

Municipal Market Weekly

Ramirez Municipal Strategy



October 29, 2018

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Equities broadly sold-off last week on a myriad of investor concerns that benefitted safe-haven assets, including Treasuries, Munis, and the US dollar. Most of the rates action occurred last Wed as the S&P equity index fell to its lowest level since May. US GDP for 3Q18 was above estimates at 3.5%, likely stemming further equity market losses, which were sparked by disappointing earnings reports from key tech and industrials (Amazon, Caterpillar, 3M) and sentiment that corporate earnings have peaked. US-China trade concerns, elevated Italian bond spreads, slower global growth, higher US inflation, and rising rates affecting the housing sector also contributed to the equity sell-off. Major US equity indices are now trading in correction territory as the Dow lost 3% and the S&P lost 3.9% on the week and erased YTD gains. Treasury yields broadly declined despite weaker 2/5/7 yr Treasury auctions, including the 5yr note which declined -11 bps to 2.93% and the 10yr note, which declined -9 bps to 3.10%, bull steepening 2s30s by 4 bps to 51 bps. Treasuries gained +67 bps on the week, lost -3 bps in Oct and are down -170 bps YTD. The market-based probability of a Fed rate hike remains above 50% for Dec while the market expects between 2-3 hikes in 2019 as the Fed hikes towards a "neutral" rate.

Munis followed Treasuries to lower yields last week on the safe-haven demand, but generally underperformed (as they have all month in Oct) as investors continued to pull a torrent of cash from mutual funds (\$495 mil.), the fifth consecutive week of outflows (+6.147 bil. YTD). Munis underperformed Treasuries on the week by an average of 1.48 ratios in 2yrs-10yrs and outperformed by 1.2 ratios in 30 yrs as the MMD scale was bumped between 1-8 bps, including 8 bps in 30yrs. The 30yr spot had become oversold the prior two weeks, hitting a high of 102% prompting institutional buying in this part of the curve. MMD 2s30s bull flattened 7 bps on the week to 128 bps. Last week's Muni mutual fund outflow directly correlated to well above-average secondary bid-wanted lists, including two days of \$1 bil.+ of offerings (+23% above avg) and a \$2 bil. increase in dealer inventory. Secondary trading was 13% above average. The primary market calendar of \$6.5 bil. had strong reception and follow-through, however, as deals were attractively priced to sell. The S&P Main Muni Index posted a weekly gain of +29bps, although lost -44 bps in Oct, accounting for 77% of the YTD loss (-60 bps YTD).

Last week's equity rout and subsequent Treasury market rally clearly mitigated the deleterious effect of mutual fund outflows on Muni prices. We will continue to monitor mutual fund flows for any additional, significant mutual fund outflows, as continued selling by investors would likely put more pressure on an already overburdened secondary Muni market. We are also watching secondary market liquidity as dealers continue to hold a fair amount of inventory (~33% above average) and balance sheet clean-ups before year-end could inflict additional market pain. We have started to see a fair amount of tax swapping as investors have begun to sell bonds with losses to offset capital gains in the equity market and to reposition for higher rates.

We remain constructive on Munis, which appear slightly cheaper due to underperformance in Oct by an average of 2.39 ratios across the curve. However, given the negative forecast for rates and projected lower total returns across fixed-income generally, we advocate adhering to a more defensive, shorter duration posture (5-7yrs effective duration), focusing on 5%+ coupons with intermediate maturities (10-15yrs) with shorter-calls (5-8yrs). This structure captures about 90% of the MMD yield curve, has optimal rolldown (~50 bps), and is generally cheaper vs shorter (2-4 yr) call structures. We also like paring back credit risk and improving portfolio credit quality into 'AA' or better general market names as higher quality should outperform lower quality as rates rise and spreads widen, particularly on lower coupon structures.

Total gross supply YTD is \$269 bil., or -12% YoY. We are maintaining our full-year 2018 supply projection at \$317 bil., or -27% YoY, as we think new-money will likely decelerate in 4Q18. Given our year-end forecast for gross supply of \$317 mil., we think gross issuance should average about \$6.8 bil./week for an additional \$48 bil. of additional gross supply in 2018. Muni gross supply is expected at \$8 bil. from \$6.5 bil. last week. The negotiated market is led by \$1.3 bil Chicago Sales Tax on Wednesday (\$917 mil. tax-exempt, \$388 mil. taxable), \$650 million Los Angeles Airport AMT bonds pricing on Wednesday, and \$317 mil. San Mateo CCD, CA pricing on Tuesday. Competitively, the largest deals scheduled to sell are \$102 mil. Orange County Sanitation Department, Florida on Thursday and \$320 mil. Florida DOT which is on 19-hr notice. Over the next 30 days, net muni market supply is average for the year at -\$13.37 bil., comprised of +\$8.94 bil. new issues against -\$22.3 bil. of maturing (-\$13.4 bil.) and announced calls (-\$8.87 bil.).

This week big event is the employment report Friday. There is also the BOJ and BOE rates decisions and domestically, the employment cost index, factory orders, durable goods, Chicago purchasing index, nonfarm productivity, unit labor cost, initial and continuing claims, ISM Manufacturing and employment, trade balance. PCE came in as expected today. Trump vs Everyone and Anything.

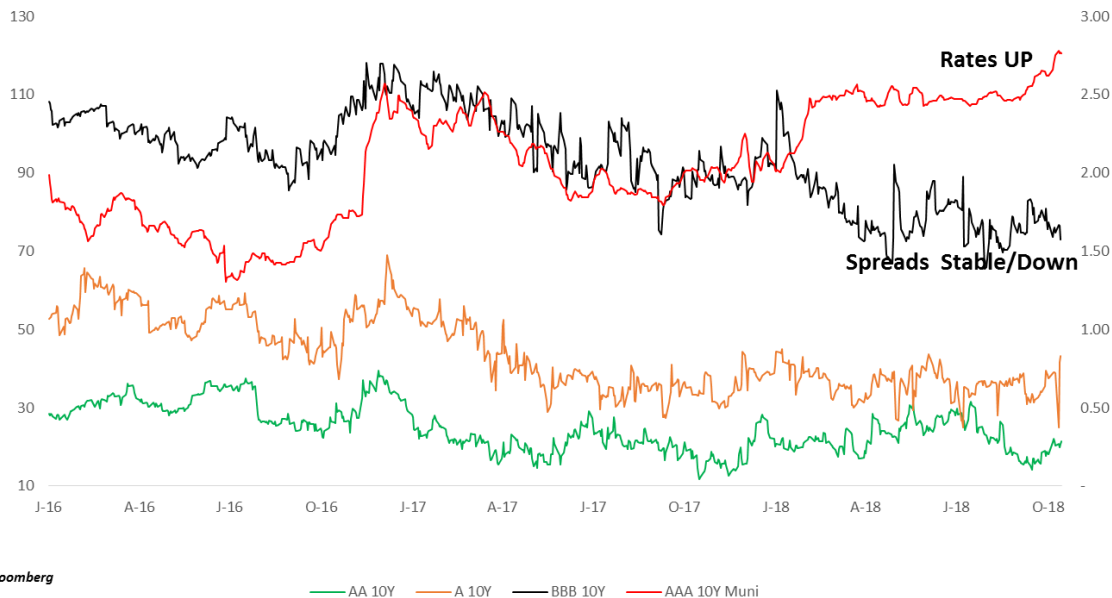
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As Muni rates have risen...credit spreads have stabilized or declined



Source: Bloomberg

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

SECTOR CREDIT SPREADS (10Y)									
1/1/16-Current									
Sector	Rating	10/26/18	Avg	Min	Max	SD	Z-Scr	Value	Sharpe
GO	AA	19	25	12	40	6	-0.95	Fair	0.2
	A	50	53	25	86	13	-0.26	Fair	2.4
HOSP	AA	39	37	24	60	7	0.24	Fair	3.1
	A	63	64	48	102	7	-0.19	Fair	6.4
HI ED	AA	17	23	4	40	8	-0.85	Fair	-0.2
	A	42	51	33	94	10	-0.85	Fair	2.3
TRANS	AA	22	25	11	47	8	-0.33	Fair	0.5
	A	35	45	23	87	10	-0.92	Fair	1.6
POWER	AA	5	17	5	32	6	-1.86	Rich	-2.1
	A	48	46	29	72	8	0.27	Fair	3.9
WTR / SWR	AA	18	22	10	41	5	-0.79	Fair	0.0
	A	41	57	27	104	17	-0.99	Fair	1.3
HY	<BBB-	168	275	159	403	73	-1.46	Rich	2.1

Source: Bloomberg

Muni Primary Market

Gross Supply (\$ in millions)

	As of 10/29/18
Last Week	6,511.6
12wk Moving Avg.	6,947.6
YTD	269,027

Source: Bloomberg

Weekly Visible Supply (\$ in millions)

	Week of 10/29/18
Total	8,000.0
Comp.	900.0
Neg.	7,100.0

Source: Bloomberg, Ramirez

30-Day Visible Supply (\$ in millions)

	Current Total	2018 High		2018 Low	
		\$	Date	\$	Date
Total	8,893.5	16,653.6	(8/13)	2,017.8	(6/28)
Comp.	1,543.4	6,795.3	(5/14)	903.1	(1/26)
Neg.	7,350.1	14,292.2	(8/9)	635.2	(6/28)

Source: Bond Buyer

Top Competitive Issuances Coming to Market

Issuer	State	Amount (\$ 000's)
FL DOT	FL	320,000
Florida Dpt of Mgmt Svcs	FL	249,265
VA College Bldg Auth	VA	137,795
Orange Cnty San Dist	CA	102,125
Verona Area Sch Dist	WI	80,000

Source: Bloomberg

Top Negotiated Issuances Coming to Market

Issuer	State	Amount (\$ 000's)
Sales Tax Sec Corp (Chicago)	IL	1,306,200
Los Angeles Dept of Airports	CA	650,000
Mission Eco Dev (NatGas)	TX	334,650
San Mateo Cmnty Clg Dist	CA	261,000
Los Angeles Wstwr	CA	220,465

Source: Bloomberg

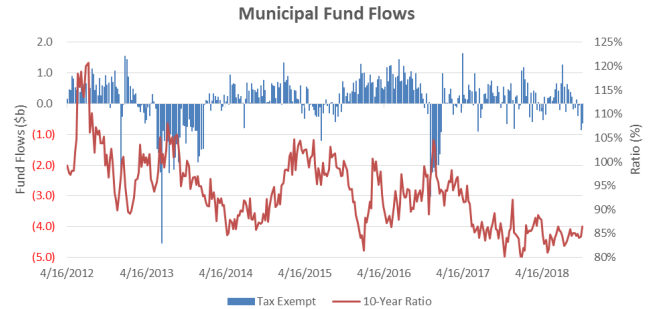
Underwriters will attempt to market ~\$8 bil. of munis during the week of 10/29, led in the negotiated space by \$1.3 bil. Sales Tax Sec Corp (Chicago), \$483 mil. LA Dept of Airports, \$334 mil. NatGas Proj. The competitive calendar is highlighted by \$320 mil. FL Dept of Trans and \$249 mil. FL Dept of Mgmt Svcs.

Ramirez Negotiated Issuances Coming to Market

Issuer	State	Amount (\$ 000's)	Senior Manager	Ramirez Role
Sales Tax Sec Corp (Chicago)	IL	1,306,200	Loop/Ramirez/Stifel	Jt Bookrunner
Mass HFA SFM	CT	79,285	BAML	Co-Mgr

Muni Market Demand

Tax-exempt mutual funds reported outflows for the fifth consecutive week of \$495 mil, for the week ending October 24th. This compares to the 12-week moving average of a \$77 mil. outflow.

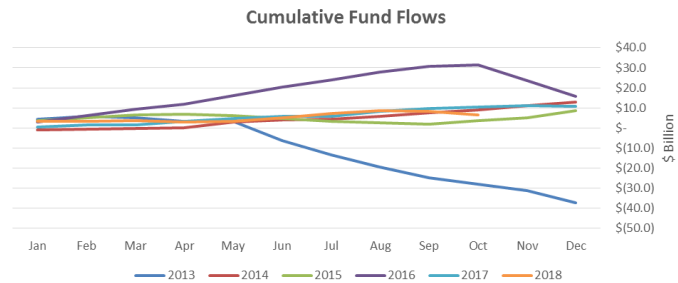


Source: Lipper Fund Flows

US Lipper Fund Flows

Sector	Flow Change (\$B)	YTD (\$B)
Tax-Exempt	Outflow: -0.495	Inflow: 6.147
Money Market	Inflow: 6.413	Outflow: -10.693
Taxable	Outflow: -1.870	Inflow: 54.028
Equities	Inflow: -4.505	Outflow: -19.401

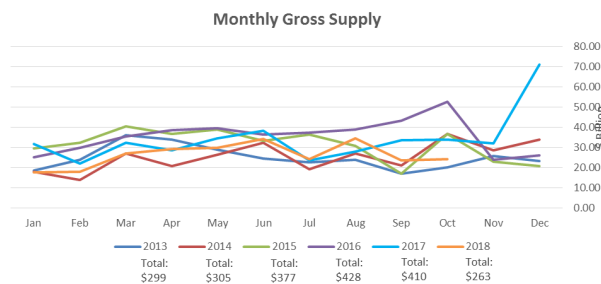
Source: Lipper Fund Flows



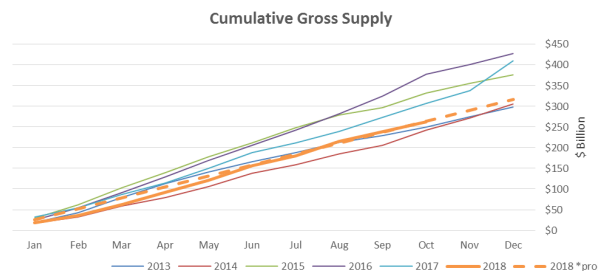
Source: Bloomberg

Muni Market Supply

Over the next 30 days, we see net muni market supply at -\$13.37 bil., comprised of \$8.94 bil. new issues, \$13.40 bil. maturing, and \$8.87 bil. announced calls. Gross supply YTD is \$269 bil., or Ramirez & Co. expects issuance through year-end 2018 to be -29% YoY, or ~\$317 bil., which translates into about \$6.8 bil./week (\$48 bil. of additional gross supply).



Source: Bloomberg, Ramirez



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