

**Fed Delivers Dovish Hike, Ryan's Healthcare Vote in Focus**

- As widely anticipated, the FOMC agreed to raise the benchmark federal funds rate by 25 basis points last Wednesday following a two day meeting. The Fed's economic projections accompanying the statement called for two additional hikes in 2017, which was unchanged from their prior meeting. Additionally, the Fed's projections, or "dot plot," call for 3 hikes in 2018, which many investors took as a dovish signal. After the policy announcement, the yield on U.S. 10Yr Treasury bonds dropped by nearly 10 bps.
- This week should be relatively uneventful in terms of macroeconomic data releases; with the highlight likely to be the Flash PMI readings released on Friday. Investors will be watching Capitol Hill on Thursday, where the House will be voting on Speaker Paul Ryan's healthcare bill, American Health Care Act. While the bill is likely to undergo a number of revisions and might not make it through the Senate, investors will be anxious to see how the House vote unfolds. Success could keep momentum behind the administration's agenda, while failure could signal that tax reform is further away than many think.

**US 10Y Treasury Yield**

**FIXED INCOME INDEX RETURNS AS OF 03/17/2017**

|                         | MTD   | YTD  |
|-------------------------|-------|------|
| Barclays 3Yr            | -0.27 | 1.02 |
| Barclays 5Yr            | -0.51 | 1.35 |
| Barclays 7Yr            | -0.66 | 1.11 |
| Barclays MM Short 1-5Yr | -0.33 | 1.05 |
| Barclays MM 1-10Yr      | -0.61 | 0.95 |
| ML US Gov/Corp 1-10 Yr  | -0.38 | 0.20 |

Source: Interactive Data

**Puerto Rico Board Approves "Bearish" Restructuring Plan**

- On March 13<sup>th</sup>, and to many market participants' surprise, Puerto Rico's Federal Oversight Board approved the Commonwealth's 10-year fiscal plan. The plan envisions weak economic trends and sobering revenue collections, and likely points to deep cuts in Puerto Rico's nearly \$70 billion in debt outstanding.
- After public comments by the Board stating that Governor Rossello's initial plan included "unrealistic" economic growth projections and "substantial underestimation" of spending, the Board surprised the market with certifying the Governor's slightly adjusted framework. Of major note to investors is the plan's projections for cash flow available to pay debt service of \$500 million to \$1 billion per year, far less than the approximate \$3 billion per year that Puerto Rico cumulatively owes. This would suggest a broad-based recovery for bondholders of less than 40%, subject to variation based on lien and security structure.
- The Board also emphasized a desire for a "one and done" restructuring, suggesting that conservative assumptions and deep cuts in debt would be needed to achieve a sustainable outcome for Puerto Rico. The Board also stated its hopes for a voluntary, out-of-court restructuring.
- Given the already weak expectations for bondholder recoveries and now the perceived aggressiveness of the Board's intentions, we would expect "friendly" negotiations with creditors to falter, ultimately resulting in a court-ordered restructuring of the Commonwealth's liabilities.
- Puerto Rico's benchmark GO Bonds, maturing in 2035 with an 8.0% coupon, traded down from \$72.75 prior to the Board's announcement to \$64.75 in early afternoon trading on March 20<sup>th</sup>, reflecting investors' more "bearish" view for principal recovery.

**Muni Market Overview**

- Last week's low new issuance levels and the Fed's dovish tone combined to fuel a rally in the intermediate and long range of the Municipal market. Yields were 4-7bps lower from 7 years on out the curve. Conversely, shorter Munis saw yields increase by 2-3bps in the 2-5 year range. Light new issuance is expected to continue this week with just \$4.7 billion on the calendar.

**Corporate Market Overview**

- With winter storm Stella targeting the Eastern seaboard last Tuesday and the Fed's well-telegraphed rate hike on Wednesday, issuers scrambled to issue debt last Monday. The more than \$26 billion issued that day was very well received. The biggest issuer of the day and week was Verizon with a (VZ Baa1/BBB+/A-) \$11 billion multi tranche deal. The spread in 10Yrs was +165, which is a bit wider than where the name had been trading. The rest of the week was slower with the week ending tally at \$42.85 billion. Issuance is actually up 12% year-over-year at \$460 billion, with spreads holding steady.