Senate Approves Tax Bill

- The Senate passed its version of tax reform in the early hours of Saturday the 2nd, setting up the potential that a final bill could be on the President's desk for signature prior to Christmas. Despite a flurry of last minute adjustments and revisions, the Senate approved the measure 51-49, largely along party lines.
- A reconciliation of the House and Senate tax bills will be required before final passage. Among the differences that would affect the municipal market, the ability of issuers, such as healthcare providers and private non-profit universities, to access the market will be the most scrutinized. Although not definitively eliminated, both bills prohibit issuers in the muni market from advance refunding outstanding debt.
- Other provisions potentially impacting demand and credit fundamentals include: a lower corporate tax rate, alternative minimum tax, and state and local tax deduction. We note that Republican leaders have a number of issues to resolve; although both bills share some common elements, those provisions could be altered to offset other necessary changes. We will continue to monitor developments and the potential impact on the municipal market.

Issuers Increase Muni Green Bond Issuance

- Through the end of November, issuers within the municipal market have sold $7.53 billion in debt labeled as "Green" this year. The issuance marks a 12.8% increase over the entire 2016 and a significant increase of 77.7% over 2015.
- We note that there remains no difference in pricing for Green Bonds and non-Green Bonds within the municipal market. A large portion of the market, although not labeled "Green," could be identified as a project or service that provides environmental or social benefits, depending on an investor's definition.
- If private activity bonds are repealed or limited within the final version of tax reform, issuance of Green Bonds could decline in 2018 compared to 2017. Bank of America Merrill Lynch believes that the potential drop would be in proportion to the decline in overall municipal issuance.

Muni Market Overview

- The main story currently dominating the muni market is the huge supply. With expected changes to the tax code, specifically to advanced refundings and private activity bonds, municipalities are rushing to market ahead of the change. Issuance this week is expected at about $19 billion, which is significantly higher than any week this year. Additionally, 30-day visible supply reached a high of $22.5 billion. As a comparison, the average for the year is about $11 billion in 30-day visible supply.
- With the expected rate hike next week, the curve has also continued its flattening trend. The spread 2Yrs to 10Yrs is now about 52 bps, the new low for the year.

Taxable Market Overview

- It was a quiet week in the land of Investment Grade Corporate credit last week. Issuance was well below expectations, with only $27 billion of new debt issued. The biggest and most notable deal came from Alibaba Group Holding Inc. (BABA A1/A+A+) with $7 billon across 5 maturities. Initial price talk on the deal in 10Yrs was +130, but official pricing tightened to +108 signaling that demand remains strong for credit. The name did come +30 basis points wider to where Amazon (AMZN Baa1/AA-/) currently trades and the obvious risk to Alibaba is the sovereign risk of China's economy. Spreads, generally, continue to be steady.
- Yields in the belly of the US treasury curve were higher week over week with the 5Yr up 5 basis points to 2.11% and the 3 & 7Yr both up 4 bps to 1.89% & 2.27%, respectively. The long bond remained at 2.77%.

FIXED INCOME INDEX RETURNS AS OF 12/1/2017

	MTD	YTD
Barclays 3Yr	0.10	1.43
Barclays 5Yr	0.18	2.85
Barclays 7Yr	0.26	3.91
Barclays MM Short 1-5Yr	0.11	1.42
Barclays MM 1-10Yr	0.26	2.95
ML US Gov/Corp 1-10 Yr	0.12	1.66

Source: Interactive Data

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