Watching Fed & Jobs

- The macroeconomic calendar is full this week with a host of April month-end data due out throughout the week. The highlight is likely to be Friday's jobs report (consensus +185k adds), but the team at Appleton will also be focusing on April's auto sales (consensus +17.1M) given last month's weakness. We will also be focusing on the Fed as they hold a two day meeting ending with a policy statement Wednesday afternoon. We do not anticipate a rate move, but will be watching the language for any hints on a potential shrinking of the balance sheet.

Illinois Universities Downgraded

- S&P downgraded six of the seven rated public universities of the state and the community college system of Chicago that all rely on state funding. The Ratings Agency put the universities on their CreditWatch list with a negative outlook.
- The downgrades are a result of the state's inability to set a budget since July of 2015 and the resulting drop in state funding appropriations for the schools. Many of them now sit in "junk bond" territory.
- Although a temporary budget was set last year, insufficient funding to the universities has forced schools to cut costs and dip into their own reserves. S&P believes the vulnerability to Illinois' budget impasse exposes all of the state's rated universities to considerable event risk.

Tax Reform Proposal Released

- The Trump Administration outlined a tax reform proposal last week that could significantly change the current mandate. The bulk of the proposed reform is targeted at lowering the corporate tax rate to 15% and reducing personal income tax brackets to three rates of 10%, 25%, and 35%. The tax reform could have a number of implications for the municipal bond market, although details are unknown.
- A primary focus of the plan is eliminating itemized deductions, including the deductions for state and local taxes. According to the Tax Policy Center, these changes would increase revenue by $1.3 trillion over 10 years. However, municipal bond deductions were not specifically outlined in the plan.
- The deduction for municipal bond income lowers the cost of borrowing for state and local governments, who rely on the bond markets for financing capital projects. As the municipal market has historically been the avenue for infrastructure financing, and we believe would provide the best ongoing means for pursuing these projects, eliminating the deduction could come into conflict with the President's campaign promise to spend $1 trillion on infrastructure.
- The Alternative Minimum Tax would be repealed under the proposed reform. According to Bloomberg, there are over 140 billion outstanding bonds that are covered by the AMT. If removed, these bonds would likely see an increase in demand from investors currently subject to the tax.

FIXED INCOME INDEX RETURNS AS OF 04/21/2017

	MTD	YTD
Barclays 3Yr	0.30	1.57
Barclays 5Yr	0.69	2.60
Barclays 7Yr	0.93	2.90
Barclays MM Short 1-5Yr	0.39	1.75
Barclays MM 1-10Yr	0.79	2.49
ML US Gov/Corp 1-10 Yr	0.53	1.17

Source: Interactive Data

Muni Market Overview

- The muni curve is higher and steeper for the week with the 5Yr up 4bps to 1.41% and the 7Yr up 5bps to 1.70%, moving in lockstep with Treasuries.
- Issuance for the week is expected at about $7 billion which is in line with the average weekly issuance year-to-date. However, for the month of April issuance was about 12.6% behind the same period last year. As of the end of the April, year-to-date issuance is down about 10% from last year, primarily due to the decline in refunding this year.
- Helping to support the muni market is the increase seen in foreign buyers. In 2014, foreign holdings were $80.6 billion, and in 2016 it was $106.4 billion. As a percentage of the total muni market, the foreign holdings increased from 2.13% in 2014 to 2.78% in 2016. While the percentage is relatively small, it is certainly a factor in overall demand for the asset class.

Corporate Market Overview

- The markets shrugged off the major news of last week, the Trump tax plans. US Treasuries were slightly higher last week as the curve was slightly flatter. The 10yr benchmark rose 3bps to 2.28%, and the long bond rose 5bps to 2.95%.
- Investment Grade credit continues to be stalled, as only $29 billion of issuance came to market last week, bringing the April total to $105 billion. One of the biggest deals of the week was the $3 billion of new debt brought by Pepsi Co Inc. (PEP A1/A+) across several different tranches. The longest being $750 Million 30Yr @ +105. S&P did upgrade the company from A to A+ on April 26th. Demand continues to be strong and secondary market volume ticks higher with the lack of a primary market. Spreads continue to be in an incredibly tight range and remain steady.