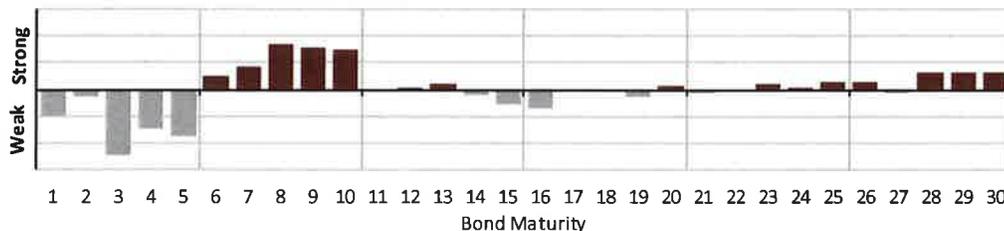
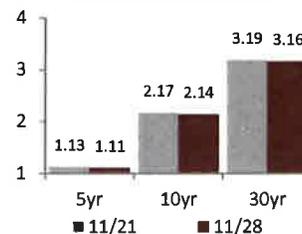


MUNICIPAL ISSUER BRIEF

Strong or Weak Market for Bond Sellers



Muni Bond Rates (%)



Heading into this week, the market has a more mixed feel to it as far as pricing power for issuers, note the strength in the 6- to 10-year area where issuers may be able to achieve the strongest borrowing rates relative to recent conditions.

MARKET UPDATE

THE BIGGEST NEW-ISSUE WEEK OF THE YEAR IS HERE: The latter half of November saw the municipal market stabilize and reestablish positive momentum. However, the forward calendar is the largest for this time of year since 2007 and 2008, at roughly \$19B.

INVESTORS & ISSUERS: Supply could challenge recent performance:

- The last two weeks have seen tax-exempt rates move modestly lower and the **MMA Price Index turned positive for the first time since October.**
- **World bond markets rallied over the week of Thanksgiving**, in particular in Europe as economic data and investor uncertainty on what the European Central Bank is doing allowed for a safety rally.
- Turning domestic, U.S. Treasury bonds also improved but lagged the global markets. Municipal rates could not keep up, creating alluring cross-market investor opportunities—the **asset class looks the most attractive it has since the start of 2014**—this could be a plus as a very large new-issue week tests demand.
- However, the larger calendar this week could swing the supply/demand dynamic back in favor of investors. Leading the calendar are several high-grade, frequent issuers out of New York and Texas.
- Municipal underwriters own a significant amount of bonds right now (see **Figure 1**), which could make it difficult for them to absorb the large new-issue slate if typical investor demand is lacking—issuers coming to market this week could discuss this with their syndicate group.
- Keep an eye on the competitive deal Wednesday from recently downgraded New Jersey as **it could be an indicator of how the market is viewing lower-rated entities that have generally outperformed higher-rated ones this year.**
- Finally, the large December and January reinvestment has long been considered a municipal market attribute, however, this alone has not represented support and movement to lower rates.

BUYERS BITES:

WHAT IS TRENDING HOT:

- 1) California GO, New York PITs
- 2) Longer-dated 4% coupons
- 3) IG Healthcare

CURRENTLY HARDER SELLS:

- 1) New Jersey appropriation bonds

WHO IS REPORTEDLY BUYING:

Regional and large banks, SMAs, dealer proprietary trading desks

Fed: Primary Dealer Net Positions in Municipals (\$B)

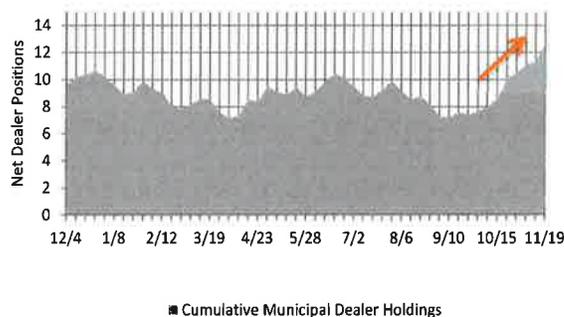


Figure 1: The chart above tracks the municipal bond holdings of primary dealers as reported to the New York Federal Reserve (represented by the grey shaded area over the last 12 months). Note that holdings have risen steadily since the start of October and have reached the high over the last 12 months (yellow arrow). Underwriters that own significant municipal bonds on their balance sheets may be less inclined to act aggressively in the primary markets. In early/mid-November, both bid-wanted par (secondary selling) and offering items increased to significant levels that coincided with higher municipal yields and less pricing power for issuers. Also, secondary transaction volume increased at the end of November, a change from the steady decline in 2014. Increased trading activity might suggest that investor demand has improved as December begins.

MUNICIPAL ISSUER BRIEF UPDATE: Today's edition is a shortened issue as we return from the Thanksgiving Holiday. Our regular lineup returns next week with a review of what issuers should consider when looking at alternative financing mechanisms outside of the traditional municipal bond market.