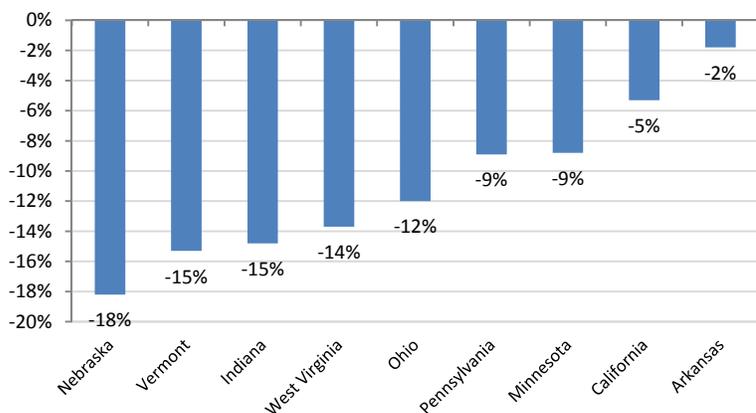


April Tax Receipts Surprise to the Downside

- A number of states are reporting that tax collections in April are significantly missing estimates, and in some cases, are actually down from the prior year. Although some officials believe the underperformance relates to a timing issue, weak collections this late in the fiscal year will require a number of states to either cut back on expenses or dip into reserves.
- California saw income taxes miss projections by \$707 million, or 5.3%. New York experienced a \$1.4 billion (22%) drop in collections from last April, and Pennsylvania's April income tax receipts were 8.9% below forecast. These states were not alone in their weak performance.
- Personal income taxes are states' primary revenue source (37%), and April is traditionally the largest month of income tax receipts. Even more importantly, April is often when taxes on nonwage income are paid (*i.e.*, investment income) from the prior year and typically reflects the performance of financial markets from the prior period. But with the S&P 500 delivering a nearly 12% total return in 2016, states are reporting that estimated payments (or those derived from nonwage income) are the driving force behind the tax collection underperformance. The reason for the divergence? Many tax officials are suggesting that taxpayers deferred recognition of investment income in 2016 with the anticipation that the current presidential administration would enact lower tax rates in the near-future.
- While the deferral of taxable activity would indicate that states will collect these revenues at some point, the near-term effect requires changes to spending plans, the majority of which end on June 30th. Given the short timeframe to make changes, we'll be monitoring those states that make more structurally sound changes alongside those that rely on one-time solutions (*i.e.*, draws on reserves or deferring pension contributions).

April Income Tax Receipts Missed for a Number of States
April Income Tax Receipts as % Below Forecast



Source: Moody's Investors Service, Rockefeller Institute, State revenue reports

Muni Market Overview

- Munis were stronger over the week with the 5Yr down 8bps to 1.30% and the 7Yr down 9bps to 1.57%. The curve flattened again with 2s-10s at 109bps, down from 114bps last week.
- Supply this week is around \$8 billion, which is slightly higher than the year-to-date, non-holiday average of \$7.5 billion. 30-day visible supply is \$12.8 billion, above the average of \$11.6 billion. This is surprising given the Memorial Day early close on Friday and market holiday on Monday. As of May 18th, year-to-date issuance was \$146.3 billion, which is down 10.7% versus last year.
- Muni Fund flows were positive for the 6th consecutive week at \$427 million, bringing the year-to-date total to \$3.6 billion.

Corporate Market Overview

- US treasuries were in rally mode late last week as the news out of Washington continued to reiterate that the stability of the White House may be in question. The Benchmark 10Yr bond opened the week at 2.33%, but dropped 10bps on Wednesday to 2.23%. Rates stabilized through the balance of the week.
- The Treasury will auction off \$88 billion in shorter maturity notes (\$26B 2Yr, \$34B 5Yr, \$28B 7Yr) this week. There will be \$11.9 billion in SOMA holdings that will mature this week, as well as some cash that should absorb some of that supply.
- Investment grade credit spreads were slightly weaker as risk trading was sidelined amidst market volatility. Issuance tends to favor more stable markets, and this week's issuance was sporadic. The highlight of the \$41.3 billion new debt priced last week was the \$11 billion jumbo deal brought by QualComm (QCOM A1/A) to fund some of its NXP acquisition. The very rare Friday deal was well received and has performed well in the secondary thus far. Expectations are for another \$40 billion to be issued this week.

FIXED INCOME INDEX RETURNS AS OF 05/19/2017

	MTD	YTD
Barclays 3Yr	0.39	1.97
Barclays 5Yr	0.67	3.29
Barclays 7Yr	0.89	3.82
Barclays MM Short 1-5Yr	0.42	2.18
Barclays MM 1-10Yr	0.77	3.27
ML US Gov/Corp 1-10 Yr	0.25	1.42

Source: Interactive Data