

Healthcare Overhaul Effort Fails, Tax Reform Becomes Next Policy Focus

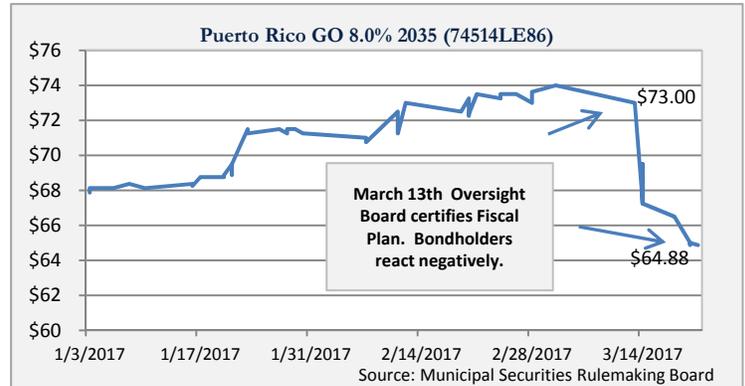
- Despite a seven year effort to repeal the Affordable Care Act, Republican leaders in the House of Representatives failed to lobby enough support within their own party and chose to withdraw the proposed American Health Care Act legislation just minutes before a full House vote on Friday. Even if the bill had passed the House it most likely would have faced an uncertain future within the Senate in current form.
- Broad-based tax reform appears to be the next policy target for the Trump administration and Congress. Although tax reform was expected to be taken up in the fall, and more easily assumed if healthcare reform was passed, Republicans see tax reform as more stimulative for the economy and potentially more inclusive of bipartisan support. Earlier tax reform talks have focused on both corporate and personal income changes, although it appears that bipartisan support is heavily weighted toward achieving more competitive tax rates for corporations. In the aftermath of the healthcare reform, markets are taking a less optimistic view of the administration's ability to implement policy initiatives. The only tax plan currently on the table features a controversial border adjustment tax (BAT), which could prove to be an impasse for some GOP members.
- With little on the calendar in the way of macroeconomic news, the team at Appleton will be focusing on Capitol Hill this week, hopeful that the administration can turn its attention towards two key tailwinds for the market: tax reform and deregulation.

Muni Market Overview

- The Municipal yield curve strengthened last week by 9bps in 5Yrs to 1.58% and 11bps in 7Yrs to 1.93%.
- Another low issuance calendar this week, at \$6.3 billion, follows several weeks of the same. Month-to-date issuance at the end of last week was \$23.7 billion, almost 35% lower than the same period last year, while year-to-date issuance is lower by about \$13 billion.
- Fund flows were marginally positive at \$173 million, reducing year-to-date total outflows to \$770 million.

Corporate Market Overview

- The investment grade taxable market took a breather last week as all eyes were on House Republicans' attempt to pass the new health care bill. Total issuance for the week was \$24 billion bringing year-to-date issuance to \$484 billion. The largest deal of the week was Goldman Sachs \$2.5 billion deal comprised of two tranches: \$1.75 billion of fixed rate and \$750 million of floating rate notes.
- Other deals were brought by Santander, Ventas Realty, Kimco Realty and Edison International. With the Affordable Care Act "Repeal and Replace" mandate back-burnered for now, we expect investment grade corporate issuance to increase above last week's levels.


Puerto Rico's Governor Attempts to Redo PREPA Deal

- Puerto Rico's Governor Rossello testified to the House Subcommittee on Indian, Insular and Alaska Native Affairs last Wednesday, discussing the restructuring deal reached between the Commonwealth's Electric Power Authority (PREPA) and creditors nearly 15 months ago. However, the day before his testimony, the Governor laid out revised terms to the restructuring agreement in an apparent attempt to reach greater concessions from creditors.
- The original PREPA deal included a 15% haircut for a group of creditors in exchange for new debt to be securitized by a dedicated portion of the Authority's electric rates. Monoline insurers who had wrapped a large portion of PREPA's \$9 billion in debt would be saved from impairment so long as they provided surety bond reserves on the exchanged bonds. Many saw this restructuring agreement, reached consensually out-of-court, as a possible blueprint for Puerto Rico's future attempts to restructure its nearly \$70 billion in total debt outstanding.
- The Governor's proposed revision to the restructuring agreement would "fundamentally change the terms of the deal." Changes include extended amortization on the exchanged debt, extended grace period on debt service, lower reserves and no requirement that the new debt receive an investment grade rating. While PREPA's restructuring agreement had largely been exempted from the PROMESA legislation, the Governor's changes and statement that he would exercise a bankruptcy-like court modification if investors did not agree to the modifications, likely indicates that PREPA's \$9 billion in debt could be included in any broad-based restructuring associated with the Commonwealth's total \$70 billion in debt.

FIXED INCOME INDEX RETURNS AS OF 03/24/2017

	MTD	YTD
Barclays 3Yr	-0.10	1.19
Barclays 5Yr	-0.12	1.75
Barclays 7Yr	-0.07	1.71
Barclays MM Short 1-5Yr	-0.11	1.27
Barclays MM 1-10Yr	-0.07	1.50
ML US Gov/Corp 1-10 Yr	-0.02	0.57

Source:
Interactive
Data