Mischler Muni Market Update

November 5, 2018

Comments:

- Last week muni volume was about $5.2 billion. This week volume is expected to be $3.3 billion. The negotiated market is led by $527.0 million for Central Plains Energy Project, Nebraska. The competitive market is led by $215.0 million tax-exempt and taxable bonds for Virginia College Building Authority in 2 bids on Tuesday.

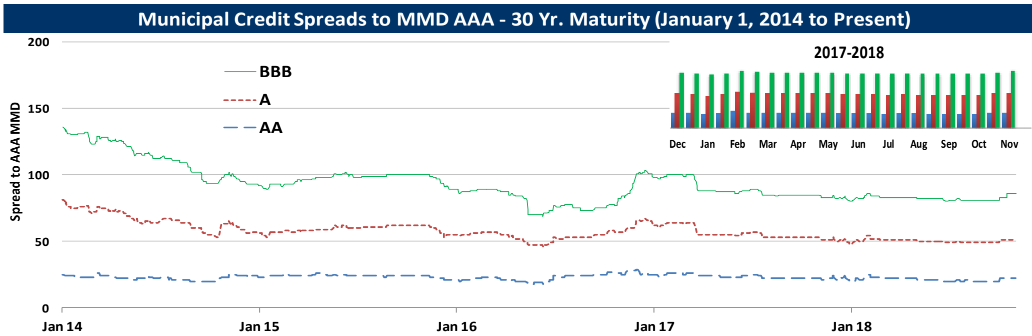
Selected Deals for the Week Ending 11/9/18

Issuer	Par ($mil)	Ratings (M/S&P/F/K)	
Negotiated			**U/W**
Central Plains Energy Project, NE, Gas Rev (Fixed, LIBOR & SIFMA)	527.00	A3/ /A	GS
Portland Community College District, OR, GO Pension (Tx)	171.87	Aa1/AA+/	Piper
The City of Jackson, TN, Rev (Jackson-Madison Co. Gen'l Hosp.) (Te & Tx)	155.00	A2/A/NR	GS
Stockton Public Financing Auth, CA, Water Rev (Green) (BAM insured)	150.00	/A-(AA)/BBB-	Citi
State of New York Mortgage Agy, NY, Homeowners Mortgage (Te & AMT)	147.47	Aa1/ /	Wells
City of Orlando, FL, Special Rev	105.22	Aa2/AA+/AA+	Ramirez
Competitive			**Mat**
Mon, 11/5			
King County, WA, Sewer Rev	125.24	Aa1/A+/	'21-'32
Tue, 11/6			
Virginia College Building Auth, VA, Rev (2 bids) (Te & Tx)	214.95	Aa1/AA+/AA+	'19-'48

Sources: Bond Buyer and IPREO **Bold=Mischler**

- Last Friday credit spreads were unchanged for AA, A and BBB from the previous Friday.
- Weekly reporting muni bond mutual funds reported an outflow of $1.32 billion for the week ending October 31 after an outflow of $494.9 million for the week before. This is the 6th outflow in a row and the 8th outflow in the last 9 weeks. The eight week moving average was negative $466.2 million.
- From Friday to Friday, MMD yields increased 6-7 bps in 1 to 7 years, 9-10 bps in 10 to 15 years and 11-12 bps in 20 to 30 years. Since the beginning of September rates are up by 26 to 41 bps across the curve. Muni/Treasury ratios for 10 and 30 year MMD maturities ended the week at 86.2% and 99.6%, respectively, about 1.1 ratios lower in 10 years and 0.7 ratios lower in 30 years as Treasuries fell even more than Munis.
- The 2 to 30 year MMD spread was 134 bps on Friday, 6 bps steeper than the previous Friday. Since the end of 2017, munis have steepened by 36 bps, while Treasuries have flattened by 30 bps, although munis have flattened 20 bps since early March.
- Last week munis were under pressure most of the week with yields higher each day. This tracked the same movement in Treasuries as most of the week seemed to be in a "risk-on" mode driven by geopolitical events, especially the Administration's on and off comments about a trade deal with China, and favorable earnings from some key corporations. Economic data also supported "risk-on" from ADP payrolls (227 vs 189 expected) on Wednesday and non-farm payrolls on Friday (250 vs 190 expected) with average hourly earnings up pushing yoy to 3.1% (first time over 3% since April 2009). Obviously this week the focus will be on the mid-term elections on Tuesday and the FOMC meeting in Wednesday/Thursday. Last week Munis were able to hold up better than Treasuries as reflected in the ratio reductions. Bond funds continue to show significant outflows which could be a problem if volume increases.

Municipal Credit Spreads to MMD AAA - 30 Yr. Maturity (January 1, 2014 to Present)

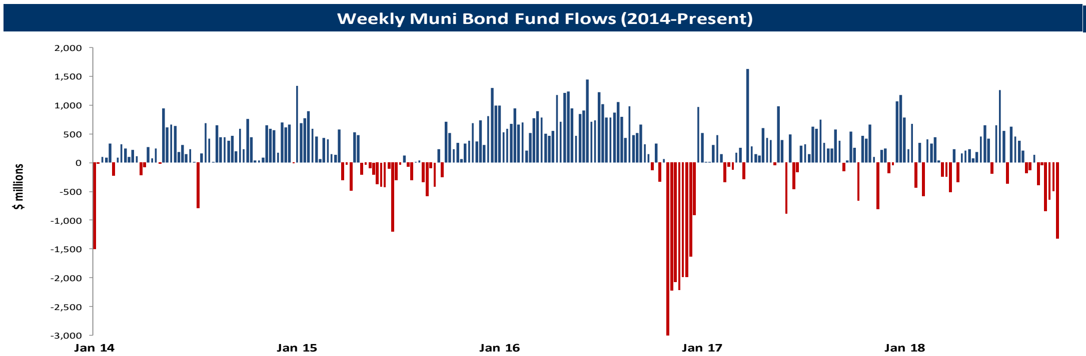


MMD Spots

Mat	2-Nov	26-Oct	Chg.	12 mo. low	12 mo. high
1	1.96	1.89	0.07	1.03	1.90
5	2.33	2.27	0.06	1.42	2.30
7	2.50	2.43	0.07	1.61	2.49
10	2.77	2.68	0.09	1.88	2.75
15	3.07	2.97	0.10	2.15	3.06
20	3.29	3.18	0.11	2.36	3.31
25	3.39	3.27	0.12	2.41	3.40
30	3.44	3.32	0.12	2.46	3.45

Source: TM3

Weekly Muni Bond Fund Flows (2014-Present)



MMD vs Treasury Yield Curves