

# Municipal Market Weekly

## Ramirez Municipal Strategy



December 3, 2018

Page 1

FOMC chairman Powell gave the “green light” to Muni investors last week with comments on Wed that the Fed’s rate hike cycle is likely nearing an end, which we believe encouraged broad participation and bullish sentiment across the curve last week. Municipals staged an impressive rally and outperformed Treasuries on the week largely after the Powell speech, where he stated that current interest rates are “just below the broad range of estimates of the level that would be neutral for the economy.” Powell’s comments tempered his earlier, hawkish remarks on rates and implied a slower pace of Fed rate hikes in 2019. Powell also said that the economic outlook remains “solid,” citing tightening financial conditions and slowing global growth. Fed funds futures now assign an 80%+ probability to a Dec hike, the fourth in 2018, and a roughly 43% probability for 2-3 hikes in 2019. Powell’s dovish sentiment was supported by Nov 7-8 Fed meeting minutes released last week, that echoed Wed’s comments and softer but still strong US economic data. US GDP for 3Q18 was 3.5% as expected, Core PCE for Oct was +1.8% YoY (missing expectations of 1.9%), Oct new home sales were down -8.9% vs Sept, and oil remained stuck in the low \$50 range. Markets were also optimistic on the Trump-Xi meeting this weekend, which ultimately produced 90-day truce in the US-China trade conflict. Treasuries initially rallied on Powell’s comments, but retraced some gains as the week wore on with 2s30s bear steepening 1 bps to 49 bps. The 2yr Treasury remained unchanged on the week at 2.84%, implying that the Dec Fed rate hike is fully priced in, while the 5yr Treasury yield ended lower by -2 bps at 2.87%, the 10yr yield ended -3 bps lower at 3.03%, and the 30yr yield ended higher by +1 bp at 3.33%. Municipals handily outperformed Treasuries (2.45 ratio avg 2-30yrs) following MMD scale bumps averaging -8.1 bps in 2-30yrs, including -9 bps in 5yr MMD to 2.14% from 2.23% (2.5 ratios). The -9 bps bump in 5yr MMD last week was the most significant weekly 5yr MMD bump in well over a year, the last being week of July 17, 2017 when 5yr MMD was bumped -9 bps (to 1.21% from 1.30% and -2.1 ratios) following Republican’s failure to pass healthcare reform. Last week’s Muni rally was even more impressive amidst a relatively solid new issue calendar of \$7.6 bil., four consecutive days of \$1 bil+ bid-wanted lists (+40% above-average), and negative fund flows (-\$379 mil.) earlier in the week through Wed, and before Powell’s comments. The S&P Main Muni index returned +42 on the week, +104 bps in Nov, and turned positive for the year at +21 bps. In contrast, Treasuries returned +15 bps on the week, +89 bps in Nov, and remain negative on the year at -127 bps. US equities were the main beneficiary of the good news, with the S&P 500 posting a +485 bps return on the week to +324 bps return YTD.

Munis should maintain a firm tone through year-end due to favorable market technical factors, which include higher absolute yields (+25% YTD), strong Dec and Jan coupon reinvestment, and most recently, encouraging words from the Fed chairman. The macro risks to our view include fair-to-rich Muni credit spreads, still bloated dealer balance sheets, ongoing market volatility, Fed balance sheet taper, inflation, and higher Treasury supply to fund the Federal deficit. Provided interest rates remain somewhat range-bound, investors maintain preference for shorter duration, the MMD curve’s steepness through 15 yrs (2s15s = 87 bps) vs a consistently flat Treasury curve (2s30s = 49 bps) supports our investment thesis of higher quality 5% coupon bonds with maturities of 15-20yrs that capture ~90% of the MMD curve. We note that this structure with optional calls inside 5yrs are trading cheaper vs longer calls of similar maturities (similar credits). We also note that despite our preference for higher credit quality names, there is some opportunity currently in higher quality ‘A’ rated credits in Hospital, Power, and GO sectors. Cal names also continue to read slightly cheaper vs the last 12 months as investors continue to push back on sub-MMD pricing.

This week continues last week’s theme of solid gross supply with \$9.7 bil. on tap. The negotiated market is led by \$1.85 bil. Chicago O’Hare Airport (A/A), \$693 mil. Delaware River Port Auth (A2/A+), \$548 mil. Scottsdale Healthcare, \$525 mil. CHF-Davis student housing, and \$484 mil. NYC Housing. Competitively, the largest deal scheduled to sell is \$390 mil. Washington Suburban San (Aaa/AAA). This week’s new issue should do well given a variety of different names coming to market. Gross supply YTD is \$296.7 bil, or -16% YoY, and excluding this week, we estimate another \$15 bil. of new issue supply through year end for \$25 bil. in Dec, which would put gross supply at ~\$320 mil., or -21% YoY. We have been forecasting \$317 bil., or -23% YoY all year. The 30 day net supply is currently -\$12.5 bil., comprised of +\$12.49 bil. new issues against -\$23.97 bil. of maturing (\$17.16 bil.), and announced calls (\$6.37 bil.). Net supply, however, should be largely break-even by end of Dec, assuming gross supply in Dec materializes at about \$25 bil. as we expect and 30-day maturities and calls remain constant at ~\$24 bil. The states that stand to experience the largest change in outstanding debt include New Jersey (-\$2.61 bil.), Ohio (-\$1.79 bil.), Washington (-\$1.30 bil.), New York (-\$956.9 mil.), and Illinois (-\$864.1 mil.). We expect to release our new issue supply forecast mid-Dec and incorporate our thoughts regarding increased new issue supply, if any, that may result from the \$51 bil. of bond measures that passed in the midterm elections along with any bipartisan Federal infrastructure plan. We are somewhat bearish on a meaningful Federal infrastructure plan at this time as funding sources for any new bonds first need to materialize, which in our view, is a long-shot.

Equity and U.S. fixed income markets will be closed on Wednesday in observance of President George H.W. Bush’s funeral. This week we have ISM manufacturing, US Treasury auctions, factory orders, durable goods, several Fed speakers, unemployment (Fri), and Univ of Michigan consumer sentiment. Trump vs GM.

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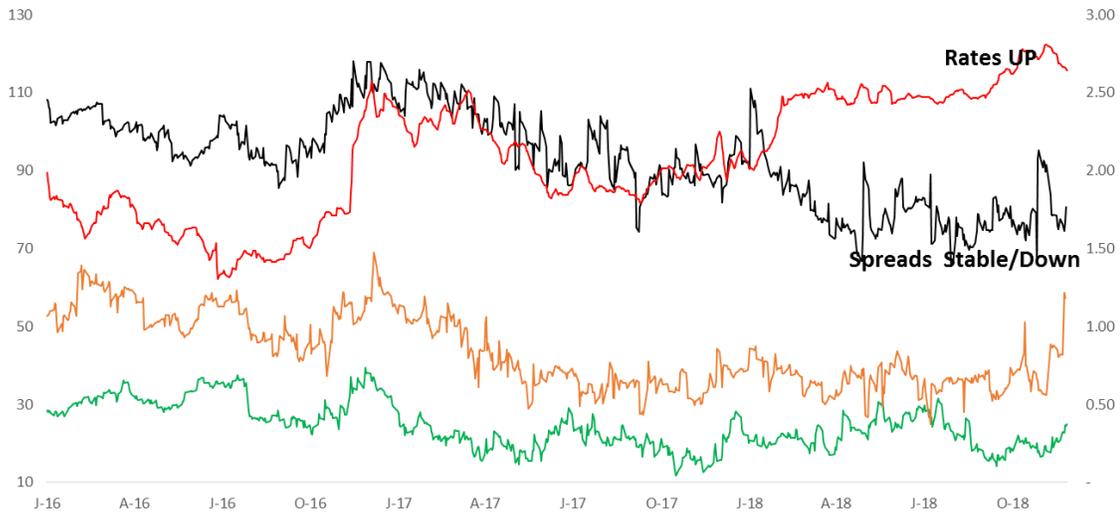
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**As Muni rates have risen...credit spreads have stabilized or declined**



Source: Bloomberg

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

SECTOR CREDIT SPREADS (10Y)									
1/1/16-Current									
Sector	Rating	11/30/18	Avg	Min	Max	SD	Z-Scr	Value	Sharpe
GO	AA	25	25	12	40	6	0.08	Fair	1.4
	A	66	53	25	86	13	1.03	Cheap	3.8
HOSP	AA	31	37	24	60	7	-0.87	Fair	2.2
	A	66	64	48	102	7	0.29	Fair	7.1
HI ED	AA	17	23	4	40	8	-0.78	Fair	0.1
	A	45	51	33	94	10	-0.58	Fair	2.7
TRANS	AA	17	25	11	47	8	-1.04	Rich	0.0
	A	41	44	23	87	10	-0.34	Fair	2.3
POWER	AA	20	17	5	39	6	0.52	Fair	0.5
	A	46	46	29	72	8	-0.04	Fair	3.8
WTR / SWR	AA	17	22	5	41	5	-0.99	Fair	0.0
	A	48	56	27	104	16	-0.52	Fair	1.9
HY	<BBB-	183	271	159	472	74	-1.19	Rich	2.2

Source: Bloomberg

# Municipal Market Weekly

## Ramirez Municipal Strategy



December 3, 2018

Page 3

### Market Performance

WEEK ENDING: 11/30/18

INDEX	TOTAL RETURN (%)									YIELD (%)												
	WTD	Nov '18	Oct '18	4Q18	3Q18	2Q18	1Q18	2018	2017	2016	2015	3Y	5Y	11/30/18	WTD Δ	YTD Δ	Lo 12M	Hi 12M	Mean 12M	Vol 12M	Z-score 12M	3Y
<b>TREASURY-TERM</b>																						
TREASURY - ALL	0.15	0.89	-0.48	0.41	-0.59	0.10	-1.18	-1.27	2.31	0.63	0.84	0.79	1.45	2.93	-0.02	0.69	2.12	3.12	2.70	0.24	0.95	1.63
SHORT	0.04	0.29	0.11	0.40	0.34	0.28	-0.20	0.82	0.87	1.25	0.67	0.98	0.89	3.03	0.01	0.95	1.96	3.14	2.64	0.31	1.25	1.88
SHORT-INT	0.10	0.50	-0.05	0.45	0.14	0.04	-0.86	-0.23	1.75	1.84	1.57	1.18	1.50	3.26	0.00	0.84	2.30	3.40	2.97	0.27	1.07	1.83
INTRMD	0.20	0.69	-0.28	0.40	0.12	0.02	-1.21	-0.67	2.59	1.78	1.25	1.35	1.96	3.48	-0.01	0.67	2.72	3.61	3.25	0.22	1.06	1.73
LONG-INT	0.33	0.82	-0.78	0.04	-0.09	0.00	-1.80	-1.85	3.51	2.20	1.09	1.45	2.52	3.74	-0.03	0.72	2.94	3.88	3.48	0.23	1.13	1.74
LONG	-0.06	0.65	-3.30	-2.68	-0.47	-1.43	-3.57	-7.93	10.47	5.77	-3.26	2.99	4.64	4.29	0.04	0.73	3.45	4.29	3.92	0.19	1.93	2.12
<b>MUNICIPAL-TERM</b>																						
SHORT	0.21	0.42	-0.01	0.41	0.03	0.58	0.24	1.27	1.16	0.39	0.88	0.94	0.96	2.07	-0.09	0.36	1.54	2.24	1.87	0.19	1.10	1.76
SHORT-INT	0.34	0.75	-0.18	0.56	-0.02	0.73	-0.33	0.94	2.39	0.12	1.96	1.20	1.70	2.29	-0.09	0.40	1.75	2.48	2.12	0.18	0.96	1.62
INTRMD	0.49	1.17	-0.54	0.62	-0.01	0.82	-1.09	0.33	4.74	0.28	3.27	1.97	3.19	2.68	-0.09	0.50	2.07	2.90	2.53	0.18	0.84	1.42
LONG-INT	0.53	1.29	-0.63	0.65	0.01	0.85	-1.35	0.15	5.42	0.38	3.68	2.21	3.68	2.80	-0.09	0.52	2.16	3.02	2.65	0.19	0.78	1.35
LONG	0.56	1.26	-1.12	0.12	-0.48	0.92	-1.56	-1.02	8.19	0.97	4.52	3.06	5.96	3.59	-0.08	0.66	2.79	3.79	3.35	0.21	1.16	1.46
<b>MUNICIPAL-QUALITY</b>																						
MUNI-EXEMPT	0.42	1.04	-0.66	0.37	-0.14	0.91	-0.92	0.21	4.95	0.90	3.32	2.24	3.86	2.89	-0.08	0.52	2.24	3.08	2.68	0.19	1.09	1.59
MUNI-TAXABLE	0.09	0.88	-0.77	0.10	-0.37	0.06	-0.80	-1.01	6.81	4.16	1.30	3.74	5.43	4.25	-0.01	0.47	3.69	4.38	4.06	0.16	1.14	1.73
HIGH-GRADE	0.52	1.24	-0.56	0.67	-0.13	0.70	-1.21	0.02	4.22	-0.09	3.21	1.55	2.70	2.50	-0.09	0.49	1.88	2.72	2.35	0.19	0.78	1.46
'A' RATED	0.41	1.07	-0.62	0.44	-0.19	0.84	-1.07	0.02	5.40	0.82	3.60	2.34	4.23	2.92	-0.08	0.55	2.24	3.11	2.71	0.20	1.08	1.53
'BBB' RATED	0.37	0.89	-0.77	0.11	0.12	1.14	-0.94	0.41	7.97	0.94	4.31	3.40	5.52	3.47	-0.07	0.55	2.81	3.63	3.24	0.18	1.30	1.22
HIGH YIELD	0.60	0.70	-1.25	-0.56	0.76	3.06	0.58	3.86	9.69	3.52	1.81	5.75	7.04	5.10	-0.06	-0.05	4.64	5.39	5.03	0.21	0.35	-0.85
<b>MUNICIPAL-SECTOR</b>																						
PRE-RE	0.21	0.45	-0.02	0.43	0.03	0.56	0.10	1.12	1.07	0.32	0.95	0.85	1.03	1.98	-0.09	0.32	1.46	2.14	1.80	0.18	1.02	1.71
GO	0.46	1.21	-0.67	0.53	-0.20	0.79	-1.19	-0.08	4.56	0.08	2.99	1.72	3.11	2.72	-0.09	0.50	2.09	2.93	2.55	0.19	0.89	1.56
DED TAX	0.41	1.06	-0.68	0.37	0.01	1.27	-0.84	0.80	3.73	1.92	1.24	2.36	3.54	3.01	-0.08	0.51	2.39	3.20	2.83	0.18	0.99	1.20
WTR-SWR	0.44	1.20	-0.71	0.48	-0.31	0.81	-1.24	-0.27	5.31	0.53	3.92	2.14	4.16	2.80	-0.08	0.53	2.15	3.01	2.62	0.19	0.94	1.43
PUB PWR	0.40	0.97	-0.50	0.46	-0.04	0.89	-0.99	0.31	3.20	1.18	4.57	1.76	3.21	2.66	-0.08	0.43	2.10	2.85	2.51	0.17	0.88	0.97
HEALTHCARE	0.37	1.06	-0.83	0.23	-0.30	1.03	-0.99	-0.04	7.00	1.24	4.65	3.04	5.51	3.50	-0.06	0.66	2.72	3.67	3.24	0.21	1.24	1.47
HIGHER ED	0.45	1.16	-0.75	0.40	-0.26	0.86	-1.14	-0.14	6.20	0.62	3.87	2.49	4.45	3.13	-0.08	0.53	2.49	3.33	2.95	0.19	0.95	1.39
TRANSPORT	0.43	1.05	-0.70	0.34	-0.18	0.87	-1.28	-0.25	6.25	0.93	3.76	2.62	4.59	3.02	-0.08	0.60	2.28	3.22	2.78	0.21	1.16	1.58
HOUSING	0.47	1.27	-0.89	0.37	-0.34	0.75	-0.66	0.12	5.59	1.52	3.71	2.62	4.26	3.33	-0.08	0.53	2.69	3.55	3.14	0.20	0.96	1.53
TOBACCO	0.83	-1.44	-2.92	-4.32	0.26	4.87	1.72	2.33	17.82	6.17	13.48	9.30	13.12	5.05	0.01	0.45	3.18	5.09	4.17	0.55	1.60	0.56
IDB	0.27	0.71	-0.60	0.10	0.00	1.04	-0.35	0.79	6.41	1.53	3.66	3.12	5.34	3.40	-0.04	0.45	2.78	3.53	3.19	0.17	1.27	1.15
<b>GLOBAL / CORP / EQUITY</b>																						
S&P 500	4.85	1.79	-6.94	-4.27	7.20	2.93	-1.22	3.24	19.42	10.77	-0.73	12.03	11.07	2.06	-0.09	0.02	1.84	2.06	1.94	0.06	0.17	-0.66
GLOBAL AGG	-0.02	0.31	-1.12	-0.81	-0.92	-2.78	1.36	-3.16	7.39	1.77	-3.15	2.17	0.61	2.19	-0.01	0.50	1.60	2.27	1.97	0.17	1.29	1.87
US CORP-IG	-0.20	-0.17	-1.46	-1.62	0.97	-0.98	-2.32	-3.92	6.42	5.84	-0.68	2.77	3.15	4.37	0.04	1.06	3.21	4.37	3.87	0.30	1.65	2.30
US CORP-HY	0.44	-0.86	-1.60	-2.45	2.40	1.03	-0.86	0.06	7.50	18.37	-4.47	7.61	4.79	7.22	-0.10	1.51	5.52	7.33	6.26	0.37	2.62	0.70

### Rates & Ratios

	This Wk	Last Wk	End Qtr	End Yr	Mean		Value		WTD	MTD	QTD	YTD				
	11/30/18	11/23/18	9/28/18	12/29/17	12M	3Y	12M	3Y	Perf	Perf	Perf	Perf				
<b>AAA MMD / UST</b>									Ratios	Ratios	Ratios	Ratios				
2 Yr	68%	71%	70%	82%	70%	78%	Fair	Fair	-3.2	Out	-4.5	Out	-2.0	Out	-14.4	Out
5 Yr	75%	77%	74%	76%	74%	77%	Fair	Fair	-2.5	Out	-2.4	Out	0.5	Under	-0.9	Out
10 Yr	83%	85%	84%	81%	85%	89%	Rich	Rich	-2.4	Out	-3.7	Out	-0.9	Out	1.4	Under
30 Yr	97%	99%	99%	92%	98%	98%	Fair	Fair	-1.8	Out	-2.3	Out	-2.0	Out	5.2	Under
<b>UST</b>									BPS	BPS	BPS	BPS				
2 Yr	2.84	2.83	2.83	1.90	2.46	1.54	Cheap	Cheap	0.1		-3.2		0.8			93.6
5 Yr	2.87	2.90	2.97	2.22	2.71	1.97	Fair	Cheap	-2.5		-11.7		-10.2			64.5
10 Yr	3.03	3.07	3.08	2.43	2.88	2.34	Fair	Cheap	-3.3		-12.5		-5.0			60.0
30 Yr	3.33	3.32	3.23	2.78	3.09	2.87	Cheap	Cheap	1.0		-8.4		9.9			55.3
<b>AAA MMD</b>									BPS	BPS	BPS	BPS				
2 Yr	1.92	2.01	1.97	1.56	1.72	1.15	Cheap	Cheap	-9.0		-15.0		-5.0			36.0
5 Yr	2.14	2.23	2.20	1.68	2.01	1.50	Fair	Cheap	-9.0		-16.0		-6.0			46.0
10 Yr	2.51	2.61	2.58	1.98	2.44	2.07	Fair	Cheap	-10.0		-22.0		-7.0			53.0
30 Yr	3.22	3.27	3.19	2.54	3.01	2.81	Fair	Cheap	-5.0		-16.0		3.0			68.0

# Municipal Market Weekly Ramirez Municipal Strategy



December 3, 2018

Page 4

## Muni Primary Market

### Gross Supply (\$ in millions)

	As of 11/30/18
Last Week	7,570.7
12wk Moving Avg.	6,493.6
YTD	296,654.4

Source: Bloomberg

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

	Week of 12/03/18
Total	9,650.1
Comp.	1,168.6
Neg.	8,481.5

Source: Bloomberg, Ramirez

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

	Current Total	2018 High		2018 Low	
		\$	Date	\$	Date
Total	12,654.3	16,653.6	(8/13)	2,017.8	(6/28)
Comp.	1,832.4	6,795.3	(5/14)	903.1	(1/26)
Neg.	10,821.9	14,292.2	(8/9)	635.2	(6/28)

Source: Bond Buyer

### Top Competitive Issuances Coming to Market

Issuer	State	Amount (\$ 000's)
Washington Suburban San	MD	390,000
Florida Environmental	FL	140,000
New Hampshire ST	NH	60,000
Madison - Swr Sys Rev	WI	52,870
McKenzie Co	ND	36,065

Source: Bloomberg

### Top Negotiated Issuances Coming to Market

Issuer	State	Amount (\$ 000's)
Chicago O'Hare	IL	1,848,000
Delaware River Port Auth	PA	693,445
Maricopa Cnty Indl Dev (Scottsdale Healthcare)	AZ	547,770
CA Muni Fin Auth (CHF-Davis I LLC)	CA	525,000
NYC Hsg Dev Corp	NY	484,925

Source: Bloomberg

Underwriters will attempt to market \$9.7 bil. of munis in the week of 12/3, led in the negotiated space by \$1.8 bil. O'Hare, \$693 mil. Delaware River Port Auth, and \$548 mil. Scottsdale Healthcare. The competitive calendar is highlighted by \$390 mil. Washington Suburban San.

### Ramirez Negotiated Issuances Coming to Market

Issuer	State	Amount (\$ 000's)	Senior Manager	Ramirez Role
NYC Hsg Dev Corp (Series K)	NY	300,925	JPM	Co-Senior
CA Muni Fin Auth (CHF-Davis I LLC)	CA	525,000	JPM	Co-Manager
NY St Hsg Fin Agy	NY	240,260	MS	Co-Manager
NYC Hsg Dev Corp (Series L)	NY	180,000	Wells	Co-Manager
CA Muni Fin Auth (CHF-Riverside I LLC)	CA	150,000	JPM	Co-Manager
Massachusetts Hsg Fin Agy	MA	36,530	MS	Co-Manager
Indianapolis Local Pub	IN	30,000	Citi	Co-Manager

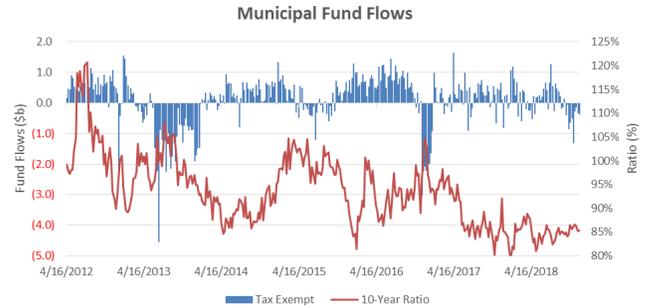
### Economic Calendar

Monday (12/3)	Tuesday (12/4)	Wednesday (12/5)	Thursday (12/6)	Friday (12/7)
Markit US Manufacturing PMI	U.S. to Sell 8-Week Bills	***Markets Closed***	Trade Balance	Change in Nonfarm Payrolls
Construction Spending MoM	U.S. to Sell 4-Week Bills	In Honor of President George H.W. Bush	Initial Jobless Claims	Change in Manufact. Payrolls
ISM Manufacturing	U.S. to Sell USD26 Bln 52-Week Bills	MBA Mortgage Applications	Continuing Claims	Unemployment Rate
ISM Prices Paid	Fed Speaker - Williams	ADP Employment Change	Markit US PMI	Wholesale Inventories MoM
U.S. to Sell USD39 Bln 3-Month Bills		Fed Releases Biege Book	Factory Orders	U. of Mich. Sentiment
U.S. to Sell USD36 Bln 6-Month Bills		Fed Speaker - Quarles	Durable Goods Orders	Fed Speaker - Brainard
Fed Speakers - Clarida/Quarles/Williams/Brainard/Kaplan			U.S. to Sell 8-Week Bills	
			U.S. to Sell 4-Week Bills	
			Fed Speakers - Powell/Bostic/Williams	

Source: Bloomberg

## Muni Market Demand

Tax-exempt mutual funds reported outflows for the tenth consecutive week with outflows of \$379 million for the week ending November 28th. This compares to the 12-week moving average of a \$402 million outflow.

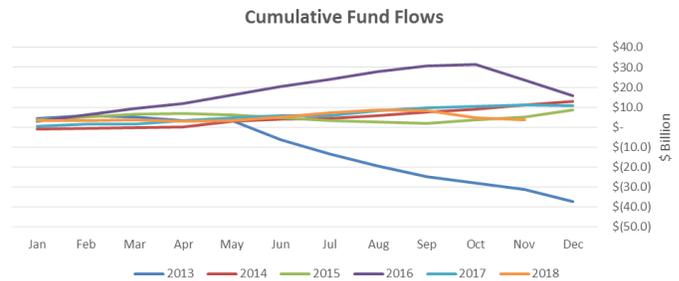


Source: Lipper Fund Flows

## US Lipper Fund Flows

Sector	Flow Change (\$B)	YTD (\$B)
Tax-Exempt	Outflow: -0.379	Inflow: 3.728
Money Market	Inflow: 4.976	Inflow: 49.098
Taxable	Outflow: -2.443	Inflow: 51.467
Equities	Outflow: -8.467	Outflow: -31.885

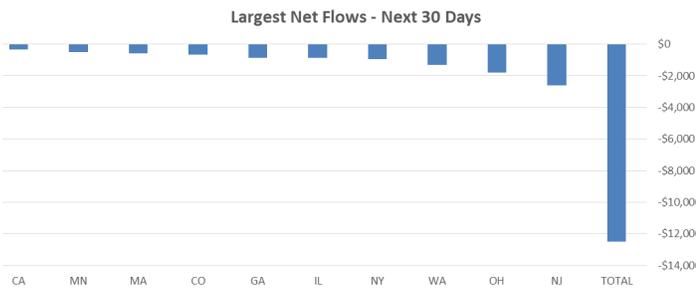
Source: Lipper Fund Flows



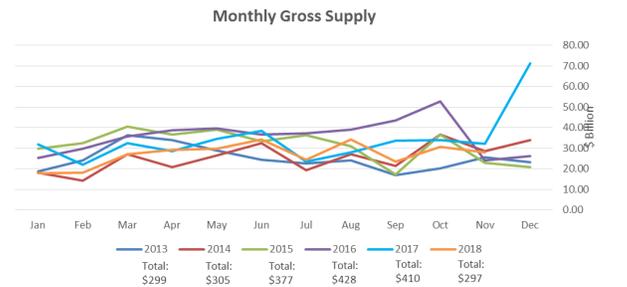
Source: Bloomberg

## Muni Market Supply

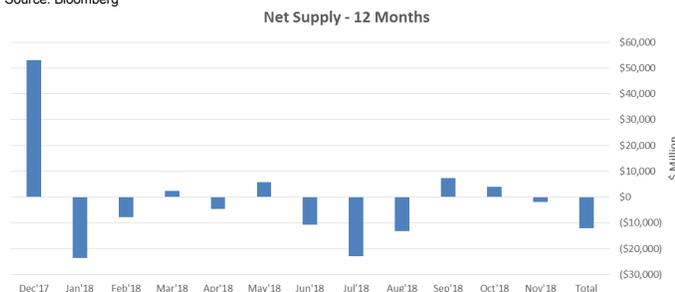
Over the next 30 days, we see net muni market supply at  $-\$12.49$  bil., comprised of \$11.04 bil. new issues, \$17.16 bil. maturing, and \$6.37 bil. announced calls. The states that stand to experience the largest change in outstanding debt include New Jersey ( $-\$2.61$  billion), Ohio ( $-\$1.79$  bil.), Washington ( $-\$1.30$  bil.), New York ( $-\$956.9$  mil.), and Illinois ( $-\$864.1$  mil.).



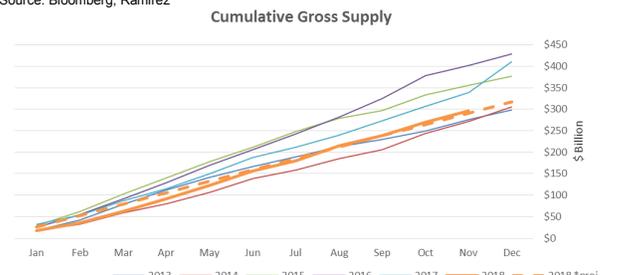
Source: Bloomberg



Source: Bloomberg, Ramirez



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