

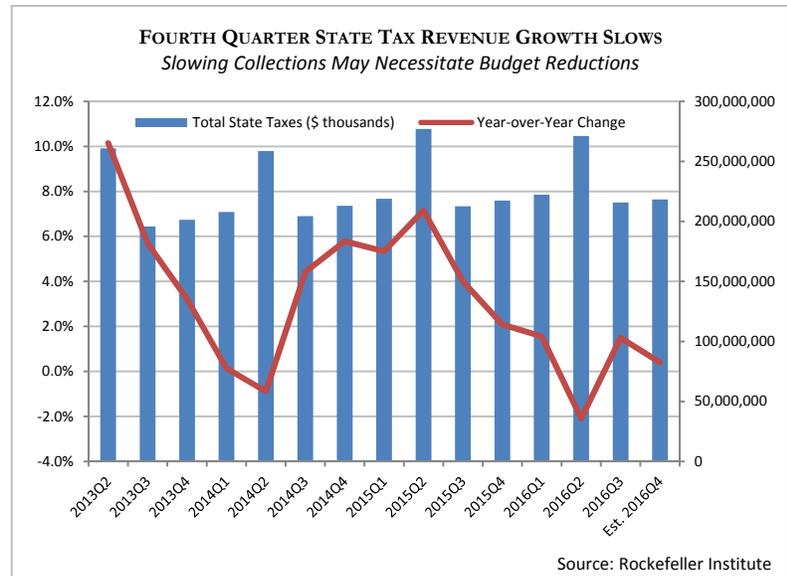
HEADLINE NEWS

Republicans Begin Healthcare Reform Initiative

- This past week Republicans in the House of Representatives released their proposal for overhauling major portions of the Affordable Care Act, the healthcare law passed in 2010. Thus far, the legislation has made it through two House committees, and there is an expectation that a full floor vote could be held before the end of March. We caution that the final form of healthcare legislation could be very different than the current proposal, as the ACA took on a number of iterations before approval.
- Major components of the legislation include eliminating the individual mandate, eliminating the ACA taxes, replacing federal subsidies for individuals with tax credits that are based on age, and transforming the way the federal government supports healthcare through Medicaid.
- If approved, the legislation will likely result in a larger population of uninsured people and, most likely, lower reimbursements for hospitals providing care. This would lead to pressured revenues and margins for healthcare providers, especially those most reliant on Medicaid.
- States will also be pressured, as the current open-ended Medicaid program will transition to a fixed, per capita payment from the federal government beginning in 2020. Those States that expanded Medicaid will be forced to either find alternative revenue sources or reduce eligibility and benefits for their Medicaid population.
- We will be monitoring the ongoing debate within political circles and any changes to the legislation before final approval. Although major portions of the current healthcare system could be changed, it appears that the transformation will take place over a multi-year period.

State Tax Revenues Slow in Q4

- According to the Rockefeller Institute, total state tax revenues grew by 1.2% in the third quarter of 2016 and by 0.4%, preliminary, in the fourth quarter. Although positive compared to the 2.1% decline in the second quarter, growth remains slower than the average of 3.5% for the prior two years.
- State tax revenues have been held back in the second half of 2016 by declines in estimated payments of personal income taxes, slow growth in sales taxes, and declines in corporate income taxes. Rockefeller speculates that the decline in estimated payments of income tax may reflect taxpayer efforts to push income out of 2016 and into 2017, in order to benefit from anticipated federal tax cuts under the new administration.
- If tax revenue does not accelerate in the first half of 2017, many states will likely face budget shortfalls and require lower forecasts for the upcoming fiscal years which start on June 30th. Many states are currently negotiating fiscal 2018 budgets and will need to take the weaker revenue performance into consideration.



MARKET UPDATE

Muni Market Overview

- Despite last week's above average issuance (\$10+ billion), YTD volume is off nearly 10%. The lower issuance can be attributed to a sharp decline in refundings, which are down nearly \$12 billion from the \$47 billion level at this time last year. By contrast, new money issuance is up about \$4.5 billion YTD (\$33.7 billion vs. \$29.2 billion). This week's largest Muni deal (\$1.8 - billion New York Urban Development Corp) originally scheduled for Tuesday, has been delayed until Thursday.
- While the market has priced in the Fed's expected rate hike this Wednesday, March 15th, the tone in the market is cautious leading up to announcement.

Corporate Market Overview

- The surge in investment grade issuance continued last week, with \$53.35 being priced by week's end. That included a rare \$1.6 billion brought to market on Friday. It seems that issuers are trying to tap the market before the FOMC meeting on Wednesday; after the robust jobs number (235K vs. 200K consensus) on Friday, a rate hike appears almost certain.

- A couple of notable deals from the week: (1) the \$4.3 billion from Great Plains Energy (GXP Baa3/BBB/) across 4 maturities; and (2) the \$2.0 billion from McDonald's (MCD Baa1/BBB+/BBB) across 3 maturities. Final pricing for 10Yr GXP was +145 and +107 for MCD. As a first in quite sometime, the spreads were noticeably wider across all sectors.

| FIXED INCOME INDEX RETURNS AS OF 03/10/2017 | | |
|---|-------|-------|
| | MTD | YTD |
| Barclays 3Yr | -0.21 | 1.08 |
| Barclays 5Yr | -0.48 | 1.38 |
| Barclays 7Yr | -0.72 | 1.04 |
| Barclays MM Short 1-5Yr | -0.28 | 1.11 |
| Barclays MM 1-10Yr | -0.68 | 0.88 |
| ML US Gov/Corp 1-10 Yr | -0.72 | -0.14 |

Source:
Interactive
Data