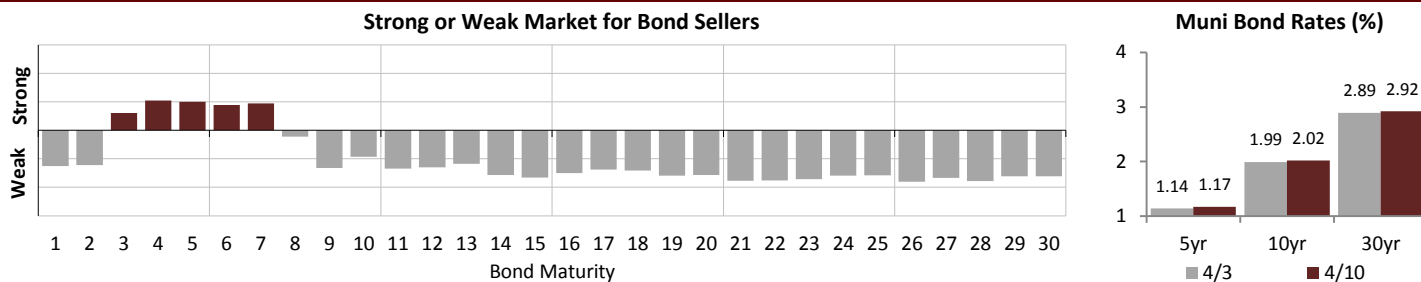


MUNICIPAL ISSUER BRIEF



Heading into this week, the mostly weak pricing dynamic from last week continues, with the exception of the 3- to 7-year part of the yield curve. There are several challenging elements in the current market that issuers selling bonds should be aware of—see **Investors & Issuers**, below, for more.

MARKET UPDATE

FEW LARGE MARKET CHANGES BUT SENTIMENT WAS NEGATIVE LAST WEEK: While actual interest rates didn't move that much last week there are several somewhat negative undercurrents of which issuers, coming to market near-term, should be aware.

INVESTORS & ISSUERS: Buyers and sellers had difficulty agreeing:

- The market started out last week with the **MMA Price Index** in positive territory but as the days went by it moved to neutral and **ended on Friday in negative territory for the first time in a month.**
- This was largely the result of modest losses each day in the Treasury market, which municipals slowly followed.
- But it was also largely because of many underwriting firms continuing to hold bonds from recent deals. They have been unable to find investors—**this can put negative pressure on new deals that will be priced near-term.**
- Additionally, several large mutual funds continued to sell their municipal holdings into the secondary markets and the **recent data does show that investors have been exiting several funds.**
- Many of the larger deals of the week that set the precedent for the general market were forced to cheapen prices throughout the underwriting process (see **page 2** for details) but also many influential smaller loans struggled as well.
- This week there is an **increase in bond issuance**, which may also make for a more challenging environment.
- There are several New York issuers scheduled, which **might present a hurdle**, as the state has seen an increase in issuance of late and many NY residents have made investments recently.
- The healthcare sector also has nearly \$2 billion in scheduled issuance—an increase above the average.
- On Friday, Puerto Rico's electric utility's bonds **rallied significantly** as it appeared it may have reached a settlement with its bondholders. [Click here](#) for why Puerto Rico could impact all issuers.

GRANTS: The U.S. Dept. of Transportation [announced](#) it will award \$500 million in Transportation Investment Generated Economic Recovery (TIGER) grants this year. "The focus will be for capital projects that generated economic development and improve access to reliable, safe and affordable transportation for disconnected urban and rural [communities]," states DoT. The pre-application deadline is May 4 and the final application deadline is June 5. DOT is hosting several webinars with more information [found here](#).

BUYERS BITES:

WHAT IS TRENDING HOT:

- 1) IG credits GO, 11-15 year range with 3.5% coupons
- 3) Puerto Rico electric utility

CURRENTLY HARDER SELLS:

- 1) Louisiana, Pennsylvania GO underperforming
- 2) Tobacco-backed securities

WHO IS REPORTEDLY BUYING:

Large banks, property & casual insurance companies, traditionally corporate bond buyers

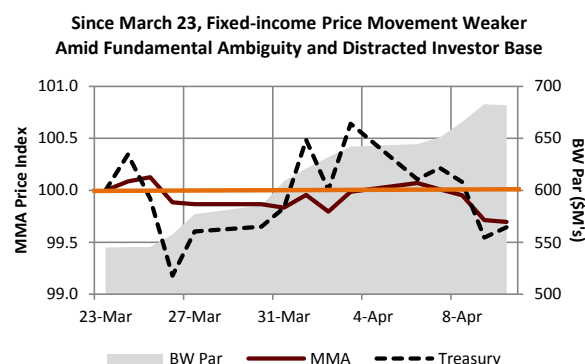


Figure 1: Bond market interest rates have not moved very much since the middle of March but most recently began to move cheaper. The chart above tracks municipal market prices (maroon line) and Treasury market prices (blue dotted line) indexed to March 23rd. This is intended to illustrate little market change over the last few weeks, however note the negative turn last week. The grey shaded area represents the bids-wanted par—or the amount of investors selling their municipal bonds in the secondary markets. Note how this has steadily increased over the last 3 weeks, which creates a potential negative dynamic for issuers pricing bond deals in the near-term as these investors compete for attention.

REGIONAL BOND ISSUES (Moody's/S&P/Fitch)

- **Three large deals that influenced the market (in yellow):**
- The largest deal of the week, the North Texas Tollway Authority, lowered prices after initially offering them cheaper than recent trading levels. At times when dealers have large balances they will offer slightly more yield to entice investor interest.
- Triple-A rated North Carolina GO sold competitively at aggressive prices offered by Wells Fargo. This was in part because of large insurance company pre-orders that called for the issue to have lower coupon bonds outside of 10-years.
- The New York Dormitory Authority offered New York University bonds to a New York saturated bond market last week and ended up with lower prices to accommodate. In some cases, it can be prudent to get a sense of how many issuers with similar credits within your state have come to market recently, as the congestion can have a negative effect on a final price.

NORTHEAST

4/9: **Morgan Stanley & Co.** priced \$692 million New York University revenue bonds for the **Dormitory Authority of New York**; Aa3/AA-/NR; callable at par in 7/1/2025, except bonds in 2041:

Maturity	Coupon	Yield	+/- AAA 5%
2020	5.00	1.40	+24
2025	5.00	2.24	+25
2045	5.00	3.17	+28

Notes: Yields were raised for longer-dated maturities before closing

MID-ATLANTIC

4/9: **RBC Capital Markets** priced \$9.7 million general obligation bonds for **Bethlehem, Pennsylvania**; NR/BBB/NR; MAC enhancement (NR/AA/NR); callable at par in 8/1/2023:

Maturity	Coupon	Yield	+/- AAA 5%
2020	2.00	2.03	+87
2025	2.625	2.92	+93
2028	3.125	3.37	+108

Notes: Kicker bonds—or short call options can be effective

MIDWEST

4/7: The **Independent School District No. 885, Minnesota** sold \$17.7 million general obligation school building bonds to **Citigroup Global Markets Inc.**; A1/NR/NR; MN SD (Aa2/NR/NR); callable in 2/1/2023:

Maturity	Coupon	Yield	+/- AAA 5%
2016	4.00	0.25	+4
2020	4.00	1.37	+23
2025	3.00	2.25	+28

Notes: Shorter maturities continued to see a strong pricing dynamic

SOUTHEAST

4/8: **North Carolina** sold \$225 million general obligation bonds to **Wells Fargo Securities**; Aaa/AAA/AAA; callable at par in 6/1/2025:

Maturity	Coupon	Yield	+/- AAA 5%
2020	5.00	1.25	+10
2025	5.00	1.93	-5
2035	4.00	3.00	+33

Notes: Insurance companies pre-ordered longer maturities

SOUTHWEST

4/8: **JPMorgan Securities LLC** priced \$866 million system second tier revenue refunding bonds for the **North Texas Tollway Authority**; A3/BBB+/NR; callable at par in 1/1/2025:

Maturity	Coupon	Yield	+/- AAA 5%
2020	5.00	1.68	+53
2025	5.00	2.72	+74
2038	5.00	3.62	+89

Notes: Yields were lowered during re-pricing

FARWEST

4/6: **Stifel Nicolaus & Co.** priced \$30 million general obligation bonds for the **Santa Maria-Bonita School District, California**; Aa3/A+/NR; callable at par in 8/1/2025:

Maturity	Coupon	Yield	+/- AAA 5%
2025	5.00	2.22	+25
2030	5.00	2.86	+46
2039	5.00	3.23	+46

Notes: Acquisitions by Stifel have increased its CA underwriting