

Municipal Market Weekly

Ramirez Municipal Strategy



August 6, 2018

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Municipals underperformed across the curve on high valuations and oversupply of bonds in the secondary. Treasuries ultimately caught a bid late week on a spike in trade tensions with China after first selling off on the Treasury Dept's refunding announcement earlier in the week. The Fed left rates unchanged as expected on Wed. and affirmed a gradual pace of rate hikes going forward. New issue of \$5.2 bil. had a mixed reception largely due to lack of support in 20yr-30yrs sectors, while secondary flows were slow as the summer slowdown commenced. Dealer balance sheets are heavy with well above-average inventory (+20%) adding to price pressure. New issue Muni supply this week increases to \$8.87 bil., led by Advocate -Aurora Health, NYC GO, and State of Minnesota. Muni mutual funds had outflows of \$253 mil., bringing the YTD inflow total to ~\$7.07 bil. The S&P Main Muni index lost 10 bps on the week, reducing YTD gains to 13 bps, while Treasuries gained 12 bps on the week, bringing YTD returns to -142 bps.

Treasury rates ended the week mixed after the week was dominated, as expected, by central bank meetings, a Treasury refunding announcement, solid, but weaker than expected jobs data, and trade concerns. Range-bound rates are likely attributable to confusion over US trade policy and investor sentiment of a slowdown in economic growth in 2H18 as the effects of last year's U.S. tax overhaul fade, despite most corporations beating Street expectations at a historic pace. The 10y Treasury ended the week largely unchanged vs the prior week at 2.95%, but peaked at 3.014% on Wed. following the Treasury Dept's announcement of \$329 bil. in net marketable debt issuance from July through September, the fourth-largest total for that quarter on record, and higher than the \$273 bil. estimated in April. It was the third consecutive quarterly increase in Treasury supply to fund the growing federal deficit, which totaled \$607 bil. through the first nine months of FY18 vs \$523 bil. from the same period in 2017. The Fed on Wed., as expected, left the fed funds rate unchanged at 1.75%-2.0%, but is widely expected to hike rates in Sept by an additional 25 bps, and possibly another hike before 2018 comes to a close. The FOMC statement described risks to the outlook as "roughly balanced," restating that "monetary policy remains accommodative" and close to the Core PCE goal of 2.0% YoY with still low unemployment. The BOE raised its benchmark interest rate 25 bps on Thursday for only the second time in a decade (to 0.75%), while the BOJ established a slightly wider trading range on JGBs earlier in the week. July jobs data came in slightly disappointing at 157K jobs vs. the expectation of 193K jobs and unemployment was down to 3.9%. Treasuries rallied to end the week after the US announced tariffs on \$200 bil. of Chinese exports and China retaliated with tariffs on \$60 bil. of US goods.

MMD 2s30s was 2 bps steeper on the week at 141 bps after scale cuts averaging 4 bps. Treasury 2s30s was 4 bps steeper after the 2yr T-bill yield ended the week 2 bps better (2.65%) and the 30yr bond yield rose 1 bp to end at 3.09%. Munis underperformed by an average of 1.75 ratios across the curve, including 1.8 ratios in 2yrs to a still very rich 62%, and by 1.5 ratios in both 10yrs and 30yrs to 84% and 98.6%, respectively. Despite weekly underperformance across the board, Munis in 2yrs and 5yrs have outperformed YTD by 19.5 ratios and 4.4 ratios, respectively, which we expect will continue through 2018 as investors clamor for short-dated bonds amidst higher rates. As we witnessed last week, however, buyer resistance appears to be about 60% in 2yrs and 68% in 5yrs. Ratios in 10yrs (84%) and 30yrs (98.6%) likely need to get a bit cheaper (i.e. 30yrs+100%) for buyers to emerge in that part of the curve. As we expected, SIFMA reset 35 bps higher on the week (1.29%, 62% 1mL) as investors put back VRDOs to take advantage of the very tight 45% SIFMA / LIBOR ratio of the previous week.

Gross new issue supply this week ramps up to a healthy \$8.87 bil., or 131% of the 12-week average, with negotiated transactions representing \$7.01 bil., or roughly 79% of total supply. The negotiated market is led by \$1.23 bil. Advocate-Aurora Health (Aa3/AA) on Tues. and \$811 mil. NYC GO (Aa2/AA) on Wed. These transactions should do well given generally shorter maturities. Competitively, Minnesota is selling \$619 million GO bonds on Wed. Total gross supply YTD is \$186 bil., or -15% YoY, which is surprising to the upside vs our call for total supply at -27% YoY (\$317 bil.). We think YTD gross supply is higher than our projection at this point due primarily to higher-than-projected new money of \$107 bil. (at 7/27) at 60% of the total and 16% ahead of our mid-year projection of \$92 bil. Actual new money supply is likely running higher vs our projection due to still favorable borrowing costs and higher demand than expected, particularly in still high-tax states like CA, NY, IL, and MA. The very strong demand has had the effect of compressing spreads, which to a degree mitigates some MMD rate increases, thereby lowering overall borrowing costs. For now, we are maintaining our full-year supply projection at \$317 bil. as we think new money issuance will likely decelerate as rates move higher for the balance of the year. Over the next 30 days, net muni market supply is -\$16.64 bil., comprised of \$10.74 bil. new issue and \$27.4 bil. of maturing (\$18.32 bil.) and called (\$9.07 bil.) bonds. The states that stand to experience the largest change in outstanding debt include Texas (-\$8.60 bil.), California (-\$2.81 bil.), New Jersey (-\$2.33 bil.), New York (-\$1.97 bil.), and Minnesota (+\$725.11 mil).

Spread compression and a still flat MMD 2s30s (141 bps) has created high valuations within most Muni sectors and across the yield curve, creating lower incentive for credit risks or duration extension beyond ~15 yrs. As rates are likely to march higher and spread widening, we think it makes sense to improve credit quality in 'AA' or better general market names and selectively add risk in 'A' rated Hospitals, Higher Ed, and Pub Power (Pg 3). We favor shorter-call structures (5-8yr calls) inside 15 yrs maturities, which captures 80-90% of the MMD yield curve, has optimal roll return (~50 bps), and are generally cheaper vs shorter and more expensive 2-4 yr call structures..

This week we have July CPI, \$78 bil. Treasury auctions (3/10/30yr), Fed speakers, real average earnings, a few more earnings announcements, and Trump vs Iran, China, Democrats, and LeBron James.

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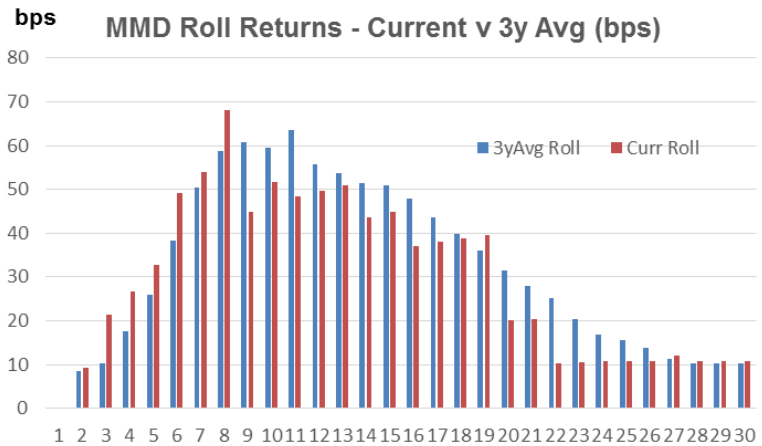
2018 Strategy

- Ladder or 70/30 Barbell strategy (depending on mandate)
- Defensive posture; 5yr-7yr eff duration
- Intermediate bonds (14-16yr) with shorter calls (5-8yrs); cheaper vs shorter calls, capture ~90% of curve, fast reinvestment, optimal rolldown
- Best rolldown is generally 8-15yrs.
- Coupon: 5%+ (lower convexity vs 4%)
- Credit: 'AA' GOs, 'A' rated or better (select names)

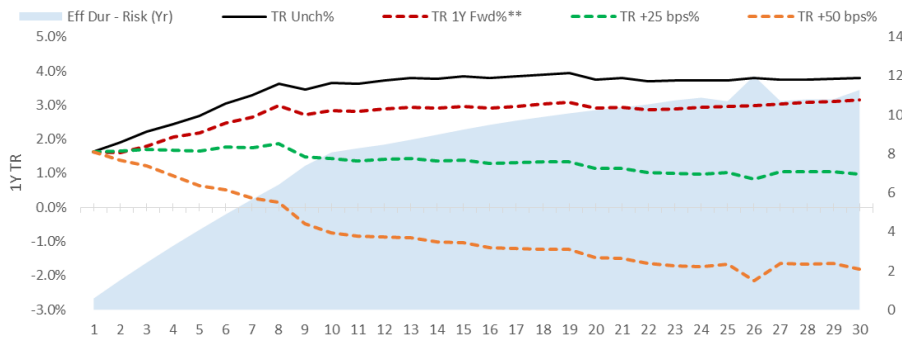
Scenarios (1Y)					
Scenario	Bear	Base		Bull	
Strategy	Ladder (Short)	70/30 Bar	Ladder	30/70 Bar	Ladder
Crv Shft (avg bps)*	50	25	25	6	6
Quality	AA GO / A Rev	AA GO / A Rev	AA GO / A Rev	AA GO / A Rev	AA GO / A Rev
TR % Proj.	1.64%	3.06%	1.85%	4.05%	4.09%
OAS (bps)*	0	25	15	33	33
Eff Dur (yrs)	0.6	7.2	4.0	9.6	10.7
WAM	1.0	15.1	5.0	23.8	26.5
Cnvx	0.01	-0.57	0.36	-1.33	-1.35

*W.A. bps shift = implied by FWD rates = 6

*OAS Vol = 20



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

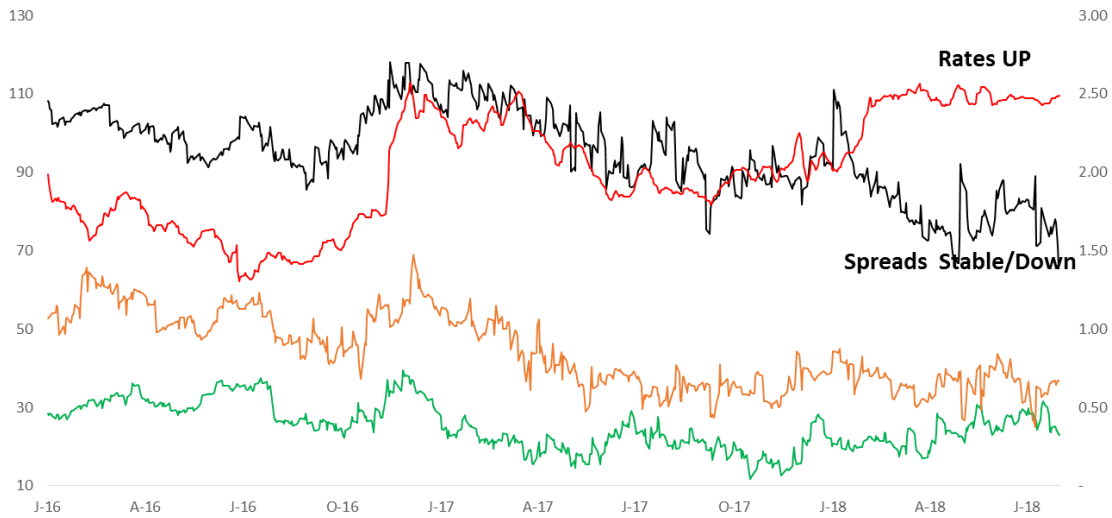


Source: MMD, Bloomberg, Ramirez & Co.

*OAS; **MMD / UST Implied

MMD Callable Curve (5% Cpn) - 12M FWD Total Return Projections*								
Mty	1-30y	1-5y	6-10y	11-15y	16-20y	21-25y	26-30y	
Eff Dur	8.3	3.0	6.7	8.8	9.9	10.7	11.1	
Scenarios	Unch	3.66%	2.36%	3.45%	3.75%	3.84%	3.73%	3.77%
	1Y Fwd Rates	2.89%	1.97%	2.75%	2.90%	2.98%	2.92%	3.07%
	Parallel +25 bps	1.24%	1.67%	1.63%	1.39%	1.28%	1.03%	0.98%
	Parallel +50 bps	-1.16%	0.98%	-0.14%	-0.93%	-1.27%	-1.66%	-1.79%

As Muni rates have risen...credit spreads have stabilized or declined



Source: Bloomberg

— AA 10Y — A 10Y — BBB 10Y — AAA 10Y Muni

MUNI TAX-EXEMPT SPREADS								
2Y STATISTICS								
		8/6/18	Avg	Min	Max	SD	Z-Scr	Value
10Y	AA GO	23	25	12	40	6	-0.39	Fair
	A GO	37	44	25	69	9	-0.78	Fair
	BBB REV	66	95	66	118	11	-2.69	Rich
30Y	AA GO	42	36	22	57	6	1.08	Cheap
	A GO	39	57	27	94	14	-1.25	Rich
	BBB REV	95	109	85	144	12	-1.25	Rich
	HY	171	286	168	472	67	-1.72	Rich

SECTOR CREDIT SPREADS (10Y)									
2Y STATISTICS									
Sector	Rating	8/3/18	Avg	Min	Max	SD	3Y Z-Scr	Value	Sharpe
GO	AA	23	25	12	40	6	-0.39	Fair	1.4
	A	40	54	25	86	13	-1.06	Rich	2.0
HOSP	AA	29	38	24	60	6	-1.40	Rich	2.2
	A	58	64	48	102	7	-0.84	Fair	6.2
HI ED	AA	10	24	9	40	7	-2.03	Rich	-0.6
	A	45	52	33	94	10	-0.74	Fair	3.0
TRANS	AA	17	26	12	47	7	-1.12	Rich	0.4
	A	32	45	23	87	10	-1.28	Rich	1.7
POWER	AA	14	17	5	32	6	-0.52	Fair	-0.1
	A	36	47	32	72	7	-1.36	Rich	2.9
WTR / SWR	AA	15	23	10	41	5	-1.64	Rich	0.0
	A	49	58	27	104	16	-0.61	Fair	2.1
HY	<BBB-	171	286	168	472	67	-1.72	Rich	2.3

Source: Bloomberg

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Market Performance Indicators

WEEK ENDING: 8/3/18

INDEX	Eff Dur	TOTAL RETURN (%)									YIELD (%)								
		WTD	Aug '18	3Q18	2Q18	1Q18	2018	2017	2016	2015	8/3/18	WTD Δ	YTD Δ	Lo 12M	Hi 12M	Mean 12M	Vol 12M	Z-score	
TREASURY-TERM																			
TREASURY - ALL	6.13	0.12	0.07	-0.35	0.10	-1.18	-1.42	2.31	0.63	0.84	2.82	-0.01	0.58	1.73	2.88	2.38	0.36	1.22	2.01
SHORT	1.98	0.11	0.08	0.13	0.28	-0.20	0.21	0.87	1.25	0.67	2.81	-0.02	0.74	1.47	2.85	2.23	0.45	1.30	2.23
SHORT-INT	3.78	0.20	0.15	0.10	0.04	-0.86	-0.72	1.75	1.84	1.57	3.08	-0.04	0.66	1.91	3.17	2.61	0.41	1.17	2.18
INTRMD	5.32	0.20	0.16	0.13	0.02	-1.21	-1.07	2.59	1.78	1.25	3.33	-0.02	0.53	2.47	3.45	2.98	0.30	1.17	1.98
LONG-INT	6.86	0.16	0.12	0.07	0.00	-1.80	-1.73	3.51	2.20	1.09	3.54	-0.01	0.52	2.73	3.68	3.23	0.29	1.09	1.76
LONG	14.92	0.05	-0.05	0.19	-1.43	-3.57	-4.77	10.47	5.77	-3.26	3.95	-0.01	0.39	3.45	4.04	3.75	0.18	1.08	0.79
MUNICIPAL-TERM																			
SHORT	1.98	-0.01	-0.03	0.25	0.58	0.24	1.07	1.16	0.39	0.88	1.77	0.04	0.06	1.03	2.04	1.59	0.31	0.58	1.55
SHORT-INT	3.27	-0.04	-0.05	0.31	0.73	-0.33	0.71	2.39	0.12	1.96	2.06	0.04	0.17	1.30	2.28	1.85	0.25	0.69	1.52
INTRMD	4.80	-0.09	-0.10	0.27	0.82	-1.09	-0.01	4.74	0.28	3.27	2.51	0.04	0.32	1.84	2.67	2.30	0.25	0.84	1.29
LONG-INT	5.20	-0.11	-0.11	0.26	0.85	-1.35	-0.25	5.42	0.38	3.68	2.64	0.04	0.36	1.99	2.79	2.42	0.25	0.87	1.22
LONG	6.62	-0.15	-0.14	-0.12	0.92	-1.56	-0.78	8.19	0.97	4.52	3.37	0.02	0.45	2.79	3.49	3.15	0.20	1.11	1.04
MUNICIPAL-QUALITY																			
MUNI-EXEMPT	5.06	-0.10	-0.10	0.15	0.91	-0.92	0.13	4.95	0.90	3.32	2.65	0.04	0.28	2.05	2.82	2.46	0.23	0.84	1.21
MUNI-TAXABLE	7.99	0.10	-0.03	-0.32	0.06	-0.80	-1.06	6.81	4.16	1.30	4.13	0.00	0.36	3.59	4.20	3.90	0.17	1.39	1.62
HIGH-GRADE	5.06	-0.10	-0.10	0.22	0.70	-1.21	-0.30	4.22	-0.09	3.21	2.34	0.04	0.33	1.54	2.50	2.10	0.29	0.84	1.51
'A' RATED	4.83	-0.10	-0.10	0.15	0.84	-1.07	-0.09	5.40	0.82	3.60	2.68	0.03	0.31	2.08	2.85	2.48	0.23	0.87	1.24
'BBB' RATED	5.18	-0.11	-0.11	0.32	1.14	-0.94	0.50	7.97	0.94	4.31	3.21	0.05	0.29	2.79	3.36	3.08	0.16	0.86	0.56
HIGH YIELD	6.62	-0.04	-0.05	0.30	3.06	0.58	3.97	9.69	3.52	1.81	4.80	0.02	-0.35	4.64	5.45	5.14	0.21	-1.64	0.94
MUNICIPAL-SECTOR																			
PRE-RE	2.41	-0.02	-0.04	0.23	0.56	0.10	0.89	1.07	0.32	0.95	1.70	0.03	0.04	0.93	2.00	1.52	0.32	0.56	1.58
GO	5.12	-0.12	-0.12	0.14	0.79	-1.19	-0.26	4.56	0.08	2.99	2.53	0.05	0.32	1.76	2.69	2.30	0.27	0.86	1.53
DED TAX	5.67	-0.12	-0.12	0.21	1.27	-0.84	0.64	3.73	1.92	1.24	2.81	0.04	0.31	2.21	2.98	2.62	0.23	0.84	0.61
WTR-SWR	5.27	-0.11	-0.12	0.07	0.81	-1.24	-0.37	5.31	0.53	3.92	2.59	0.02	0.33	1.97	2.76	2.40	0.23	0.87	1.20
PUB PWR	4.56	-0.08	-0.09	0.22	0.89	-0.99	0.10	3.20	1.18	4.57	2.46	0.03	0.24	1.77	2.67	2.28	0.26	0.70	0.43
HEALTHCARE	5.38	-0.12	-0.12	0.03	1.03	-0.99	0.06	7.00	1.24	4.65	3.22	0.04	0.39	2.72	3.37	3.05	0.19	0.94	1.02
HIGHER ED	5.66	-0.13	-0.12	0.07	0.86	-1.14	-0.22	6.20	0.62	3.87	2.95	0.04	0.35	2.38	3.09	2.75	0.21	0.96	1.22
TRANSPORT	5.09	-0.11	-0.11	0.19	0.87	-1.28	-0.23	6.25	0.93	3.76	2.76	0.04	0.34	2.13	2.92	2.55	0.24	0.89	1.16
HOUSING	9.22	-0.12	-0.11	0.02	0.75	-0.66	0.11	5.59	1.52	3.71	3.14	0.03	0.34	2.66	3.27	2.98	0.15	1.05	0.78
TOBACCO	7.79	-0.06	-0.06	0.44	4.87	1.72	7.13	17.82	6.17	13.48	3.19	-0.12	-1.41	3.19	5.23	4.48	0.51	-2.52	-3.09
IDB	4.77	-0.07	-0.09	0.14	1.04	-0.35	0.83	6.41	1.53	3.66	3.11	0.02	0.16	2.73	3.40	3.06	0.17	0.29	0.32
GLOBAL / CORP																			
GLOBAL AGG	7.15	-0.27	-0.27	-0.44	-2.78	1.36	-1.89	7.39	1.77	-3.15	2.06	0.01	0.36	1.47	2.08	1.79	0.18	1.51	1.96
US CORP-IG	7.45	0.22	0.12	0.95	-0.98	-2.32	-2.35	6.42	5.84	-0.68	3.97	-0.03	0.66	3.03	4.07	3.55	0.36	1.16	1.90
US CORP-HY	4.16	0.33	0.16	1.25	1.03	-0.86	1.42	7.50	18.37	-4.47	6.27	-0.07	0.55	5.31	6.54	5.94	0.36	0.90	-0.31

Rates & Ratios

	This Wk	Last Wk	Beg Qtr	Beg Yr	Mean		Value		WTD		MTD		QTD		YTD	
	8/3/18	7/27/18	7/2/18	1/2/18	12M	3Y	12M	3Y	Perf		Perf		Perf		Perf	
AAA MMD / UST																
2 Yr	62%	60%	65%	81%	70%	79%	Rich	Rich	1.8	Under	0.8	Under	-2.6	Out	-19.5	Out
5 Yr	71%	69%	72%	75%	72%	78%	Fair	Fair	2.2	Under	1.3	Under	-1.7	Out	-4.4	Out
10 Yr	84%	82%	86%	81%	85%	90%	Fair	Rich	1.5	Under	1.2	Under	-1.6	Out	3.1	Under
30 Yr	99%	97%	98%	91%	97%	98%	Fair	Fair	1.5	Under	1.0	Under	0.4	Under	7.5	Under
UST																
2 Yr	2.65	2.67	2.55	1.91	2.04	1.32	Cheap	Cheap	-2.9		-3.3		9.2		73.0	
5 Yr	2.82	2.85	2.77	2.24	2.38	1.82	Cheap	Cheap	-3.0		-5.4		5.1		57.8	
10 Yr	2.95	2.96	2.88	2.45	2.63	2.25	Cheap	Cheap	-0.7		-4.4		7.8		50.6	
30 Yr	3.09	3.09	3.00	2.80	2.95	2.83	Fair	Cheap	0.3		-3.2		9.8		29.5	
AAA MMD																
2 Yr	1.64	1.61	1.65	1.56	1.43	1.01	Fair	Cheap	3.0		0.0		-1.0		8.0	
5 Yr	1.99	1.95	2.00	1.68	1.74	1.40	Fair	Cheap	4.0		0.0		-1.0		31.0	
10 Yr	2.48	2.44	2.46	1.98	2.23	2.02	Cheap	Cheap	4.0		0.0		2.0		50.0	
30 Yr	3.05	3.00	2.94	2.55	2.86	2.79	Cheap	Fair	5.0		0.0		11.0		50.0	

Muni Primary Market

Gross Supply (\$ in millions)

	As of 8/3/18
Last Week	5,160.9
12wk Moving Avg.	6,773.0
YTD	185,648.4

Source: Bloomberg

Weekly Visible Supply (\$ in millions)

	Week of 8/6/18
Total	8,866.2
Comp.	1,851.4
Neg.	7,014.7

Source: Bloomberg, Ramirez

30-Day Visible Supply (\$ in millions)

	Current Total	2018 High		2018 Low	
		\$	Date	\$	Date
Total	11,065.5	13,770.7	(5/15)	2,017.8	(6/28)
Comp.	3,096.2	6,795.3	(5/14)	903.1	(1/26)
Neg.	7,969.2	8,760.4	(7/16)	635.2	(6/28)

Source: Bond Buyer

Top Competitive Issuances Coming to Market

Issuer	State	Amount (\$ 000's)
Minnesota St	MN	619,370
FL St Dept Trans	FL	170,085
Johnson Co Pub Bldg Comm	KS	163,925
Michigan St	MI	149,200
Berkeley USD	CA	85,000

Source: Bloomberg

Top Negotiated Issuances Coming to Market

Issuer	State	Amount (\$ 000's)
WI Hlth & Eductnl Facs (Advocate Health)	WI	1,230,000
City of New York	NY	811,000
Houston - Comb Util Sys	TX	535,000
Hawaii St - Arpt Sys Rev	HI	413,620
CA Statewide Cmnty Dev (Loma Linda)	CA	366,250

Source: Bloomberg

Ramirez Negotiated Issuances Coming to Market

Issuer	State	Amount (\$ 000's)	Senior Manager	Ramirez Role
City of New York	NY	811,000	RBC	Co-Senior
Triboro Bridge & Tunnel Auth	NY	270,000	Jefferies	Co-Manager

Underwriters will attempt to market \$8.87 bil. of municipals in the week of 8/6, led in the negotiated space by \$1.23 bil. Advocate Health, \$811 mil. City of New York, and \$535 mil. Houston Combined Utility System. The competitive calendar is highlighted by \$619 mil. State of Minnesota.

Economic Calendar

Monday (8/6)	Tuesday (8/7)	Wednesday (8/8)	Thursday (8/9)	Friday (8/10)
U.S. to Sell USD51 Bln 3-Month Bills	U.S. to Sell USD34 Bln 3-Year Notes	MBA Mortgage Applications	Initial Jobless Claims	CPI MoM
U.S. to Sell USD45 Bln 6-Month Bills		Fed Speaker (Barkin)	Continuing Claims	CPI Ex Food and Energy MoM
		U.S. to Sell USD 26 Bln 10-Year Notes	PPI Final Demand MoM	CPI YoY
			PPI Ex Food and Energy MoM	CPI Ex Food and Energy YoY
			PPI Final Demand YoY	
			PPI Ex Food and Energy YoY	
			Wholesale Inventories MoM	
			Fed Speaker (Evans)	
			U.S. to Sell USD18 Bln 30-Year Bonds	

Source: Bloomberg

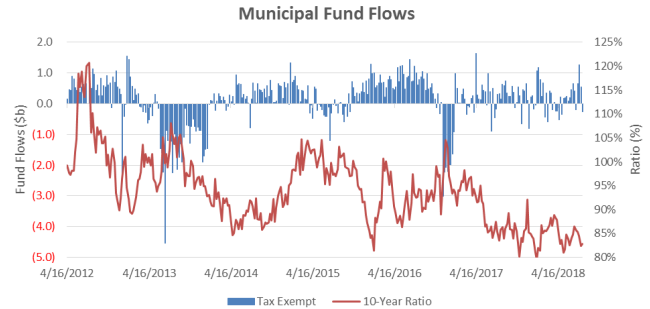
Muni Market Demand

Tax-exempt mutual funds reported outflows for the first time in a month for the week ending August 1, with an outflow of \$253 million. This compares to the 12-week moving average of a \$353 million inflow.

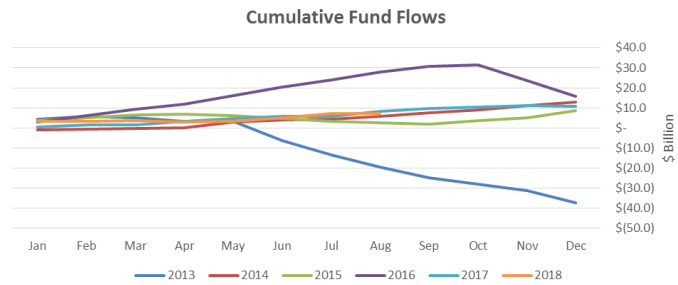
US Lipper Fund Flows

Sector	Flow Change (\$B)	YTD (\$B)
Tax-Exempt	Outflow: -0.253	Inflow: 7.072
Money Market	Inflow: 0.344	Outflow: -30.281
Taxable	Outflow: -1.408	Inflow: 51.672
Equities	Outflow: -3.833	Inflow: 1.481

Source: Lipper Fund Flows



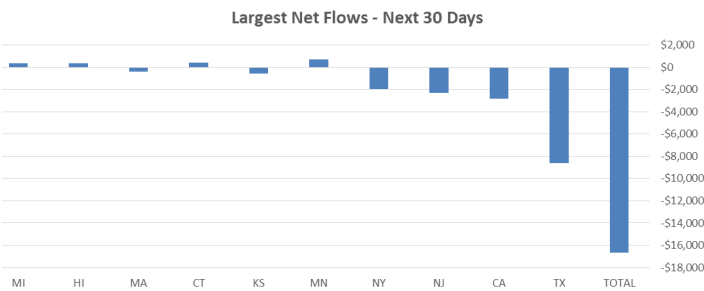
Source: Lipper Fund Flows



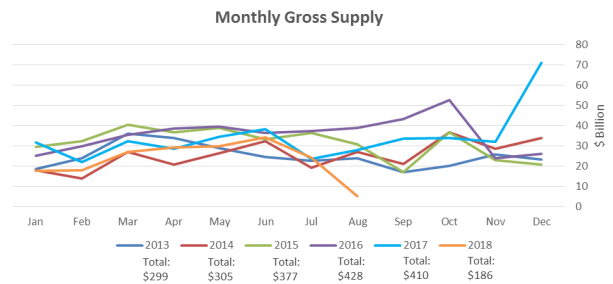
Source: Bloomberg

Muni Market Supply

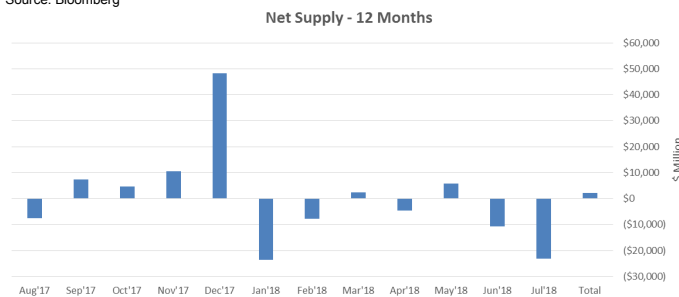
Over the next 30 days, we see net muni market supply at -\$16.64 bil., comprised of \$10.74 bil. new issues, \$18.32 bil. maturing, and \$9.07 bil. announced calls. The states that stand to experience the largest change in outstanding debt include Texas (-\$8.60 billion), California (-\$2.81 bil.), New Jersey (-\$2.33 bil.), New York (-\$1.97 bil.), and Minnesota (+\$725.11 million)



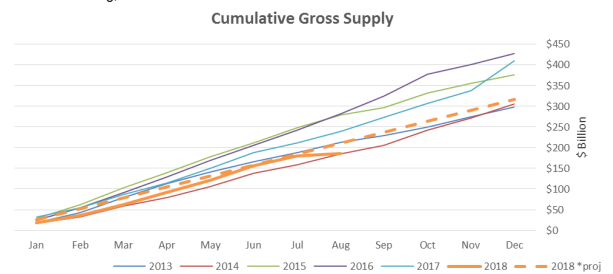
Source: Bloomberg



Source: Bloomberg, Ramirez



Source: Bloomberg



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)).