

Light Week for Macro Data

- The macroeconomic calendar is relatively quiet this week with only a few scheduled releases worth watching. We will get the latest inflation readings with both the PPI and CPI being released on Tuesday and Wednesday, respectively. October's retail sales report is also scheduled for Wednesday and will give us a read on the consumer heading into the all-important holiday shopping season. The team at Appleton will also be monitoring any developments out of Washington, DC, as the House is expected to pass its version of the tax bill later this week.

KEY MACROECONOMIC DATA DUE THIS WEEK

| DATE | TIME | EVENT | PERIOD | CONSENSUS | PRIOR |
|-------|----------|-----------------------------------|--------|-----------|--------|
| 11/14 | 08:30 AM | PPI ex-Food & Energy SA M/M | OCT | 0.20% | 0.40% |
| 11/14 | 08:30 AM | PPI SA M/M | OCT | 0.10% | 0.40% |
| 11/15 | 08:30 AM | CPI ex-Food & Energy SA M/M | OCT | 0.20% | 0.0% |
| 11/15 | 08:30 AM | CPI SA M/M | OCT | 0.10% | 0.50% |
| 11/15 | 08:30 AM | Retail Sales ex-Auto SA M/M | OCT | 0.20% | 1.0% |
| 11/15 | 08:30 AM | Retail Sales SA M/M | OCT | 0.0% | 1.6% |
| 11/15 | 10:30 AM | EIA Crude Oil Stocks | 11/10 | | 2.2M |
| 11/16 | 08:30 AM | Initial Claims SA | 11/11 | 235K | 239.0K |
| 11/16 | 09:15 AM | Industrial Production SA M/M | OCT | 0.50% | 0.28% |
| 11/17 | 01:00 PM | Baker Hughes U.S. Rotary Oil Rigs | 11/17 | | 738 |

Source: FactSet and API

Houston Voters Approve \$1 billion Pension Bonds

- Houston voters approved a \$1 billion bond authorization last week, which the City will use to help shore up its recently reformed pension plans. In May of this year, Houston officials, along with state lawmakers, instituted comprehensive pension reforms that included benefit reductions, more conservative actuarial assumptions, increased cost-sharing with employees, and a commitment from the City to fully fund its annual contribution. In addition, Houston agreed to issue pension obligation bonds, but state lawmakers wanted the City's residents to weigh-in.
- Although turnout was low, nearly 75% of voters approved the measure. Not only were the pension bonds an essential part of the overall reforms, but \$1.8 billion of the \$2.8 billion in benefit cuts would have been rescinded had the measure failed.
- Although the use of pension bonds is typically viewed with skepticism within the municipal market, we view the approval by voters as a credit positive given the context of Houston's overall pension reform and the poor condition the plans were in prior to the State's intervention. Houston will continue to contend with high fixed costs associated with debt, pensions and retiree healthcare, but the implementation of the reforms provides a stabilizing factor.

Muni Market Overview

- The muni curve flattened again this week, with 2Yrs to 10Yrs down to 78bps from 85bps last week, primarily caused by the short end of the curve rising higher. The likelihood of a rate hike in December remains high at 92%. 2Yrs was up 6bps to 1.20% while 10Yrs was down 1bp to 1.98%.
- Supply is above average again this week with about \$10 billion in issuance. For the year, total issuance is down about 17%; however, through 11/9, November issuance is up 6.2% over the same period last year. The largest deal on the calendar is the \$922 million Chicago Board of Education (NR/B/BB-) deal in tranches for both the GO and the Capital Improvement Tax (NR).

Taxable Market Overview

- The credit markets were affected by a noticeable change in market tone last week. The softness was driven by the lack of consensus in tax reform and generally weak earnings amongst those in the High Yield market. On an OAS basis, the High Yield market took the brunt of that softness, and yields rose significantly on the week. There were large outflows out of HY ETF's which also contributed to the sell-off. High Grade Corporates were not immune to the risk off sentiment, and spread widening was also present. With that said, there was just over \$47 billion of issuance, the third highest weekly total this year. The largest deals of the week were \$7 billion from Apple, \$10 billion from Oracle, and \$4.5 billion from Johnson & Johnson. Most deals came with some concessions but were well received overall. This coming week should be a repeat of the last given the upcoming Thanksgiving holiday.

| FIXED INCOME INDEX RETURNS AS OF 11/10/17 | | |
|---|-------|------|
| | MTD | YTD |
| Barclays 3Yr | -0.18 | 2.13 |
| Barclays 5Yr | -0.17 | 3.67 |
| Barclays 7Yr | -0.01 | 4.79 |
| Barclays MM Short 1-5Yr | -0.18 | 2.15 |
| Barclays MM 1-10Yr | 0.00 | 3.84 |
| ML US Gov/Corp 1-10 Yr | -0.16 | 1.67 |

Source: Interactive Data