## *Tax Reform & the Municipal Market*

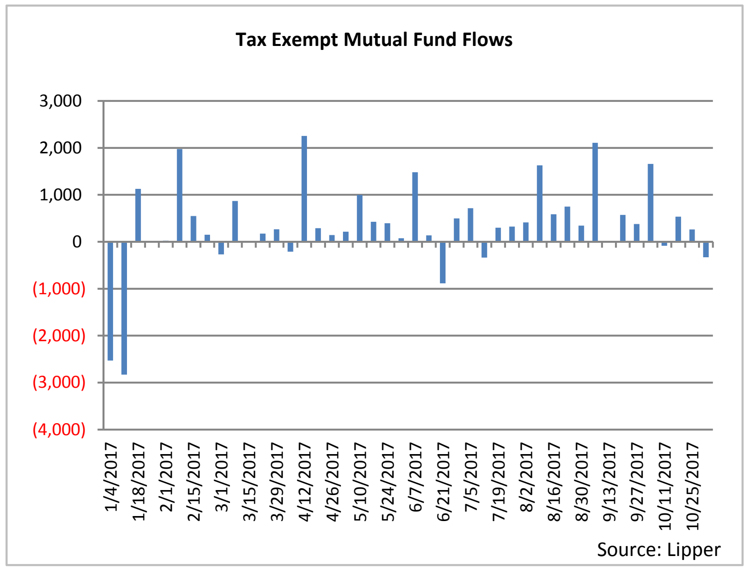
- Last Thursday, Republicans on the House Ways and Means Committee released their long-awaited tax reform proposal, named the "Tax Cuts and Jobs Act." Aside from changes to both individual and corporate tax measures, both in rates and eligible deductions, there were a few components that relate directly to the municipal market. While the tax-exemption for the broad municipal market remains intact, the exemption would be repealed for advance refundings, issuance by 501(c)3s, private activity bonds and professional sports stadiums. Although not clearly articulated in the proposal, it is assumed that 501(c)3s includes non-profit healthcare systems and private higher education institutions.
- Under the proposal, the existing bond interest exemption would be grandfathered, with January 1, 2018 being the implementation date; therefore, only future issuance would be affected. J.P. Morgan estimates that advance refundings, private activity bonds and 501(c)3 issuers have contributed on average 27% of tax-exemption issuance over the last 10 years.
- The consensus among sell-side analysts is that issuance will pick up over the last two months of the year, as issuers look to exercise their advance refunding opportunities and 501(c)3 issuers lock-in the lower cost of borrowing. Although a quick entry into capital markets could be achieved by the largest issuers, we note that constructing a deal and selling bonds in under two months could prove difficult for many smaller borrowers.
- We also note that it is very early in the process, and eventual passage of a tax reform framework, if approved at all, could look very different from the plan released last week. With only a few days passing since the reform plan was announced, there has already been strong reactions by a number of interested parties, making a swift approval process very uncertain.

| FIXED INCOME INDEX RETURNS AS OF 11/3/17 | MTD | YTD |
|---|---|---|
| Barclays 3Yr | -0.06 | 2.26 |
| Barclays 5Yr | -0.06 | 3.78 |
| Barclays 7Yr | -0.02 | 4.77 |
| Barclays MM Short 1-5Yr | -0.06 | 2.27 |
| Barclays MM 1-10Yr | 0.00 | 3.84 |
| ML US Gov/Corp 1-10 Yr | 0.03 | 1.87 |

Source: Interactive Data

## *Muni Market Overview*

- The muni curve flattened over the week, with 2Yrs-10Yrs at 85 bps, down from 96 bps for the previous week.
- The expected supply this week is about $9 billion, which is higher than the weekly average and 30-day visible supply is about average for the week. However, with the potential for the elimination of advanced refunding bonds and private activity bonds in the House GOP tax plan proposal, the market may see elevated issuance ahead of these potential changes.
- Muni fund flows were negative $331 million for the week ending 11/1/17, but total flows for the year remain strong at over $15 billion.




## *Taxable Market Overview*

- Investment grade credit issuance was a disappointment last week, as a deluge of headlines stole the show. Expectations were for $30 - $40 billion, but only $26.1 billion hit the tape. Most of that occurred on Monday and Tuesday, as issuers looked to front run any surprises from the Fed and the appointment of Powell as the new Fed chair. The total new issuance volume for October was $123 billion, and the year-to-date volume reached $1.192 trillion, which is down 3% year over year. Credit spreads were softer for the first time in several weeks reversing the tightening trend as of late.
- US Treasury yields did rally on the week and the curve continued to flatten. The 10Yr dropped 8 basis points to 2.33%. It is also worth noting that the spread between the 5Yr and 30Yr Treasury hit 82bps on 11/03/17, the lowest it has been since September 2007.