlighted by \$225 mil. VA Trans.

Economic Calendar

Monday (4/8)	Tuesday (4/9)	Wednesday (4/10)	Thursday (4/11)	Friday (4/12)
Factory Orders	NFIB Small Business Optimism	MBA Mortgage Applications	PPI Final Demand MoM	Import Price Index MoM
Durable Goods Orders	U.S. to Sell USD38 Bln 3-Year Notes	CPI MoM	PPI Final Demand YoY	U. of Mich. Sentiment
Durables Ex Transportation	Fed Speaker - Clarida	CPI Ex Food and Energy MoM	Initial/Continuing Jobless Claims	
U.S. to Sell USD42 Bln 3-Month Bills		CPI YoY	U.S. to Sell 4-Week Bills	
U.S. to Sell USD36 Bln 6-Month Bills		Monthly Budget Statement	U.S. to Sell 8-Week Bills	
		U.S. to Sell USD24 10-Year Notes Reopening	U.S. to Sell USD16 Bln 30Year Bonds Reopening	
		FOMC Meeting Minutes	Fed Speakers - Clarida/Bullard/Quarles/Kashkari/Bowman	

Source: Bloomberg

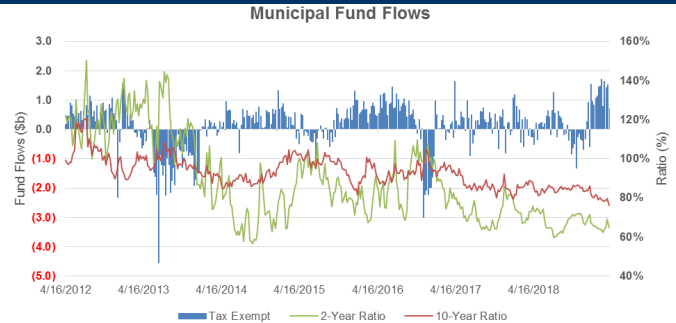
Muni Market Demand

Tax-exempt mutual funds reported inflows for the 13th consecutive week with inflows of \$714 mil. for the week ended April 5th. This compares to the 12-week moving average of a \$1.23 billion inflow.

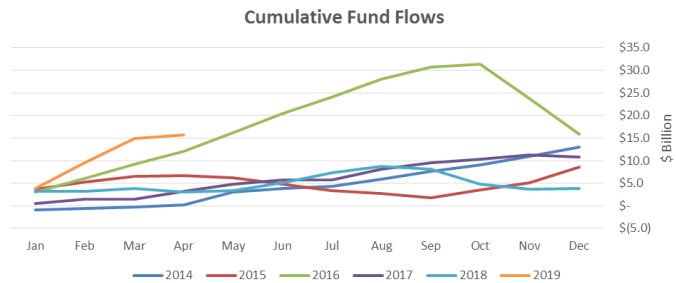
US Lipper Fund Flows

Sector	Flow Change (\$B)	YTD (\$B)
Tax-Exempt	Inflow: 0.714	Inflow: 15.689
Money Market	Inflow: 1.435	Inflow: 54.292
Taxable	Inflow: 3.694	Inflow: 34.531
Equities	Outflow: -3.902	Outflow: -37.508

Source: Lipper Fund Flows



Source: Lipper Fund Flows

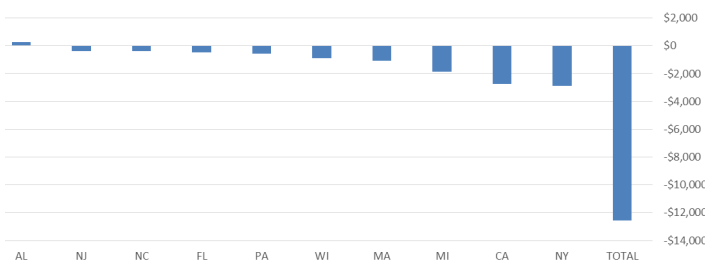


Source: Bloomberg

Muni Market Supply

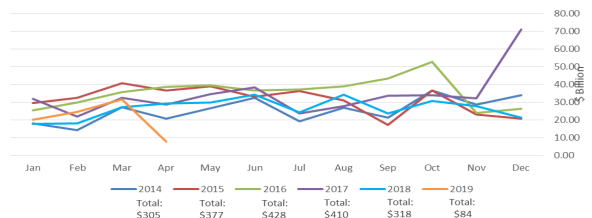
Over the next 30 days, we see net muni market supply at -\$12.55 bil., comprised of \$8.21 bil. new issues, \$11.25 bil. maturing, and \$9.51 bil. announced calls. The states that stand to experience the largest change in outstanding debt include New York (-\$2.86 billion), California (-\$2.74 bil.), Michigan (-\$1.84 bil.), Massachusetts (-\$1.09 bil.), and Wisconsin (-\$911.0 mil.).

Largest Net Flows - Next 30 Days



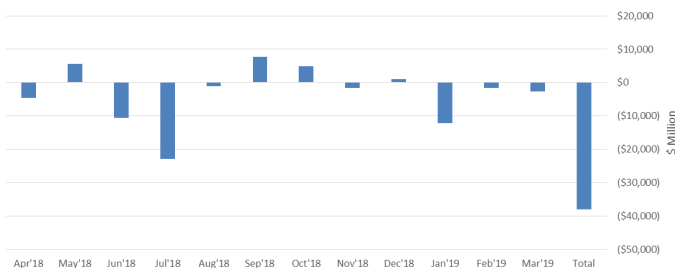
Source: Bloomberg

Monthly Gross Supply



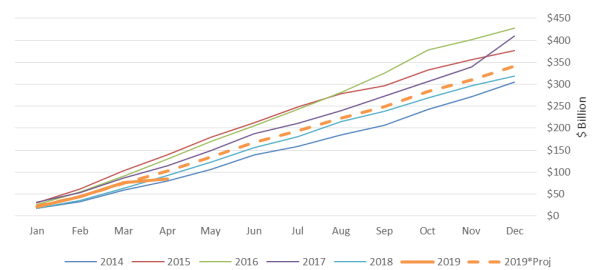
Source: Bloomberg, Ramirez

Net Supply - 12 Months



Source: Bloomberg

Cumulative Gross Supply



Source: Bloomberg, Ramirez

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¹ For purposes of the debt Rule FINRA 2242, a "debt security" excludes any equity security, municipal security and security-based swap (each as defined under the Exchange Act) and any US Treasury (as defined in FINRA Rule 6710 (p)).