Issuers Run to Muni Market Amidst Tax Talk

- As Congress returns from the Thanksgiving holiday, the Senate is set to discuss its version of tax reform with a possible vote by the end of the week. While the Senate bill maintains private activity bonds, both the House and Senate aim to prohibit advance refundings, a tool issuers utilize to pay off higher costing outstanding debt. Although it is uncertain if the final version of tax legislation will include any of these muni market limitations, issuers are not waiting around and are rushing to access the market before year end.
- Through October, total long-term issuance in the municipal market was down 18.2% year-over-year to $325.1 billion. However, through the first four weeks of November, $28.3 billion has come to market with another $12 billion set to sell this week. With additional deals lined up for early December, there is a chance that total issuance for 2017 ends within a range of $375 billion to $395 billion. Although this would mark a decline from the record $445 billion issued last year, it would be right in line with the nine-year average of $379 billion.
- Although its uncertain what the eventual tax reform legislation will include, the rush to market over the last few weeks of 2017 will likely result in lower first quarter issuance in 2018, providing a technical tailwind for the municipal market. We can look to the expiration of Build America Bonds at the end of 2010 as a possible example of what to expect in the first three months of 2018. After then-record setting issuance in the last quarter of 2010, only $47.9 billion was issued in the first quarter of 2011, significantly lower than the 10-year average of $85.0 billion for the first three months of the year.

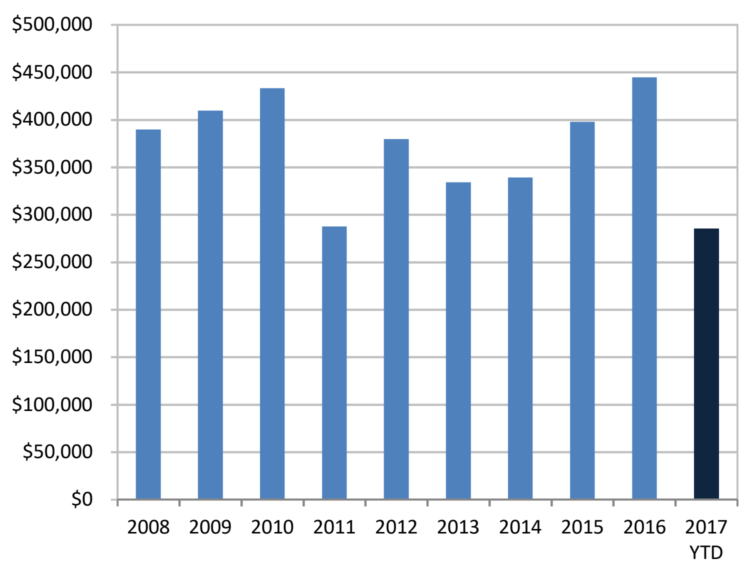
Muni Market Overview

- Muni yields are higher across the curve, with the expectation of significant issuance and a rate hike at the December FOMC meeting. The 3Yr is up 11bps to 1.46%, and the 7Yr is up 9bps to 1.81%. The 10Yr muni/Treasury ratio has also increased to about 89% with the move.
- 30 day visible supply has jumped to $18.5 billion, the highest for the year and significantly above the average of $10.8 billion. As we mentioned previously, issuers are rushing to market ahead of potential changes to the tax code.
- Market demand for munis remains consistent with $659 million coming into Muni mutual funds for the week ending 11/22/17, bringing the year-to-date total to $17.8 billion.

Taxable Market Overview

- The shortened holiday week had issuers sidelined, as only $7.15 billion of new corporate investment grade debt hit the market, making it the lowest weekly volume since last Thanksgiving. The low volumes kept credit spreads steady and unchanged to end the week. It is worth noting that High Yield ended the week with a stronger tone. The recent large fund outflows slowed as investors seemed to have an increased appetite for risk.
- There is still some headway to be made on any tax reform, but the continued momentum in the stock market, low volatility, and a general sense of solid economic conditions may be enough to keep investors interested. The Fed continues on a path to raise rates in December.

Municipal Market Primary Issuance
($ millions)



Source: Thomson Reuters

FIXED INCOME INDEX RETURNS AS OF 11/24/2017	MTD	YTD
Barclays 3Yr	-0.53	1.78
Barclays 5Yr	-0.61	3.21
Barclays 7Yr	-0.55	4.22
Barclays MM Short 1-5Yr	-0.55	1.77
Barclays MM 1-10Yr	-0.55	3.26
ML US Gov/Corp 1-10 Yr	-0.10	1.73

Source: Interactive Data

This commentary reflects the opinions of Appleton Partners based on information that we believe to be reliable. It is intended for informational purposes only, and not to suggest any specific performance or results, nor should it be considered investment, financial, tax or other professional advice. It is not an offer or solicitation. Views regarding the economy, securities markets or other specialized areas, like all predictors of future events, cannot be guaranteed to be accurate and may result in economic loss to the investor. While the Adviser believes the outside data sources cited to be credible, it has not independently verified the correctness of any of their inputs or calculations and, therefore, does not warrant the accuracy of any third-party sources or information. Specific securities identified and described may or may not be held in portfolios managed by the Adviser and do not represent all of the securities purchased, sold, or recommended for advisory clients. The reader should not assume that investments in the securities identified and discussed were or will be profitable. Any securities identified were selected for illustrative purposes only, as a vehicle for demonstrating investment analysis and decision making.