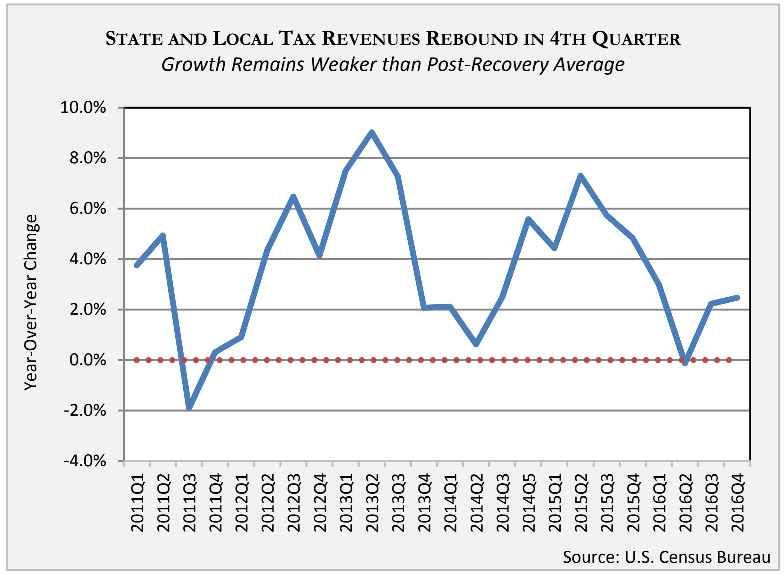
State & Local Taxes Rebound; Still Trail Post-Recovery Average

- According to the U.S. Census Bureau, state and local governments collected $401.3 billion in tax revenues during the fourth quarter of 2016. This represents a 2.5% increase from a year ago, an improvement from 2.2% in the third quarter and a marginal decline in the second quarter of 2016. Despite the positive momentum, growth trails the post-recession average of 3.3%.
- Growth in total tax collections in 2016 was a modest 1.9%. This was largely boosted by property taxes increasing 4.5%, which typically benefit local entities. State tax collections for the year, primarily driven by individual and corporate income taxes, grew by a lackluster 0.4%.
- Moody's believes that 2017 could reflect a turnaround for state revenues. Expectations for lower taxes in 2017 driven by the November 2016 election outcome may have influenced individuals to defer the recognition of taxable income in 2016. As more states collect taxes for online transactions, sales tax growth could be boosted, and the improving corporate profit environment may lead to a rebound in corporate income tax collections.



2017 Sees Demand Increase for Green Bonds

- Although issuance is down slightly for the year, issuance of green bonds has increased. According to Bloomberg, green municipal bond sales topped $1.5 billion in the first quarter of 2017, which marked a 42% increase over last year. Massachusetts was the first municipality to issue green bonds in 2013, and the Commonwealth added to their green bond exposure last week with another deal.
- The interest in green bonds is due to the increase in investor demand for strategies with environmental or social mandates. In the muni market, this trend is interesting because often times munis fit the definition of green bonds, regardless of whether they carry the "green bond" label. While the trend has not lowered the borrowing costs for issuers, it seems to have increased the investor demand base.

FIXED INCOME INDEX RETURNS AS OF 04/07/2017

	MTD	YTD
Barclays 3Yr	0.13	1.40
Barclays 5Yr	0.29	2.19
Barclays 7Yr	0.39	2.34
Barclays MM Short 1-5Yr	0.17	1.52
Barclays MM 1-10Yr	0.35	2.04
ML US Gov/Corp 1-10 Yr	0.08	0.72

Source: Interactive Data

Muni Market Overview

- The muni curve is lower and flatter than last week. The 5Yr was down 7bps for the week to 1.49%, and the 10Yr was down 8bps to 1.81%.
- Issuance is expected to remain relatively low this week, at about $6.5 billion, given the market holiday on Friday. Year-to-date, issuance is $8.7 billion lower than the same time period last year. The largest deal of the week is $840 million New York City Transitional Finance Authority (Aa1/AAA/AAA).

Corporate Market Overview

- Investment grade issuance continues to be muted and will likely remain that way through most of April. Last week's $29.85 billion was the third weekly session that did not rise above $30 billion and is at least the 5th week of unchanged credit spreads. The current holiday week, earnings season blackouts, and the continuation of the political state in Washington will most likely continue to keep issuers sidelined.
- One of the larger deals that came to market last week was the $2.5 billion in bonds issued by Banco Santander (SANTAN Baa2, BBB+, A-). Initial price talk in 5Yrs on the deal was +185. By the time the deal was priced it had tightened 17bps to +168.