

Ramirez Municipal Strategy



September 3, 2019

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Municipal Market Weekly

Credit & Market Strategy

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Recap / Thoughts:

- ⇒ US-China trade concerns and slowing global growth continue to drive markets
- ⇒ This week's big data day is Friday when the Labor Dept releases non-farm payrolls for Aug
- ⇒ Munis gained in Aug but massively underperformed a surging Treasury market
- ⇒ M/T ratios and spreads are now fairly valued vs historical following Aug underperformance
- ⇒ Muni gross supply ramped up significantly in Aug to \$44.5 bil. due to lower rates and is up 10% YoY
- ⇒ \$9.0 bil. of new issue Muni supply on tap for this week
- ⇒ Trade ideas: Sell: 5% coupons thru 10yrs, short duration / calls (1-2yrs), weaker credits; Buy: floating or fixed sub-5% coupons, 6-10yr calls, long-final (18-30yr final mtys), high-quality credit

Market Recap. US markets continued to be driven by US-China trade concerns and tariffs amidst Trump tweets and weakening economies in Europe and Asia. Equities experienced massive volatility – the S&P 500 had 11 daily moves of at least 1% – but ended the month in relatively good shape with the S&P 500 down only -1.8% in Aug (+16.74% YTD). Treasuries posted a massive rally on the month during the trade war escalation with safe-haven demand supporting all points on the curve, including the 30yr, which returned +7.87% on the month (+23% YTD), the best return on record. Treasuries overall returned +3.40% in Aug (8.63% YTD) as yields declined by an average of -50 bps, including -39 bps in 2yrs to 1.50%, -47 bps in 5yrs to 1.39%, -55 bps in 10yrs to 1.50%, and by -59 bps in 30yrs to 1.95%. Treasury 2s10s bull flattened -15 bps to end inverted at -1 bp (10yr hit 1.441% on Aug 26), while Treasury 2s30s bull flattened -19 bps to end at +45 bps during which the 30yr hit an all-time low of 1.91% last Wed. Treasuries appear to be pricing in at least three Fed rate cuts through early 2020 with the possibility of a single 50 bps cut by year-end; the next Fed meeting is Sept 17-18. Powell is scheduled to speak this Friday in Switzerland, the last speech before the blackout period. Today's markets are in a tailspin on weaker-than-expected manufacturing data as the ISM Manufacturing index was lower than expected at 49.1 (vs 51.3 exp). This Friday's non-farm payroll report for Aug will likely confirm or deny today's market fears of a slowing US economy. Consensus estimates of the Aug payroll report are for stability vs July at ~160K jobs added, 3.7% unemployment, and average hourly earnings at +3% YoY.

Munis. Munis posted positive returns in Aug but massively underperformed Treasuries due to investor resistance to low absolute yields. Munis underperformed by an average of +9.65 ratios across the curve, with the most acute underperformance occurring in the front-end (2yrs: 10.79 ratios; 5yrs: 14.62 ratios). Front-end underperformance was due to a combination of the broad-based, aggressive Treasury rally in Aug and the run-up of short-dated bond prices at the beginning of July, which caused investors to seek better relative value (but still relatively expensive) in intermediate and longer duration bonds (which we have been favoring all year). On the month, the MMD scale was bumped by an average of -6.7 bps in 2yrs through 5yrs vs (an astounding) average of -36.3 bps in 10yrs through 30yrs. MMD 2s10s bull flattened -24 bps to +21 bps while 2s30s bull flattened -34 bps to +83 bps. SIFMA was stable during the month in a range of 1.32% to 1.36%, finishing at 1.35%, or 102% of 12yr MMD (!). The S&P Main Muni index returned +1.43% in Aug led by long duration, which returned +2.54% in Aug (+10.51% YTD). New issue supply of \$44.5 bil. in Aug was met with a mixed reception, depending upon the week, credit, and structure that came to market. In many instances, underwriters had to reprice bonds to wider levels/spreads, including sub-5% coupons; however, even with sizable adjustments, in some cases, underwriters were forced to position significant portions of deals. In the secondary, trading activity during Aug was average, although bid-wanted activity was ~25% below average, which is typical of the Aug vacation period. Muni fund inflows were +\$7.1 bil. during Aug, including \$1.5 bil. last week, and total \$42.76 bil. YTD.

Muni Technicals. Primary market issuance in Aug was +30% higher in Aug 2019 vs Aug 2018 at \$44.5 bil., driven mostly by upsized refundings given the significant MMD bumps throughout Aug as discussed above. Gross supply YTD through end of Aug was \$235.5 bil., or +10% YoY. The YTD number remains in-line with our full-year 2019 projection of +8% YoY (\$341.8 bil.). Sept begins this week with \$9.0 bil. of new issue supply, including \$6.7 bil. of negotiated and \$2.3 bil. of competitive transactions. Negotiated is led by \$2.3 bil. State of CA (Ramirez & Co. Co-Senior), \$600 mil. Commonwealth of Mass, \$536 mil. KY Pub Energy, and \$500 mil. Univ of VA (100yr taxable). Competitive deals are led by \$1 bil. for NY MTA. Reinvestment available from maturities and calls declines dramatically in Sept through Dec (vs the previous several months) but appears roughly balanced with expected new issue supply at about \$30 bil./month through year-end. Fund inflows driven by taxes and safe-haven demand should also remain strong, which combined with reinvestment, should be sufficient to absorb supply. The 30-day visible net supply is -\$6.27 bil., comprised of +\$13.13 bil. new issue against -\$19.41 bil. of maturing (-\$11.11 bil.) and called bonds (-\$8.3 bil.). The states that stand to experience the largest change in outstanding debt include NJ (-\$1.1 bil.), PA (-\$1.02 bil.), TX (-\$1.01 bil.), WA (+965 mil.) and KS (-\$860 mil.).

Trade Ideas. The Muni market appears to be fairly valued on a M/T ratio and credit spread basis following massive underperformance in August. (pgs 3-4)

Buy: Floating rate and sub-5% cpns with 6-10yrs calls and long 18-30yr final mtys, high-quality credit

Sell: Short duration / calls (1-2yrs), 5% cpns through 10yrs, weaker credits

Strategy

- Currently like 30/70 barbell w/ eff dur 8-10 yrs (Bull)
- Barbell: 30%: VRDOs / 70%: 18-30yr
- Calls: 6-10yr
- Coupons: Floating and fixed 4% coupon (min)
- Credit: 'AA-' or better GO; 'A' or better Revenue (select names)

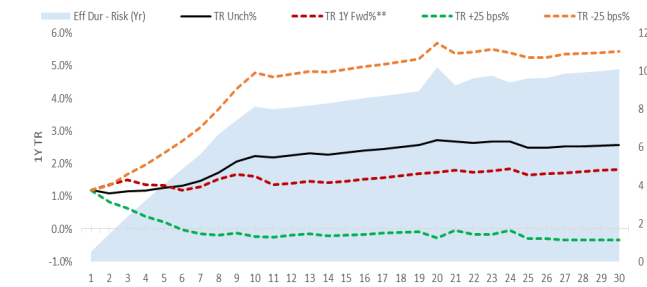
TR Scenarios (12M)			
Scenario	Bear	Base	Bull
Crv Shft (avg bps)*	25	7	-25
Strategy	Short Ladder	Long Ladder	Barbell
Mty Range (yrs)	1-7	22-30	1-7 & 18-30
Tot Rtrn % (Proj)	0.60%	2.40%	5.56%
OAS (bps)*	14	56	59
Eff Dur (yrs)	1.7	9.8	9.2
WAM	2.3	27.0	22.7
Cnvx	0.12	0.11	-0.08

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

*OAS Vol = 20

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

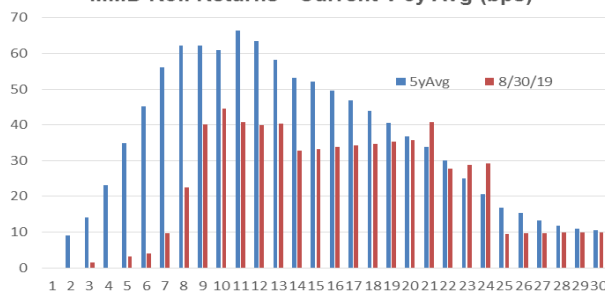


Source: MMD, Bloomberg, Ramirez & Co.

*OAS: **MMD / UST Implied

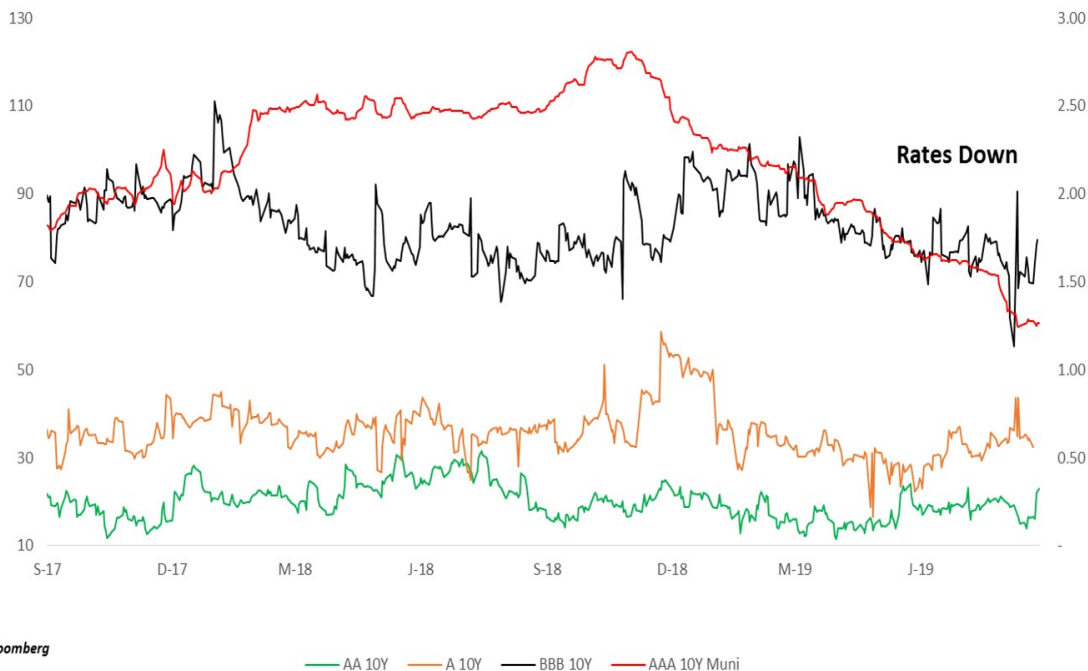
MMD Callable Curve (5% Cpn) - 12M FWD Total Return Projections*							
Mty	1-30y	1-5y	6-10y	11-15y	16-20y	21-25y	26-30y
Eff Dur	7.7	2.9	6.8	8.2	9.1	9.5	9.9
Scenarios	Unch	2.34%	1.19%	1.83%	2.28%	2.53%	2.53%
	1Y Fwd Rates	1.61%	1.37%	1.49%	1.42%	1.63%	1.75%
	Parallel +25 bps	-0.17%	0.46%	-0.16%	-0.20%	-0.16%	-0.33%
	Parallel -25 bps	4.84%	1.92%	3.85%	4.79%	5.22%	5.37%

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



Source: Bloomberg

Spreads wider as absolute rates decline to historic lows



MUNI TAX-EXEMPT SECTOR CREDIT SPREADS (10Y)									
2y Historical									
Sector	Rating	8/30/19	Avg	Min	Max	SD	Z-Scr	Value	Sharpe
GO	AA	23	20	11	32	4	0.75	Fair	1.7
	A	34	42	16	67	7	-1.04	Rich	2.5
HOSP	AA	22	30	17	52	6	-1.43	Rich	1.0
	A	52	58	42	75	7	-0.89	Fair	5.2
HI ED	AA	15	17	4	27	5	-0.40	Fair	-0.3
	A	35	41	28	57	5	-1.12	Rich	3.6
TRANS	AA	14	17	5	28	4	-0.82	Fair	-0.5
	A	29	36	22	43	3	-2.05	Rich	3.8
POWER	AA	17	16	3	39	5	0.29	Fair	0.2
	A	23	39	22	53	5	-3.05	Rich	1.3
WTR / SWR	AA	16	18	5	27	4	-0.41	Fair	0.0
	A	37	43	26	84	9	-0.60	Fair	2.5
HY	<BBB-	222	279	173	472	76	-0.75	Fair	2.7

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Muni Primary Market

Gross Supply (\$ in millions)

	As of 8/30/19
Last Week	7,596.6
12wk Moving Avg.	12,822.6
YTD	235,469.1

Source: Bloomberg

Weekly Visible Supply (\$ in millions)

	Week of 9/3/19
Total	8,952.0
Comp.	2,265.3
Neg.	6,686.7

Source: Bloomberg, Ramirez

30-Day Visible Supply (\$ in millions)

	Current		2019 High		2019 Low	
	Total	\$	Date	\$	Date	
Total	12,828.5	17,594.0	(8/6)	2,205.4	(6/27)	
Comp.	4,579.4	6,556.7	(6/14)	1,266.4	(6/27)	
Neg.	8,249.1	11,285.3	(8/6)	939.0	(6/27)	

Source: Bond Buyer

Top Competitive Issuances Coming to Market

Issuer	State	Amount (\$ 000's)
Met Transprtn Auth	NY	1,000,000
North Carolina Pub Imp	NC	600,000
Dane Co	WI	119,675
Richland Co Sch Dist	SC	85,000
Conway SD #1	AR	71,800

Source: Bloomberg

Top Negotiated Issuances Coming to Market

Issuer	State	Amount (\$ 000's)
California	CA	2,300,000
MA Commonwealth	MA	600,000
KY Pub Energy Auth	KY	536,040
Univ of Virginia Rector	VA	500,000
Chicago Brd of Edu	IL	369,690

Source: Bloomberg

Ramirez Negotiated Issuances Coming to Market

Issuer	State	Amount (\$ 000's)	Senior Manager	Ramirez Role
California	CA	2,300,000	Jefferies	Co-Senior

Underwriters will attempt to market \$9.0 bil. of munis during the week of 9/3, led in the negotiated space by \$2.3 bil. California, \$600 mil. Massachusetts, \$536 mil. KY Pubic Energy Auth, and \$500 mil. UVA. The competitive calendar is highlighted by \$1.0 bil. MTA TRBs and \$600 mil. North Carolina.

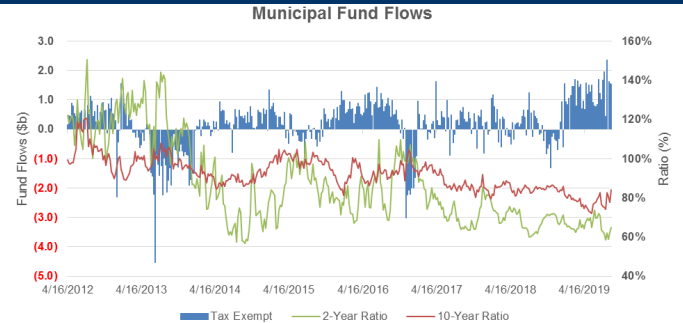
Economic Calendar

Monday (9/2)	Tuesday (9/3)	Wednesday (9/4)	Thursday (9/5)	Friday (9/6)
Market Closed	Markit US Manufacturing PMI	MBA Mortgage Applications	ADP Employment Change	Change in Nonfarm Payrolls
Labor Day	ISM Manufacturing	Trade Balance	Initial / Continuing Jobless Claims	Change in Manufact. Payrolls
	ISM Prices Paid	Fed Speakers - Williams/Kaplan/Bowman/Bullard/Kashkari/Evans	Markit US PMI (Services / Composite)	Unemployment Rate
	Construction Spending MoM	Fed Releases Biege Book	Factory Orders	Fed Speaker - Powell
	U.S. to Sell USD45 Bln 3-Month Bills		Durable Goods Orders	
	U.S. to Sell USD42 Bln 6-Month Bills		ISM Non-Manufacturing Index	
	Fed Speaker - Rosengren		U.S. to Sell USD55 Bln 4-Week Bills	
			U.S. to Sell USD40 Bln 8-Week Bills	

Source: Bloomberg

Muni Market Demand

Tax-exempt mutual funds reported inflows for the 34th consecutive week with inflows of \$1.54 bil. for the week ended August 28th. This compares to the 12-week moving average of a \$1.39 billion inflow.

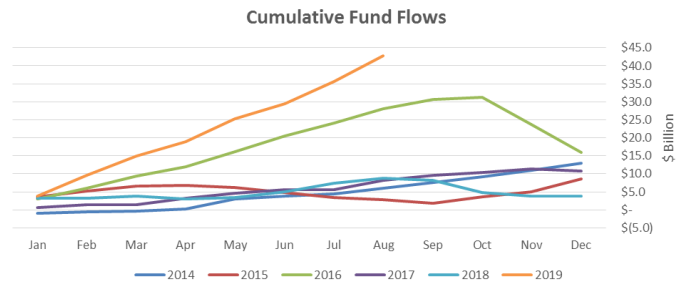


Source: Lipper Fund Flows

US Lipper Fund Flows

Sector	Flow Change (\$B)	YTD (\$B)
Tax-Exempt	Inflow: 1.536	Inflow: 42.762
Money Market	Outflow: -16.235	Inflow: 290.224
Taxable	Inflow: 5.020	Inflow: 97.455
Equities	Outflow: -7.325	Outflow: -158.399

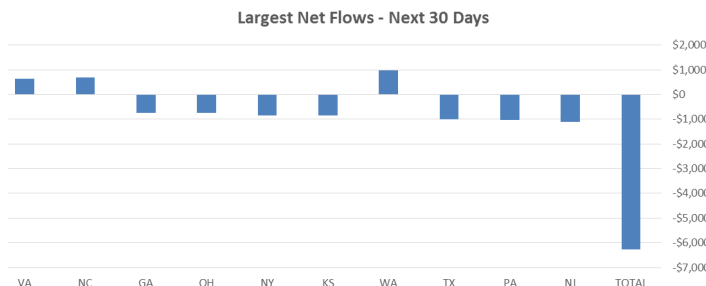
Source: Lipper Fund Flows



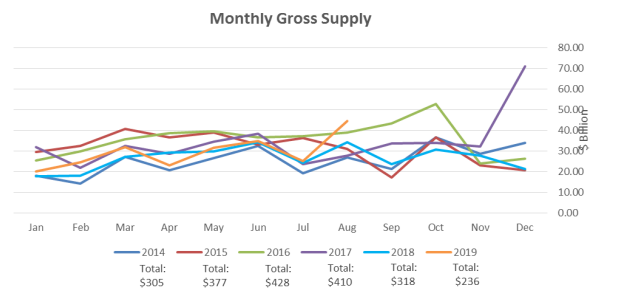
Source: Bloomberg

Muni Market Supply

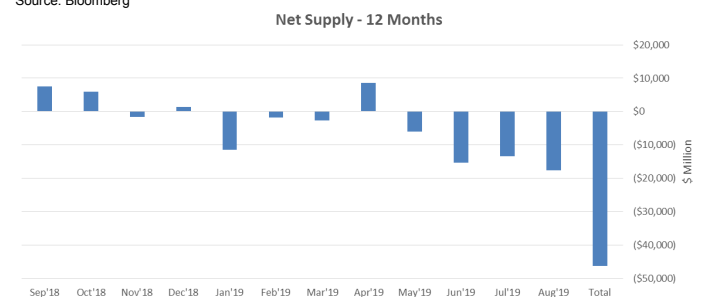
Over the next 30 days, we see net muni market supply at -\$6.27 bil., comprised of \$13.13 bil. new issues, \$11.11 bil. maturing, and \$8.30 bil. announced calls. The states that stand to experience the largest change in outstanding debt include New Jersey (-\$1.10 bil.), Pennsylvania (-\$1.02 bil.), Texas (-\$1.01 bil.), Washington (+\$965.4 mil.), and Kansas (-\$860.5 mil.).



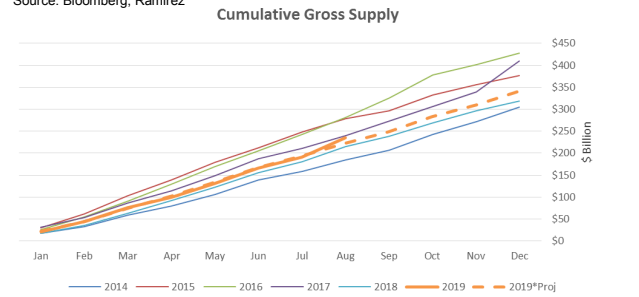
Source: Bloomberg



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