

## MUNICIPAL MARKET JOURNAL

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August 15th, 2016

[Municipal Market Journal \(PDF\) Click Here](#)

### SUMMARY:

Municipals improved 3-4 basis points last week, underperforming a stronger rally in US Treasuries, thus creating more tax-exempt vs taxable relative value to begin trading today.

Mutual fund flows (**Figure 2 Inside**) have remained at 2016's record pace, with an estimated \$43.2B received through 8/10. These inflows also imply that the municipal market is recapturing a greater-than-typical share of August principal maturities. With September scheduled to return 11% more principal reinvestment this year than last, demand should stay strong into next month.

Finally, with more of this allocation being applied by professional managers, credit, term, and structure spreads have little room to widen. On the last point, note that, in July and August last year, 72.4% of the 11,000 10yr and longer CUSIPs created had a sub-5% coupon, while this year, 83.2% of the 11,046 CUSIPs created are below 5% (**Figure 3 Inside**). Not only is this a sign of low inflation expectations, but it also represents a re-gearing of municipal investment strategies for performance and yet another sign of the replacement of transactional retail with institutional asset management.

**MORE FEDERALIZED INFRASTRUCTURE IS LIKELY AS SOME POINT:** With current polling data suggesting that Hillary Clinton will very likely be the next US President, her proposals to encourage and advance US infrastructure spending deserve some discussion. Broadly, Ms. Clinton has discussed a five-year, \$275B plan entailing \$250B of direct and immediate if unspecified investment and \$25B of seed capital for an ultimately \$500B national infrastructure bank. And of course Build America Bonds (BABs) and public private partnerships (P3s) are both woven into the bank. That Federal policymakers and thinkers would encourage these policies despite record low tax-exempt interest rates and perhaps

the easiest, most borrower-friendly conditions ever should come as no surprise. Nor why these programs are likely to be enacted in the future.

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Many Thanks,

The **MMA** and **FirstSouthwest** MMJ Team

**Tripp Kaiser, CFA**

Municipal Market Analytics, Inc.

o: 512-575-4562

c: 617-968-5906

e: [tkaiser@mma-research.com](mailto:tkaiser@mma-research.com)

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