

# Municipal Market Weekly

## Ramirez Municipal Strategy



April 9, 2018

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Munis in 10-30yrs caught a better bid last week and outperformed after Treasuries sold off as a potential US trade war with China intensified. China is the largest foreign holder of Treasuries and could apply pressure through lower auction participation or selling as retaliation for US tariffs. The equity market reaction was far worse vs rates, however, with the DOW down -0.71%, the S&P down -1.38%, and the NASDAQ down -2.10%. The rates market reaction was relatively muted otherwise on Fed Chairman Powell's speech on Friday, where he reiterated support for gradual rate hikes, as well as the March nonfarm payrolls report, which indicated a less than expected payroll increase (103k vs 185k consensus). Treasury 2s30s steepened +5 to 76 bps on the week, after the 2yr note ended unchanged at 2.28% and the 30yr bond rose +5bps to 3.04%. In contrast, MMD 2s30s flattened -5 bps to 125 bps on the week, after the 2yr spot was cut +6 bps (1.71%) and the 30yr spot rose +1 bps to end at 2.96%. SIFMA was also higher by +2bps to 1.60% on the week, mostly in response to a similar +1 bps in 1M LIBOR to 1.89% (84% ratio).

Bid-wanted activity continues to run hot with last week seeing two days with \$1 bil. plus of line-items. BWICs are running +33% higher on average this year, driven in part by accounts repositioning portfolios to shorter duration amidst the higher rate environment. Muni dealers are also adding to the supply glut, sitting flush with inventory in excess of \$26 bil., or 52% above-average, partly due to December "leftovers," but also \$5 bil. + of VRDBs driven by higher SIFMA resets. This secondary supply / selling continues to weigh on Muni performance, that otherwise would have been worse if not for strong mutual fund inflows (-\$247 mil. last week; +\$3.54 bil. YTD) and anemic new issue supply (-24% YoY, \$71 bil. YTD). The S&P Main Muni index has lost -100 bps YTD, including -8 bps last week and -92bps in 1Q18. Notably, High Yield is up +79 bps YTD due to the Tobacco sector, which is up +227 bps YTD. The Tobacco sector was supercharged last week with a +54 bps return fueled mostly by the NJ Tobacco deal. New Jersey priced \$3.15 bil. of senior and subordinate refunding tobacco asset-backed bonds that were ultimately 7x subscribed (\$23 bil. of orders) and bumped ~12 bps at repricing. Bonds traded up substantially on the break due to the yield grab. The \$190 mil. turbo subordinate term bonds of 2027 was priced at par to yield 3.20% and traded up +20 bps to about 3%, while the \$838 mil. 5% due 2046, initially priced at 4.90% traded up about +55 bps to 4.35%.

Last week's Muni outperformance in 10yrs and 30yrs didn't dramatically move the needle on relative value, with ratios in 2, 5, 10, and 30 yrs still reading "fairly valued" vs 3yr averages (see below). We have been saying for months that Munis need to get cheaper before ultimately strengthening on a relative value basis, although, unless fund flows decline precipitously and/or new issue spikes dramatically near term (both of which we don't anticipate), better relative value may not materialize in April or May, prior to June reinvestment, which is typically price supportive. Muni out-performance therefore may stagnate in 2Q, possibly limiting upside until the secondary supply glut clears. Given the large secondary supply of bonds and continued pressure on rates generally, we continue to prefer a more defensive, shorter duration posture - 5yrs-7 yrs eff duration using longer duration 'AA' rated bonds with 5%+ coupons and shorter calls (5-8 yr calls) for optimization of carry, rolldown, and reinvestment (Pg 2). It is also notable that our favored structure (2023-2026 calls) has become somewhat cheaper over the past few weeks as the front-end of the curve have widened out (see our inventory). Interestingly, the shorter-call structure is also quickly becoming favored among higher-grade issuers faced with loss of tax-exempt advance refunding. Exhibit A was last week's 'AA' rated \$479 mil. NYC Water deal that had maturities with 7yr and 9yr calls.

Items of interest to us last week include Illinois announcing \$500 mil. of GOs and the First Energy Solutions Ch. 11 bankruptcy filing. The IL deal will be interesting to watch the State's GO bond spreads in 10yrs have widened +63 bps over the past six months to +212 bps since the State passed a budget after a 2yr logjam and 10y IL GO spreads tightened to +149 bps. The second interesting item was the Ch. 11 bankruptcy filing of First Energy Solutions (FES), the generation subsidiary of First Energy Corp. FES has \$2.1 bil. of mostly unsecured tax-exempt Munis outstanding, sold for pollution control purposes. The FES bankruptcy was driven by the un-competitiveness of FES' fleet of coal plants, which are no longer competitive vs natural gas plants. This was also the underlying reason for the TXU (Energy Futures Holdings) bankruptcy several years ago. TXU had over \$1 bil. of tax-exempts, which ultimately recovered about 3 cents on the dollar.

Gross supply YTD is down -24% YoY (\$71 bil.) which is relatively in-line vs our full-year estimate of gross supply of -27% YoY (\$317 bil.). Issuance last week was \$7.9 bil. The new issue calendar this week is \$5.2 bil, which is smaller but more diverse vs last week, led in the negotiated space by \$850 mil. NYC GO, \$648 mil. Clark Cnty, NV (Raiders Football Stadium), \$412 mil. Charlotte Wtr/Swr, and \$340 mil. TX Wtr Dev. Competitives are led by \$250 mil. NYC GO (taxable). Over the next 30 days we see net muni market supply at -\$7.87 bil., comprised of +\$9.29 bil. new issues, -\$9.40 bil. maturing, and -\$7.76 bil. announced calls. The states that stand to experience the largest change in outstanding debt include Michigan (-\$1.85 bil.), New York (-\$1.75 bil.), California (-\$1.42 bil.), Texas (+\$1.10 bil.), and Massachusetts (-\$749 mil.).

This week's key events include Facebook CEO on Capitol Hill Tues and Wed on data breaches, China President Xi's speech, Treasury auction of \$64 bil., inc. 3yr (\$30 bil.), 10yr (\$21 bil.), and 30yr (\$13 bil.). We also have 1Q18 corporate earnings releases all week, PPI, CPI, FOMC minutes, Univ of Mich consumer sentiment, and Trump vs Xi.

Muni Performance & Relative Value									
MMD/UST Ratios									
Mty	2018			3y Avg	Value	WTD		YTD	
	12/29/17	3/29/18	4/6/18			Ratios	Perf	Ratios	Perf
1	81	74	79	92	Fair	4.9	Under	-2.8	Out
2	82	72	75	84	Fair	2.5	Under	-7.2	Out
5	76	79	80	82	Fair	0.7	Under	4.1	Under
10	81	88	87	93	Fair	-1.0	Out	5.5	Under
30	92	99	97	101	Fair	-1.4	Out	5.8	Under

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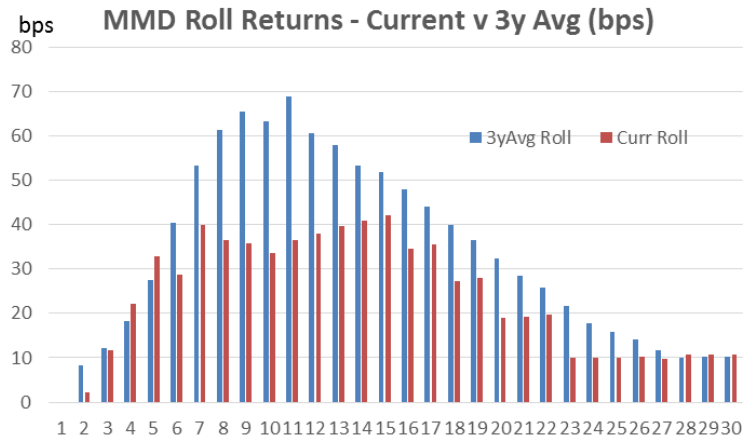
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### 2018 Strategy

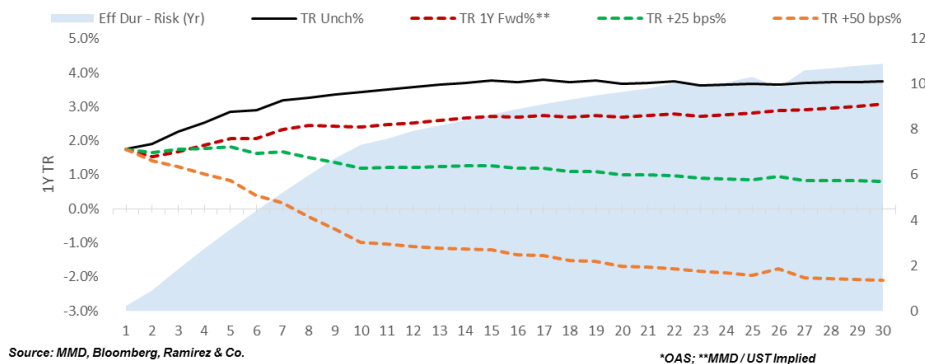
- Ladder strategy
- Defensive posture (5yr eff dur; 7yr WAM)
- Intermediate-long bonds with shorter calls (5-8yrs); cheaper vs longer calls, capture better spread and rolldown, faster reinvestment
- Best rolldown range is generally 8-15yrs.
- Coupon: 5%+ (lower convexity vs 4%)
- Credit: 'AA' GOs, 'A' rated or better Revenue Bonds;

	Scenarios				
	Bear Case	Base Case		Bull Case	
Strategy	Ladder (Short)	70/30 Bar	Ladder	30/70 Bar	Ladder
Crv Shft (avg bps)*	50	25	25	9	9
Quality	Revs >= A+	Revs >= A+	Revs >= A+	Revs >= A+	Revs >= A+
TR % Proj.	1.39%	2.40%	1.73%	3.41%	3.46%
OAS (bps)	-8	32	13	46	47
Eff Dur (yrs)	0.5	6.7	3.4	8.6	10.7
WAM	1.4	15.4	4.8	22.9	28.5
Cnvx	0.01	-0.83	0.30	-1.62	-1.67

9 \*avg bps shift = implied by FWD rates

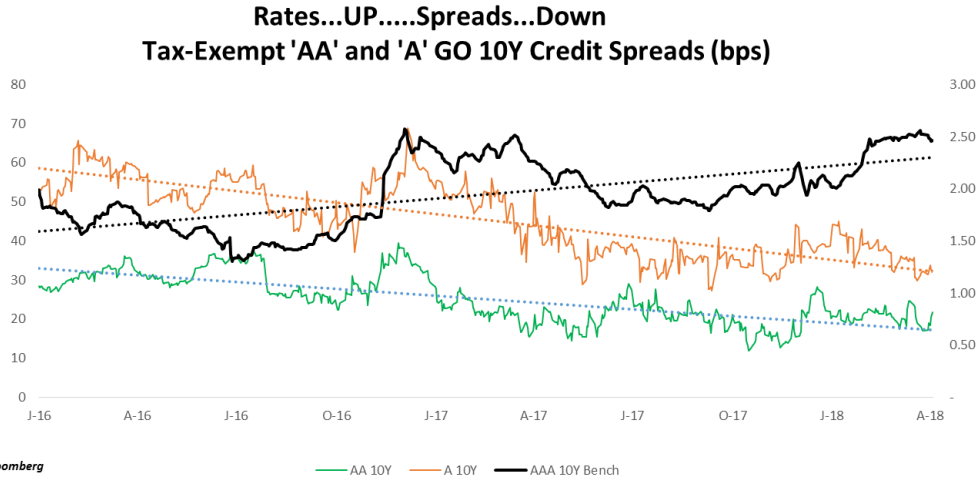


MMD Callable Curve (5% Cpn) - 1Y Total Return Projections\*



MMD Callable Curve (5% Cpn) - 12M FWD Total Return Projections*								
	Mty	1-30y	1-5y	6-10y	11-15y	16-20y	21-25y	26-30y
	Eff Dur	0.0	2.4	6.1	8.2	9.3	10.0	10.6
Scenarios	Unch	3.59%	2.52%	3.25%	3.64%	3.73%	3.68%	3.71%
	1Y Fwd Rates	2.68%	1.87%	2.36%	2.60%	2.71%	2.77%	2.97%
	Parallel +25 bps	1.10%	1.78%	1.44%	1.24%	1.11%	0.92%	0.84%
	Parallel +50 bps	-1.38%	1.04%	-0.34%	-1.14%	-1.50%	-1.83%	-2.01%

Credit spreads have tightened while rates have increased...



MUNI TAX-EXEMPT SPREADS								
2Y STATISTICS								
		4/9/18	Avg	Min	Max	SD	Z-Scr	Value
10Y	AA GO	22	25	12	40	6	-0.55	Fair
	A GO	32	45	27	69	9	-1.38	Rich
	BBB REV	77	97	73	118	9	-2.25	Rich
30Y	AA GO	32	35	22	51	5	-0.56	Fair
	A GO	47	59	27	94	14	-0.89	Fair
	BBB REV	100	110	85	144	12	-0.85	Fair
	HY	227	305	223	472	56	-1.40	Rich

SECTOR CREDIT SPREADS (10Y)								
2Y STATISTICS								
Sector	Rating	4/6/18	Avg	Min	Max	SD	3Y Z-Scr	Value
GO	AA	22	25	12	40	6	-0.55	Fair
	A	42	55	25	86	13	-0.99	Fair
HOSP	AA	29	39	24	60	6	-1.51	Rich
	A	56	65	48	102	7	-1.31	Rich
HI ED	AA	17	26	12	40	6	-1.40	Rich
	A	38	54	33	94	10	-1.61	Rich
TRANS	AA	19	27	12	47	8	-0.96	Fair
	A	38	47	28	87	10	-0.90	Fair
POWER	AA	15	17	5	32	6	-0.36	Fair
	A	39	48	32	72	8	-1.19	Rich
WTR / SWR	AA	19	23	10	41	5	-0.80	Fair
	A	38	61	27	104	16	-1.44	Rich
HY	<BBB-	227	305	223	472	56	-1.40	Rich

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### Market Performance Indicators

WEEK ENDING: 4/6/18

INDEX	Eff Dur	TOTAL RETURN (%)							YIELD (%)							Z-score	
		WTD	2Q18	1Q18	2018	2017	2016	2015	4/6/18	WTD Δ	YTD Δ	Lo 12M	Hi 12M	Mean 12M	Vol 12M	12M	3Y
<b>TREASURY-TERM</b>																	
TREASURY - ALL	6.1	-0.15	-0.15	-1.18	-1.33	2.31	0.63	0.84	2.57	0.02	0.33	1.73	2.66	2.09	0.29	1.68	2.32
SHORT	2.0	0.05	0.05	-0.20	-0.16	0.87	1.25	0.67	2.50	0.00	0.42	1.42	2.55	1.84	0.36	1.86	2.70
SHORT-INT	3.8	0.01	0.01	-0.86	-0.85	1.75	1.84	1.57	2.83	0.00	0.41	1.91	2.94	2.27	0.31	1.79	2.76
INTRMD	5.3	-0.01	-0.01	-1.21	-1.22	2.59	1.78	1.25	3.15	0.01	0.34	2.47	3.24	2.73	0.22	1.86	2.33
LONG-INT	6.8	-0.04	-0.04	-1.80	-1.84	3.51	2.20	1.09	3.39	0.01	0.37	2.73	3.50	3.02	0.21	1.76	1.87
LONG	14.9	-0.34	-0.34	-3.57	-3.90	10.47	5.77	-3.26	3.83	0.03	0.27	3.45	3.94	3.67	0.12	1.32	0.26
<b>MUNICIPAL-TERM</b>																	
SHORT	2.0	-0.09	-0.09	0.24	0.15	1.16	0.39	0.88	1.89	0.06	0.19	1.03	1.89	1.36	0.26	2.01	2.82
SHORT-INT	3.3	-0.12	-0.12	-0.33	-0.45	2.39	0.12	1.96	2.15	0.05	0.27	1.30	2.15	1.64	0.20	2.03	2.58
INTRMD	4.8	-0.11	-0.11	-1.09	-1.20	4.74	0.28	3.27	2.56	0.04	0.37	1.84	2.56	2.14	0.20	2.05	1.78
LONG-INT	5.2	-0.10	-0.10	-1.35	-1.44	5.42	0.38	3.68	2.68	0.04	0.41	1.99	2.69	2.28	0.20	2.00	1.57
LONG	6.6	0.01	0.01	-1.56	-1.55	8.19	0.97	4.52	3.31	0.01	0.38	2.79	3.39	3.06	0.16	1.52	0.89
<b>MUNICIPAL-QUALITY</b>																	
MUNI-EXEMPT	5.0	-0.08	-0.08	-0.92	-1.00	4.95	0.90	3.32	2.69	0.04	0.32	2.05	2.70	2.34	0.17	2.05	1.55
MUNI-TAXABLE	8.1	-0.23	-0.23	-0.80	-1.04	6.81	4.16	1.30	3.96	0.03	0.19	3.59	4.06	3.80	0.11	1.44	0.93
HIGH-GRADE	5.0	-0.12	-0.12	-1.21	-1.33	4.22	-0.09	3.21	2.38	0.04	0.37	1.54	2.38	1.89	0.25	1.94	2.12
'A' RATED	4.8	-0.09	-0.09	-1.07	-1.16	5.40	0.82	3.60	2.71	0.03	0.34	2.08	2.72	2.35	0.17	2.07	1.58
'BBB' RATED	5.1	-0.06	-0.06	-0.94	-1.00	7.97	0.94	4.31	3.24	0.03	0.32	2.79	3.35	3.06	0.15	1.17	0.68
HIGH YIELD	6.8	0.20	0.20	0.58	0.79	9.69	3.52	1.81	5.17	-0.10	0.01	5.05	6.19	5.48	0.34	-0.93	0.77
<b>MUNICIPAL-SECTOR</b>																	
PRE-RE	2.4	-0.02	-0.02	0.10	0.08	1.07	0.32	0.95	1.80	0.03	0.14	0.93	1.80	1.27	0.29	1.84	2.81
GO	5.1	-0.11	-0.11	-1.19	-1.29	4.56	0.08	2.99	2.57	0.05	0.36	1.76	2.57	2.11	0.23	1.99	2.10
DED TAX	5.7	-0.07	-0.07	-0.84	-0.91	3.73	1.92	1.24	2.86	0.04	0.36	2.21	2.92	2.59	0.21	1.28	0.71
WTR-SWR	5.2	-0.11	-0.11	-1.24	-1.35	5.31	0.53	3.92	2.63	0.04	0.36	1.97	2.63	2.26	0.18	2.08	1.49
PUB PWR	4.5	-0.10	-0.10	-0.99	-1.09	3.20	1.18	4.57	2.56	0.04	0.33	1.77	2.67	2.24	0.27	1.19	0.74
HEALTHCARE	5.4	-0.04	-0.04	-0.99	-1.03	7.00	1.24	4.65	3.22	0.03	0.39	2.72	3.27	2.96	0.15	1.72	1.12
HIGHER ED	5.7	-0.09	-0.09	-1.14	-1.23	6.20	0.62	3.87	2.96	0.04	0.36	2.38	2.97	2.63	0.16	1.99	1.49
TRANSPORT	5.1	-0.10	-0.10	-1.28	-1.37	6.25	0.93	3.76	2.80	0.04	0.38	2.13	2.80	2.42	0.18	2.08	1.43
HOUSING	9.0	-0.07	-0.07	-0.66	-0.72	5.59	1.52	3.71	3.13	0.04	0.33	2.66	3.14	2.93	0.11	1.77	0.47
TOBACCO	7.4	0.54	0.54	1.72	2.27	17.82	6.17	13.48	4.28	-0.05	-0.32	4.28	5.26	4.77	0.23	-2.09	-1.75
IDB	4.4	-0.09	-0.09	-0.35	-0.43	6.41	1.53	3.66	3.20	-0.16	0.25	2.73	3.39	3.05	0.16	0.93	0.64
<b>GLOBAL / CORP</b>																	
GLOBAL	7.1	-0.24	-0.24	1.36	1.12	7.39	1.77	-3.15	1.85	0.02	0.15	1.47	1.90	1.65	0.12	1.69	1.45
US CORP-IG	7.5	0.03	0.03	-2.32	-2.29	6.42	5.84	-0.68	3.76	0.00	0.45	3.03	3.86	3.30	0.22	2.12	1.97
US CORP-HY	4.7	0.29	0.29	-0.86	-0.57	7.50	18.37	-4.47	6.25	0.06	0.54	5.31	6.36	5.70	0.26	2.11	-0.31

Rich Fair Cheap

### Rates & Ratios

	YIELDS (%)					Lo 12M	Hi 12M	Mean 12M	SD 12M	Value	
	4/6/2018	3/29/2018	1/3/2017	4/7/2017	12M					3Y	
<b>AAA MMD / UST</b>											
2 Yr	75%	72%	100%	78%	62%	89%	72%	5.76	Fair	Fair	
5 Yr	80%	79%	91%	78%	62%	85%	72%	4.59	Cheap	Fair	
10 Yr	87%	88%	94%	91%	79%	95%	86%	2.98	Fair	Fair	
30 Yr	97%	99%	99%	99%	90%	103%	97%	2.49	Fair	Fair	
<b>UST</b>											
2 Yr	2.28	2.28	1.23	1.29	1.18	2.35	1.64	36.29	Cheap	Cheap	
5 Yr	2.61	2.58	1.97	1.92	1.61	2.70	2.07	31.72	Cheap	Cheap	
10 Yr	2.80	2.75	2.46	2.38	2.03	2.93	2.41	23.32	Cheap	Cheap	
30 Yr	3.04	2.99	3.07	3.01	2.65	3.21	2.89	12.49	Cheap	Fair	
<b>AAA MMD</b>											
2 Yr	1.71	1.65	1.23	1.00	0.85	1.71	1.18	28.84	Cheap	Cheap	
5 Yr	2.08	2.04	1.79	1.49	1.12	2.08	1.50	29.00	Cheap	Cheap	
10 Yr	2.43	2.42	2.32	2.17	1.81	2.52	2.08	20.38	Cheap	Cheap	
30 Yr	2.96	2.95	3.05	2.97	2.46	3.07	2.81	14.20	Cheap	Fair	

### Muni Primary Market

#### Gross Supply (\$ in millions)

	As of 4/6/18
Last Week	8,082.6
12wk Moving Avg	5,472.5
YTD	70,964.1

Source: Bloomberg

#### Weekly Visible Supply (\$ in millions)

	Week of 4/9/18
Total	5,204.5
Comp.	1,112.2
Neg.	4,092.3

Source: Bloomberg, Ramirez

#### 30-Day Visible Supply (\$ in millions)

	Current Total	2017 High \$	2017 Low Date	2017 Low \$	2017 Low Date
Total	8,363.8	12,069.2	(3/7)	4,175.5	(1/2)
Comp.	3,332.1	5,636.0	(3/7)	903.1	(1/26)
Neg.	5,031.7	8,296.2	(4/2)	2,618.6	(1/2)

Source: Bond Buyer

#### Top Competitive Issuances Coming to Market

Issuer	State	Amount (\$ 000's)
New York City	NY	250,000
Florida St Brd of Edu	FL	150,475
Florida St Dept of Transprtn	FL	100,000
Darlington Co SD	SC	60,000
Bryant SD #25	AR	54,775

Source: Bloomberg

#### Top Negotiated Issuances Coming to Market

Issuer	State	Amount (\$ 000's)
New York City	NY	850,000
Clark Co	NV	647,955
Charlotte Wtr & Swr Rev	NC	412,325
Tx Wtr Dev Brd	TX	340,310
Springdale Rev	AR	186,965

Source: Bloomberg

Underwriters will attempt to market \$5.20 bil. of municipals in the week of 4/9, led in the negotiated space by \$850 mil New York City, \$648 mil. Clark Co, and \$412 mil. Charlotte Wtr & Swr Rev. The competitive calendar is highlighted by \$250 mil. New York City, \$150 mil. Florida St Brd of Edu, and \$100 mil. Florida St Dept of Transprtn.

#### Ramirez Negotiated Issuances Coming to Market

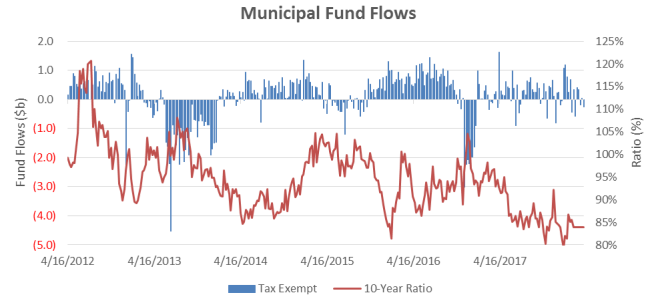
Issuer	State	Amount (\$ 000's)	Senior Manager	Ramirez Role
New York City	NY	1,100,000	Citi	Co-Senior Manager
New York HFA	NY	87,890	Wells Fargo	Co-Manager
Oxnard SD	CA	28,815	JP Morgan	Co-Manager
Rhode Island Infrastructure Bank	RI	16,980	Raymond James	Co-Manager

#### Economic Calendar

Monday (4/9)	Tuesday (4/10)	Wednesday (4/11)	Thursday (4/12)	Friday (4/13)
\$48 Bln 3-Month Bill Auction	NFIB Small Business Optimism	MBA Mortgage Applications	Import Price Index	U. of Mich. Sentiment
\$42 Bln 6-Month Bill Auction	PPI	CPI	Initial Jobless Claims	Fed Speakers: Rosengren, Bullard, Kaplan
	Wholesale Inventories	Monthly Budget Statement	Continuing Claims	
	Fed Speaker: Kaplan	FOMC Meeting Minutes	Bloomberg Consumer Comfort	
	\$45 Bln 4-Week Bill Auction	\$21 Bln 10-Year Notes Reopening	Fed Speaker: Kashkari	
	\$30 Bln 3-Year Note Auction		\$13 Bln 30-Year Bonds Reopening	

### Muni Market Demand

Tax-exempt mutual funds recorded an outflow of \$247 million for the week ending April 4, which compares to the 12-week moving average of a \$210 million inflow.



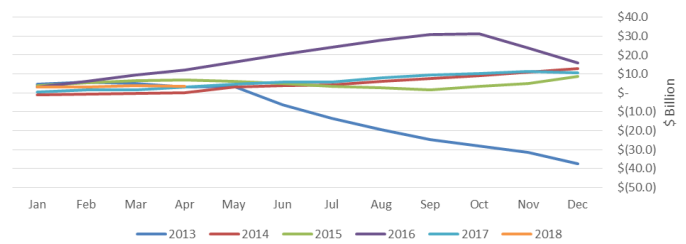
Source: Lipper Fund Flows

### US Lipper Fund Flows

Sector	Flow Change (\$B)	YTD (\$B)
Tax-Exempt	Outflow: -0.247	Inflow: 3.540
Money Market	Inflow: 1.880	Outflow: -22.323
Taxable	Inflow: 3.539	Inflow: 32.270
Equities	Outflow: -11.605	Inflow: 13.256

Source: Lipper Fund Flows

### Cumulative Fund Flows

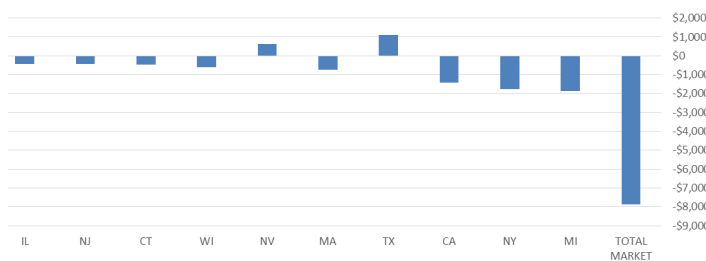


Source: Bloomberg

### Muni Market Supply

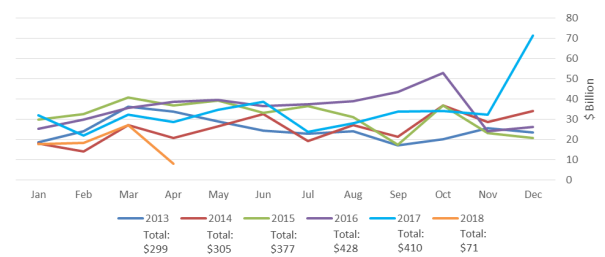
Over the next 30 days we see net muni market supply at -\$7.87 bil., comprised of \$9.29 bil. new issues, \$9.40 bil. maturing, and \$7.76 bil. announced calls. The states that stand to experience the largest change in outstanding debt include Michigan (-\$1.85 bil.), New York (-\$1.75 bil.), California (-\$1.42 bil.), Texas (+\$1.10 bil.), and Massachusetts (-\$749 mil.).

#### Largest Net Flows - Next 30 Days



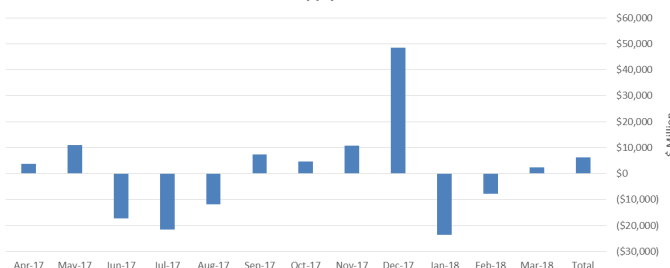
Source: Bloomberg

#### Monthly Gross Supply



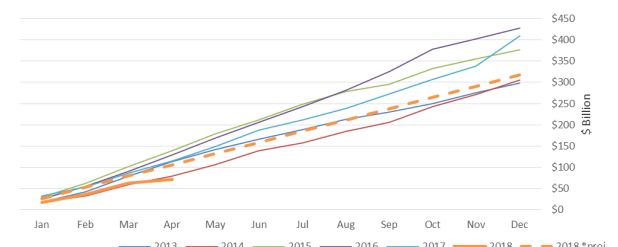
Source: Bloomberg, Ramirez

#### Net Supply - 12 Months



Source: Bloomberg

#### Cumulative Gross Supply



Source: Bloomberg, Ramirez



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<sup>1</sup> 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)).