M&A Heats Up in Non-Profit Healthcare

- Just days after Dignity Health and Catholic Health Initiatives (CHI) announced a merger to create the largest non-profit healthcare system, the Wall Street Journal reported that Ascension and Providence St. Joseph Health have been in talks to create not only the largest non-profit system, but the largest hospital operator in the U.S. The announcements highlight a dynamic healthcare market where changing regulatory and fiscal policies are driving entities to increase scale.
- Dignity and CHI have been very public about combining the two entities, and last week the two systems agreed to finalize merger plans. The combined entity had $28.4 billion in 2016 revenues, which currently would create the largest non-profit system. A potential Ascension and Providence tie-up would catapult the prospective entity to number one in the U.S. market with $44.8 billion in 2016 revenues. HCA Healthcare, a for-profit operator, is currently the largest with 177 hospitals and $41.5 billion in revenue.
- We note that an Ascension and Providence merger remains purely speculation at this point and would require a number of approvals by both the respective boards, the Catholic church, and federal regulators.
- A dynamic regulatory and fiscal policy environment continues to drive consolidation in the healthcare market. As it becomes increasingly more difficult to earn profit on patients covered by Medicare or Medicaid, hospitals understand the importance of driving better reimbursements from commercial insurers. Size and market share tend to be strong bargaining chips when negotiating rates. Non-profit hospitals may also be reacting to changes driven by tax reform. The House's plan proposes eliminating non-profit hospitals' ability to issue tax-exempt debt, pushing up borrowing costs.

Macro Data, Central Bank Decisions, and Tax Reform

- It will be a very busy week in terms of macroeconomic data, with a number of events worth watching. For data, we get November readings for PPI, CPI, industrial production, and retail sales, along with December readings for the Flash PMI's, both manufacturing and service. While none of the readings should singlehandedly change the narrative for markets, they will be worth monitoring for the continued trend of improving economic metrics. The team at Appleton will also be watching for news from multiple central banks this week. The ECB, BOE, and SNB all have monetary policy decisions due out Thursday, but the Fed announcement on Wednesday afternoon will be the headliner. A rate hike is fully expected, but we will be more interested in the forward guidance looking into 2018.
- Investors will be watching for any progress on the tax reform bill as it moves through the reconciliation process. There have been no major breakthroughs reported since late last week, and a number of items remain contentious. The corporate AMT, SALT deductions, how to treat pass-through entities, and where to set the corporate tax rate all remain key items that need to be resolved before the Republican leadership can get a final bill on the President's desk. The GOP is trying to get the tax bill to a vote prior to the new Senator of Alabama being officially seated, which could come two to three weeks after the election on December 12th.

Muni Market Overview

- While the municipal market saw significantly lower yields early in the week, the market showed some fatigue at the end of the week and sold off slightly. Overall, the curve was lower and flatter for the week, with the 5Yr down 11bps to 1.61% and the 7Yr down 12bps to 1.74%. 2Yrs to 10Yrs was flatter by 2 at 52 bps.
- Supply is expected at about $23 billion this week, continuing the rush to market in anticipation of federal tax law changes. 30-day visible has reached a new high at $23.5 billion. Supply had been running about 15% behind last year, but has caught up slightly with the recent heavy issuance. Issuance is currently down 12.2% from last year.
- Demand from Muni Mutual Funds has remained positive marking the 5th consecutive week of inflows and totaling $18.1 billion for the year.

Taxable Market Overview

- The typical December slowdown continues in investment grade corporate issuance, as only $17. 3 billon of new debt came to market last week. Spreads were slightly tighter on the week and, on an OAS basis, are only 3 away from year to date tights. The measured market tone is likely to take hold this week, as the FOMC meets on Wednesday and will most likely hike the Fed funds rate rise for the third time this year, to 1.50%.
- Upon the release of the FOMC rate decision Janet Yellen will give her final news conference as Fed Chair. It will be interesting to hear if she shares any thoughts about Fed policy in 2018. Her term officially ends in February. The front end of the US treasury curve continues to move higher. The one year bill ended the week 5 bps higher to 1.66%. The 10Yr benchmark rose 1 basis point to 2.38% which is only 72 basis points away from the 1Yr.

FIXED INCOME INDEX RETURNS AS OF 12/8/2017

	MTD	YTD
Barclays 3Yr	0.31	1.64
Barclays 5Yr	0.57	3.25
Barclays 7Yr	0.94	4.61
Barclays MM Short 1-5Yr	0.36	1.67
Barclays MM 1-10Yr	0.87	3.58
ML US Gov/Corp 1-10 Yr	0.08	1.62

Source: Interactive Data

APPLETON PARTNERS, INC. ONE POST OFFICE SQ. BOSTON, MA 02109 TEL. 617.338.0700 WWW.APPLETONPARTNERS.COM