This Week in the Bond Market

Recovery From Hurricanes Begins for Southern U.S.

- Following two Category 4 hurricanes making landfall in the U.S. over the last two weeks, the states of Texas, Louisiana and Florida have begun to assess the damage, while Georgia and Tennessee prepare for heavy winds and rainfall.
- Hurricane Harvey slammed into Texas' southeast coast on August 25th as a Category 4 hurricane, retreated back into the Gulf of Mexico only to then strengthen and bring massive amounts of flooding to the area. A prolonged period of precipitation produced nearly 52 inches of rain in Houston over the course of four days, more than the average annual rainfall for the City.
- Texas' Governor, Greg Abbott, estimated that the storm's damage could exceed $150 billion, greater than the $120 billion in damage experienced in New Orleans by Hurricane Katrina in 2005.
- Meanwhile, Hurricane Irma made landfall in the Florida Keys on September 10th before moving north along Florida's Gulf coast. Approximately 6.2mm Florida residents awoke on Monday morning without power, and the areas around Miami and Naples were littered with toppled trees and the remnants of flooding. While certainly dramatic, Irma's wrath appears to be less than earlier predicted. Prior to making landfall analysts were estimating that the storm could be the worst natural disaster on record. As of Monday, one source estimated private-sector insured losses of $20bn-$40bn, well below the more than $100bn forecasted by some firms.
- Although it is too early to determine the financial and operational impacts of both Harvey and Irma, the municipal market has a strong history of avoiding severe credit deterioration in the face of natural disasters. Moody's indicates that they have not experienced one public finance issuer default due to a natural disaster in the firms' history.
- There will be short-term challenges for the effected regions, but proactive measures by state and federal officials should support local governments for an extended period. Disruptions to operations are typically covered by liquidity reserves and reimbursed by insurance payments and state grants. The rebuild and recovery phase is similarly boosted by federal and state aid along with private charitable donations.
- As estimates for losses materialize and governments respond to the near-term disruptions, we will continue to monitor potential challenges for state and local governments in the affected areas.

Illinois Legislature Approves School Funding

- Despite achieving bipartisan support for the State's first budget in over two years, Illinois lawmakers have remained at an impasse for nearly the last two months over approving a new mechanism for distributing state aid to local school districts. This delay had led to the State skipping its first payment to school districts in August and placing a large number of the more than 850 school districts in the state at risk of downgrade, according to S&P.
- That risk substantially subsided this past week, as Governor Bruce Rauner signed legislation that formally sets funding for education in Illinois, allowing the State to distribute the aid once the bill officially becomes law.
- The bill notably includes an additional $450 million for Chicago Public Schools, primarily to help the struggling system to contribute to its poorly funded teachers' pension plan.
- As a result, Chicago Board of Education's bonds rallied to the highest level in over two years. GO Bonds maturing in 2042 traded for an average price of $98.20 on September 1st, up from $76.00 in the middle of June.

Muni Market Overview

- Despite thin trading due to the Labor Day holiday, the Muni yield curve was stronger beyond 6 years over the week in keeping with the flight to quality trade in Treasuries. The 7Yr was 5bps stronger to 1.40%.
- Strength in Munis is further supported by the technicals, as demand remains strong with $2.1 billion in muni mutual fund inflows bringing the year-to-date total to $12.1 billion.
- Year-to-date, municipal issuance is down about 15%, while this week's calendar is expected at around $10 billion (higher than the $7.5 billion weekly average). This issuance is expected to be well received in the market.

Corporate Market Overview

- Issuance retuned in decent fashion with just over $54 billion of new debt hitting the books last week. Expectations were high, as historically, the first week of September tends to be robust. It was the largest week we've seen since March. With that said, most deals came close to or slightly cheaper to where current bonds of the same name are trading. That hasn't been the case recently, and those concessions were erased in the aftermarket. There were 36 issuers who tapped the market including Apple, Toyota, and Discovery Communications to name a few.
- Spreads did widen for the first time in several weeks as risk seemed to be of concern for some. The US Treasury yield curve rallied on the risk off sentiment and the curve flattened from 5 - 30Yrs. The 10Yr benchmark shed 12 bps to end the week at 2.05%

FIXED INCOME INDEX RETURNS AS OF 09/08/2017

	MTD	YTD
Barclays 3Yr	0.06	2.76
Barclays 5Yr	0.15	4.76
Barclays 7Yr	0.23	5.79
Barclays MM Short 1-5Yr	0.06	2.97
Barclays MM 1-10Yr	0.17	4.81
ML US Gov/Corp 1-10 Yr	0.25	2.64

Source: Interactive Data

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