

NCSHA
2018 HFA Institute

Municipal Market Update

THE HFA INSTITUTE



RBC Capital Markets

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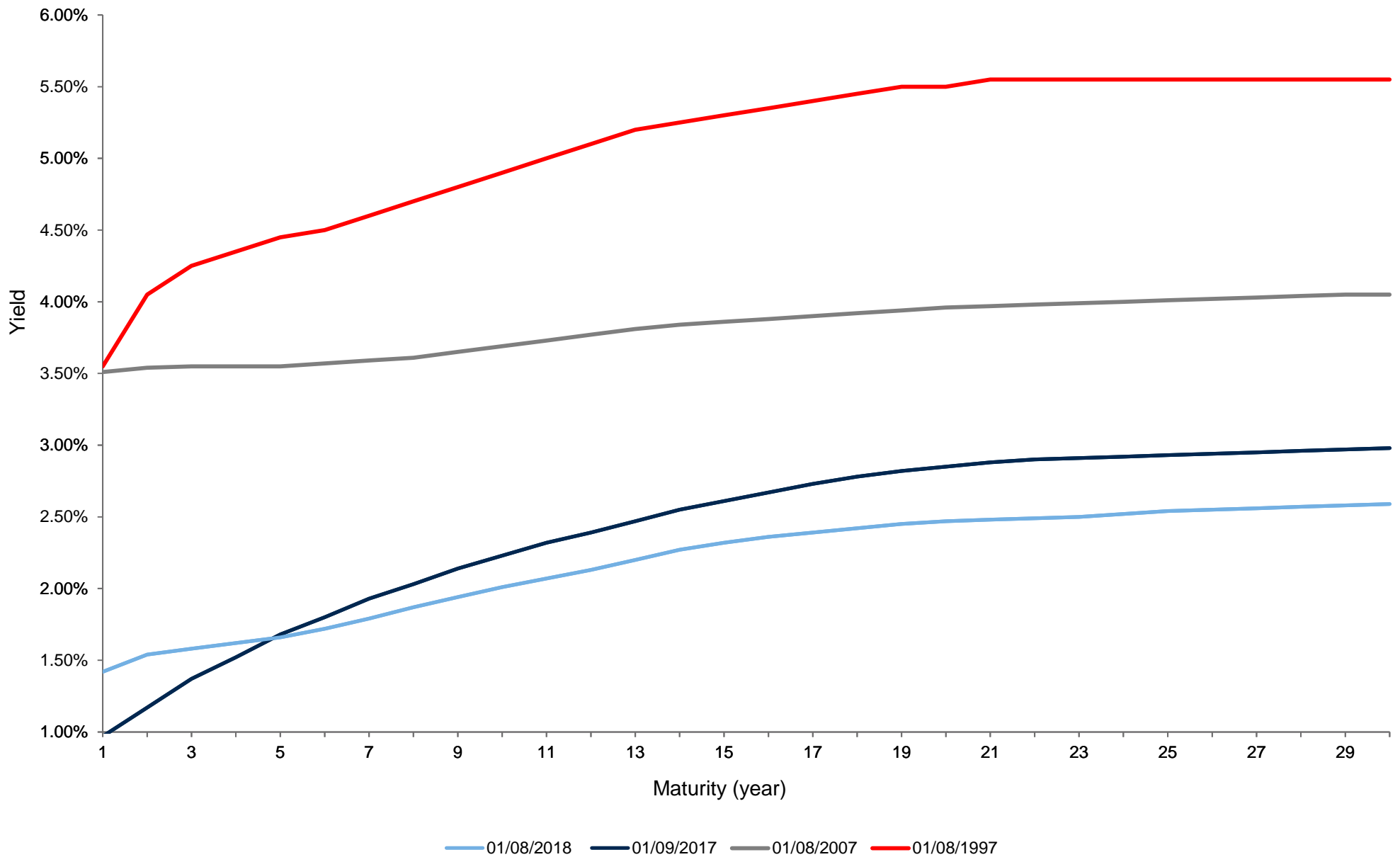
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The Aaa GO MMD Index is the Baseline for Tax Exempt Bond Pricing

The Yield Curve Continues its Flattening

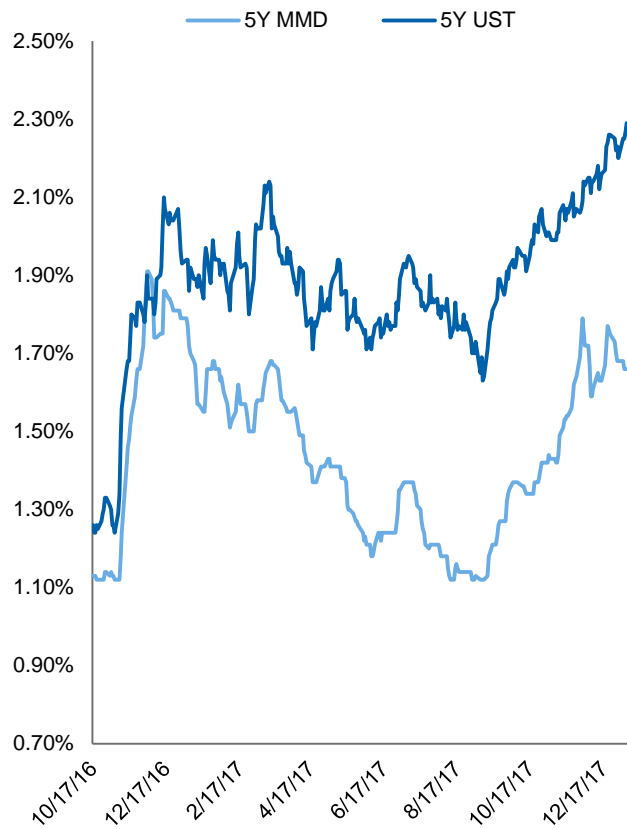


Source: TM3

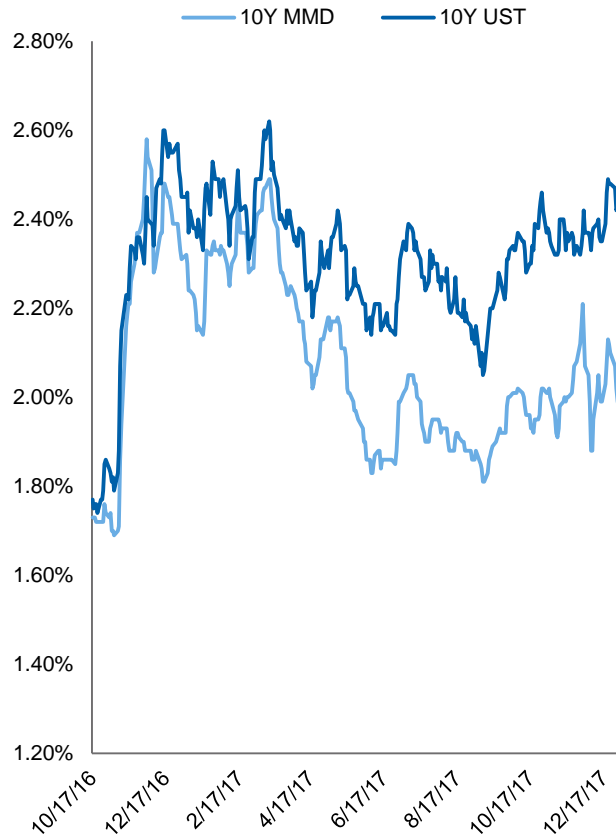
Tax Exemption Drives a Competitive Advantage

Relative Performance of Municipal Yields Versus Treasuries

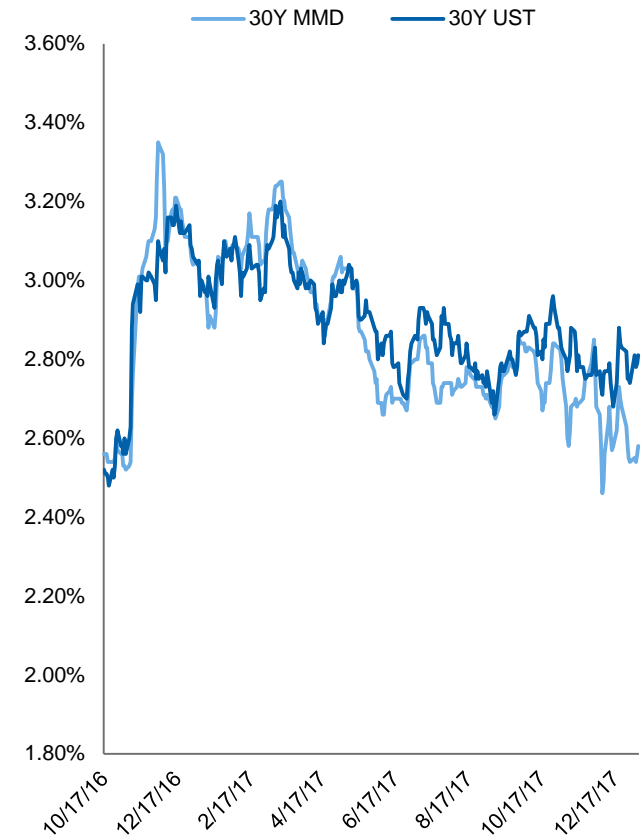
5 Year MMD⁽¹⁾ and 5 Year UST



10 Year MMD and 10 Year UST



30 Year MMD and 30 Year UST



5 Year MMD

Low	1.12%	09/08/2017
High	1.91%	12/01/2016
Current	1.66%	01/08/2018
Current % of UST	72.49%	

10 Year MMD

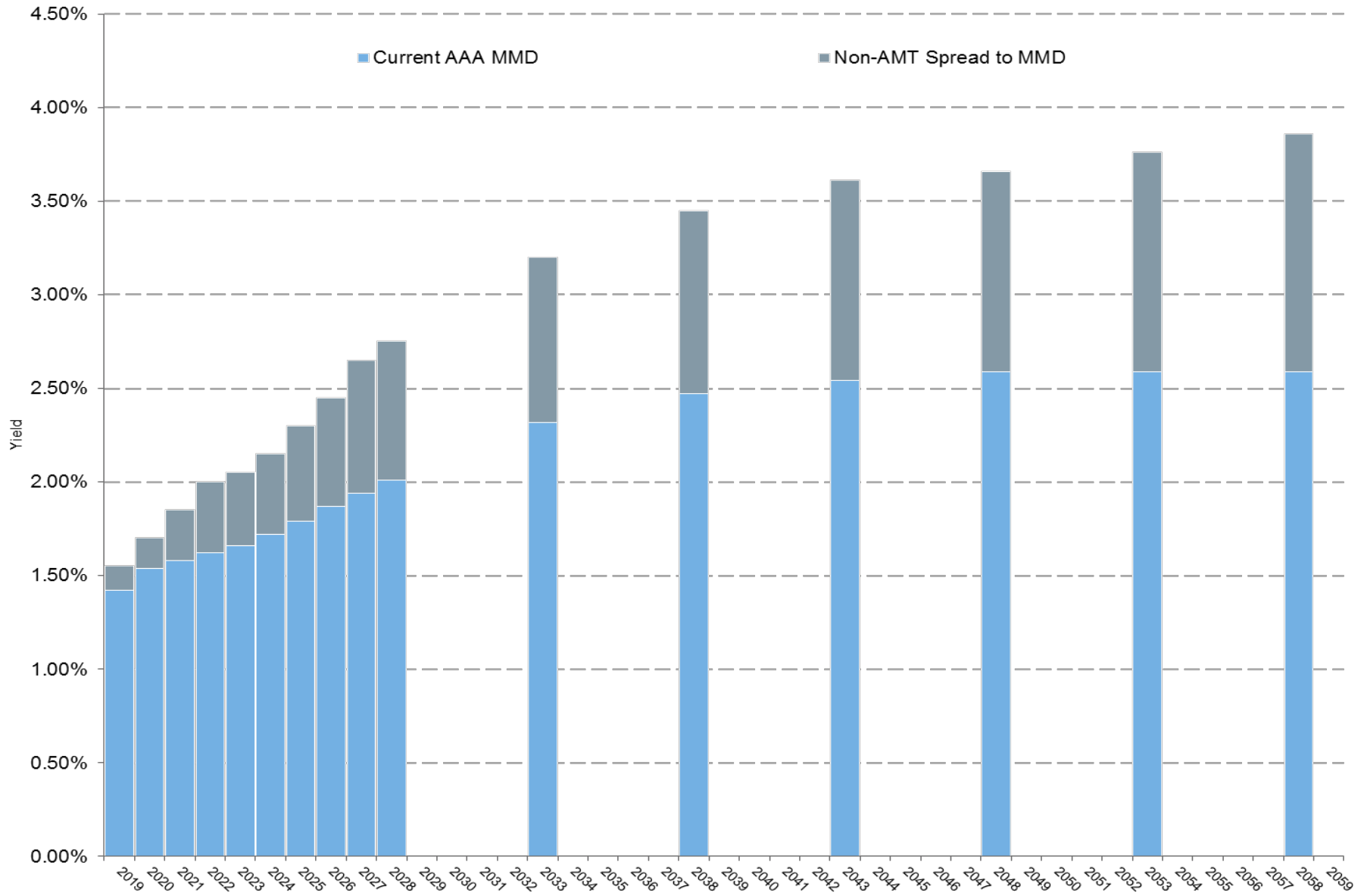
Low	1.69%	11/04/2016
High	2.58%	12/01/2016
Current	2.01%	01/08/2018
Current % of UST	81.05%	

30 Year MMD

Low	2.46%	12/07/2017
High	3.35%	12/01/2016
Current	2.59%	01/08/2018
Current % of UST	92.17%	

⁽¹⁾ MMD stands for Municipal Market Data; a daily index all municipal bond pricings are based off of Bloomberg.

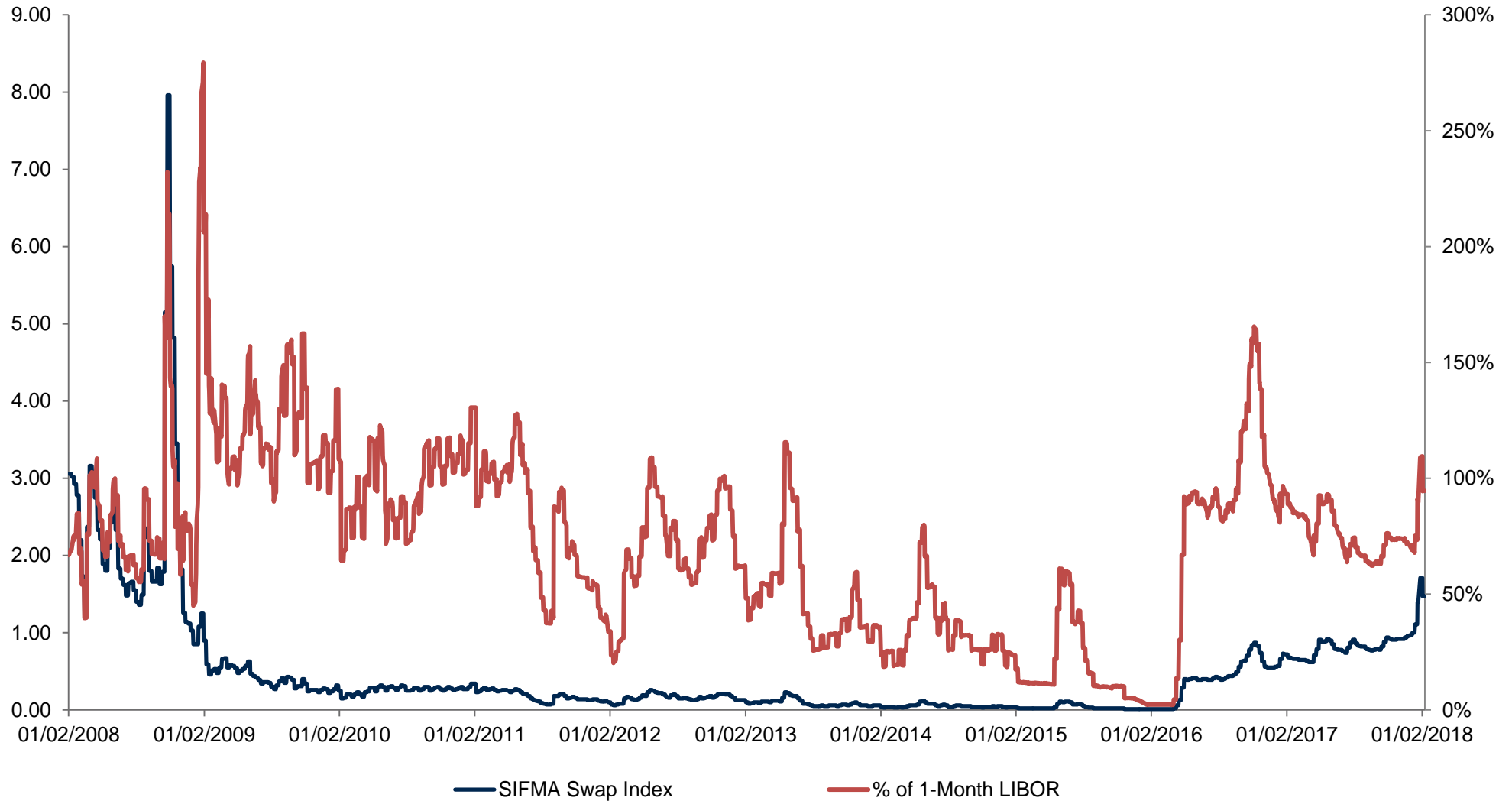
Indicative Fixed Rate Housing Bond Pricing (Assumes Aaa Credit)



Source: RBC Capital Markets Sales, Trading & Underwriting
 Assumes market conditions of January 8, 2017
 MMD and credit spreads will fluctuate without out notice, based upon then-prevailing market conditions

Tax exempt municipal bonds paying interest subject to “AMT” will typically spread 15 – 35 bps wider to MMD

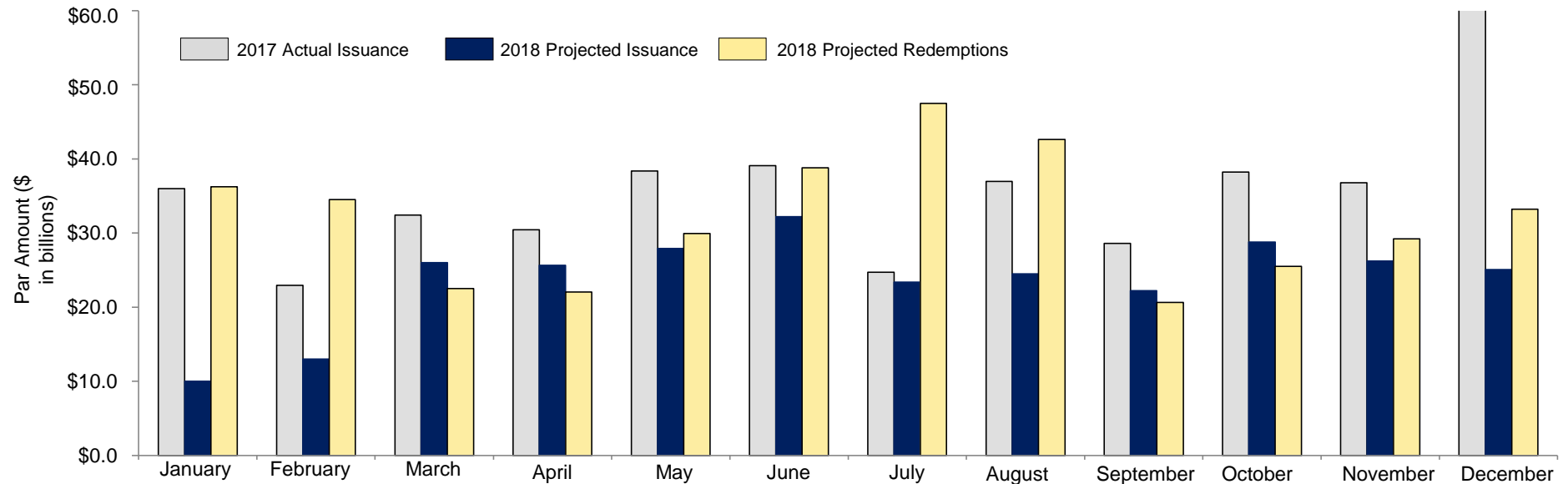
Tax Exempt Weekly SIFMA Index vs. Taxable ICE-LIBOR



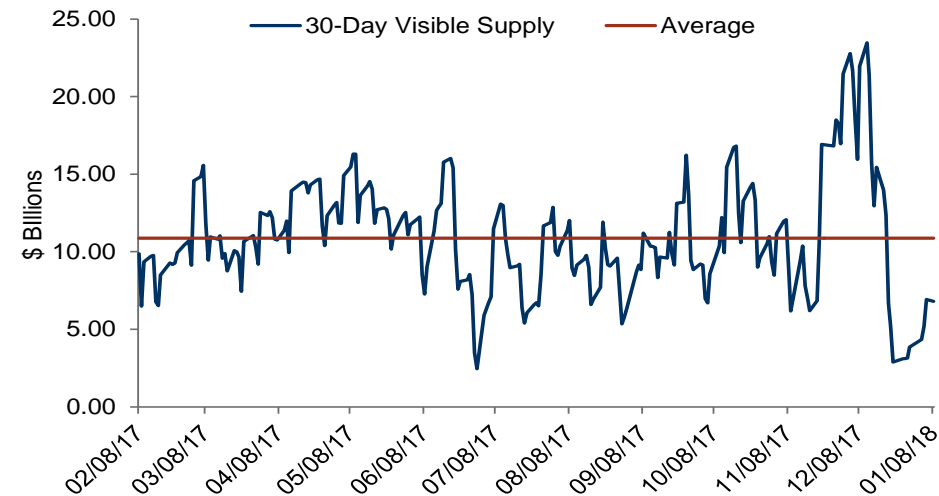
Source: Bloomberg

2018 Municipal Supply will be Greatly Impacted by 2017 Year End Volume

Monthly Projected Supply and Redemptions



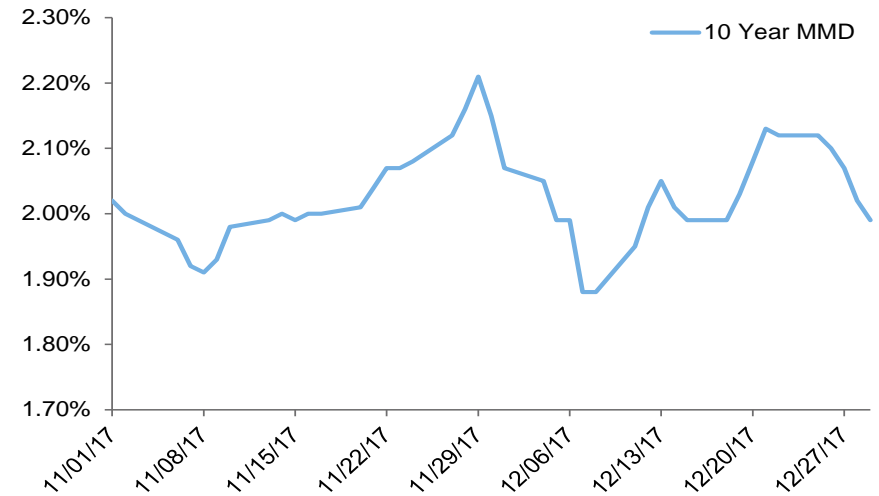
30-Day Visible Supply



Summary Statistics (Billions)

Max	\$23.47	Min	\$2.46	Avg.	\$10.88	Curr.	\$6.81
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10-year AAA MMD (11/1 – 12/31/2017)



Summary Statistics

Max	2.21%	Min	1.88%	Avg.	2.03%	Curr.	2.01%
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Overview of Key Market Themes

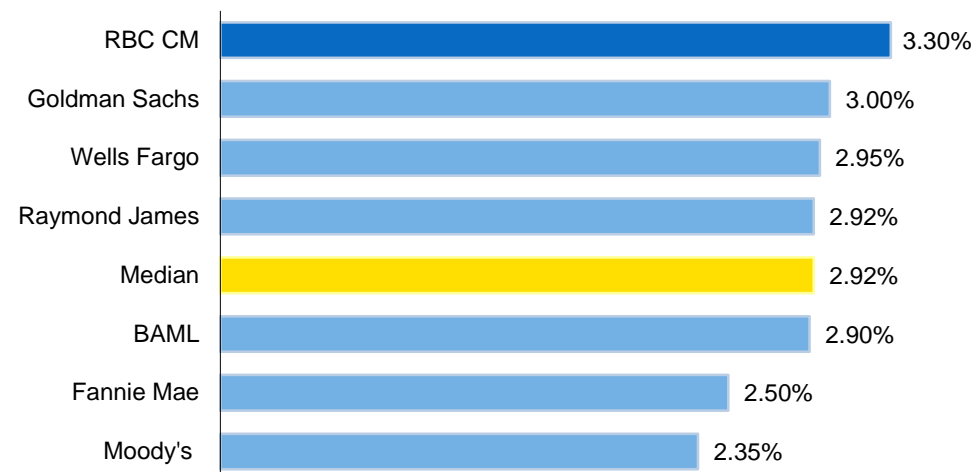
Market Commentary

- December FOMC minutes revealed a balanced discussion on inflation and rate hikes.
- Tax reform could spur inflation and hikes, but continued sub-2% inflation could slow the pace of hikes.
- The Fed sees three rate hikes this year; futures are pricing in a 75% chance of a hike in March.
- Municipal supply totaled \$410bn in 2017, down a mere 4.2% from the previous year.
- December set a new record for monthly supply, with \$71.1bn pricing during the month.
- The five-week period following Thanksgiving brought \$85.4bn of new-issue volume to the market.
- \$4.78 billion of housing bond offerings brought to market in five week period following Thanksgiving.**
- Last week's supply totaled a modest \$770mm, and this week's calendar is expected to total \$4bn.
- Industry estimates range between \$285 million (RBC) and \$400 million (BAML), representing projected declines of between 8% and 34% from the \$410 billion issued during 2017**
- A significant supply-demand imbalance is expected for 1Q18, when projected principal redemptions and coupon payments will dwarf projected new issue volume
- Tax reform may reduce demand from banks and insurance accounts, particularly for high-grade bonds.
- These accounts may look at lower-rated credits, longer maturities, and lower coupons to meet yield boogys.
- However, demand from SMAs, bond funds, and individuals may increase due to fewer tax shelters.

RBC Capital Markets Interest Rate Forecast

Period	Actual				Forecast			
	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18
Fed Funds Rate	1.00	1.25	1.25	1.50	1.75	2.00	2.25	2.50
3-month UST	0.76	1.03	1.06	1.39	1.55	1.80	2.05	2.30
2-Year UST	1.27	1.38	1.47	1.89	2.10	2.35	2.55	2.75
5-Year UST	1.93	1.89	1.92	2.20	2.50	2.70	2.90	3.05
10-Year UST	2.40	2.31	2.33	2.40	2.80	3.00	3.15	3.30
30-Year UST	3.02	2.84	2.86	2.74	3.20	3.35	3.50	3.60

10-Year UST Yield Forecasts – 4Q18



Source: RBCCM, <http://www.rbc.com/economics/economic-reports/pdf/financial-markets/fmm-January2018.pdf>
Thomson Reuters, Bloomberg as of January 8, 2018.