

Busy Macro Week

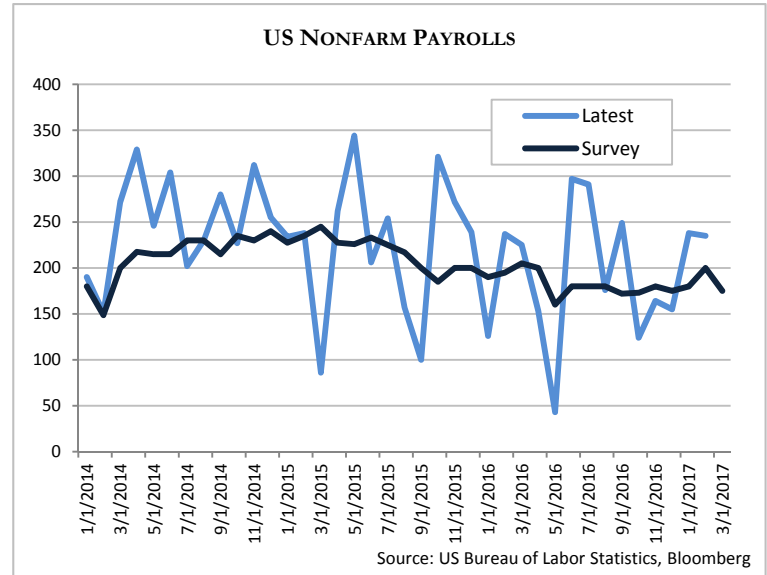
- The macroeconomic calendar is full this week with a number of March data points including the service ISM/PMI on Wednesday, and the jobs report on Friday. We also get the latest FOMC meeting minutes, vehicle sales, a Trump meeting with Chinese President Xi, and the Gorsuch confirmation vote later in the week. The team at Appleton is aware of the growing divergence between “soft” and “hard” economic data surprises and will be looking for any improvement in the “hard” numbers to confirm the improving economy story.

California Transportation Proposal to Finance \$52 Billion

- Governor Jerry Brown and legislative leaders are proposing a transportation plan to finance \$52.4 billion in projects over 10 years. The plan would raise gas taxes and create a new annual fee based on the value of vehicles. California’s general fund would contribute \$760 million annually as well.
- As part of the legislation, a constitutional amendment would require that all new revenues be directed solely for transportation purposes.
- California’s gas tax of 40.62 cents per gallon is currently the seventh highest in the nation. If approved, the 12 cent increase would bring the State’s levy to the 2nd highest in the country (Pennsylvania 58.2 cents/gallon) and does not include future inflation-adjusted increases.
- Passage, which requires two-thirds approval in both houses of the Legislature, is uncertain. The plan reflects similar strategies taken by other states recently to find local revenue sources to fund a backlog of deferred maintenance on essential transportation infrastructure. This trend also reflects the fact that federal support for transportation infrastructure has failed to keep up with needs of the state and local governments, requiring them to place a greater reliance on local resources.

Westinghouse Files for Chapter 11, U.S. Nuclear Plants’ Completion Uncertain

- Westinghouse, the nuclear construction subsidiary of Toshiba Corporation, filed for Chapter 11 bankruptcy protection on Wednesday March 29th. Westinghouse, which is building new nuclear reactors in Georgia and South Carolina, has been saddled with construction delays and cost overruns, expected to result in a total charge to Toshiba of \$9.9 billion, according to company filings.
- The nuclear plants which are being built by Southern Co. (Georgia) and SCANA Corp. (South Carolina) also include ownership stakes held by public utilities Municipal Energy Authority of Georgia (MEAG) and South Carolina Public Services Authority (Santee Cooper). These muni entities have seen the outlooks on their debt changed to “negative” as rating agencies caution that they may be required to shoulder a greater financial burden to complete the projects.
- Westinghouse officials have reiterated the company’s intent on finishing the nuclear reactors, but the Chapter 11 filing raises the uncertainty that it will have the financial resources to do so.


Muni Market Overview

- Munis were slightly stronger over the week. The 5Yr was 3bps tighter to end at 1.55% and the 7Yr was better by 5bps to end at 1.88%. For the quarter, inside of 10Yrs the curve was lower led by the 4Yr, which moved 27bps to end at 1.36%.
- This week’s expected calendar is about \$8 billion, which is higher than the YTD non-holiday weekly average of \$6.9 billion. Total March issuance was \$29.8 billion, 30% lower than March 2016 at \$42.5 billion, with the decline likely due to the environment of policy uncertainty. Commonwealth of Massachusetts (Aa1/AA+/AA+) is bringing one of the larger deals of the week at \$778 million.

Corporate Market Overview

- The softer tone within the investment grade credit space continued its persistence into the start of the week. New issuance over the week was lower than expected and twenty two issuers disappointed the markets with only \$25.75 billion of new debt that came Tuesday through Thursday. This brings the March total to \$167.55 billion and the YTD total to \$510.375 billion. Issuance year-over-year is up 11%, mostly due to the \$225.45 billion of issuance brought in January. Credit spreads continue to unchanged.

FIXED INCOME INDEX RETURNS AS OF 03/31/2017		
	MTD	YTD
Barclays 3Yr	-0.03	1.27
Barclays 5Yr	0.03	1.90
Barclays 7Yr	0.17	1.95
Barclays MM Short 1-5Yr	-0.04	1.35
Barclays MM 1-10Yr	0.11	1.68
ML US Gov/Corp 1-10 Yr	0.05	0.64

Source: Interactive Data