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UPDATE ON THE MUNICIPAL BOND MARKET: LANDSCAPE, TRENDS & OPPORTUNITIES

FGFOA Annual Conference

June 27, 2017

FLORIDA PUBLIC FINANCE

INTRODUCTIONS

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- *Dedicated Florida underwriter*
- *15 years as municipal underwriter*
- *Underwritten more than 1,200 transactions with a par value exceeding $30 billion*

TODAY'S DISCUSSION TOPICS

SECTION I | Historical Market Perspectives

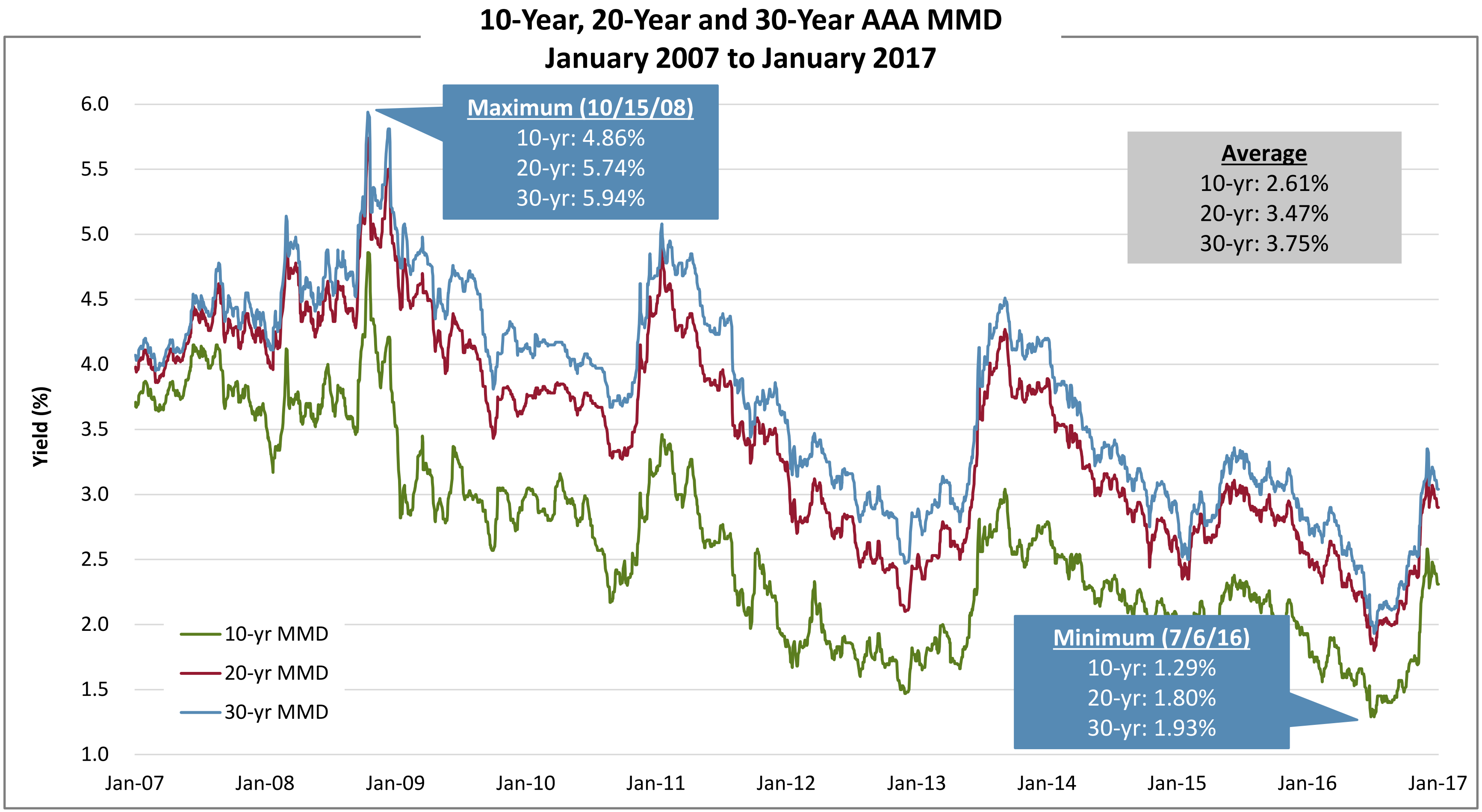
SECTION II | Current Trends, Investor Perceptions and Rating Considerations

SECTION III | Future Challenges and Opportunities in the Post-Election Market

SECTION I

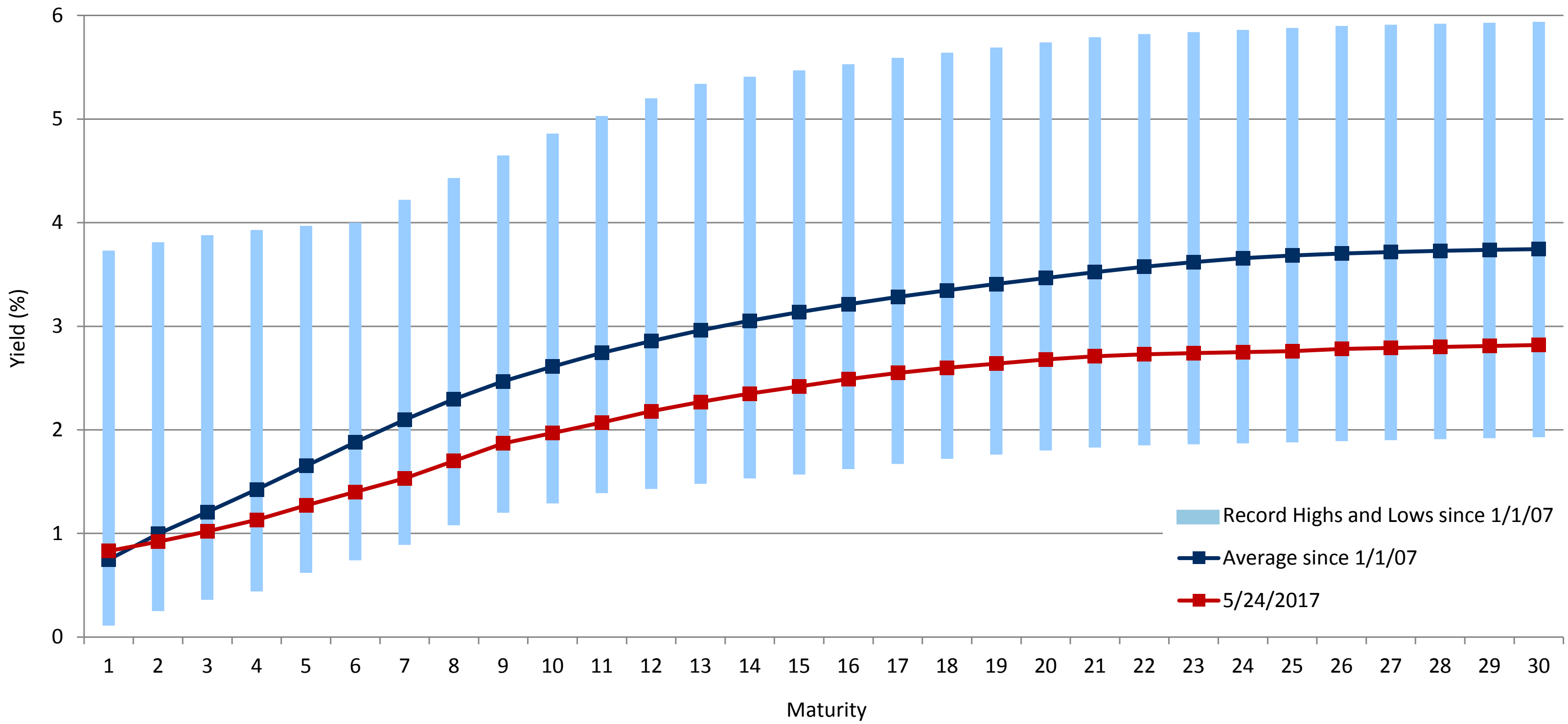
Historical Market Perspectives

HISTORICAL TRENDS: TAX-EXEMPT INTEREST RATES



Source: Thomson Reuters

HISTORICAL PERSPECTIVES: TAX-EXEMPT INTEREST RATES

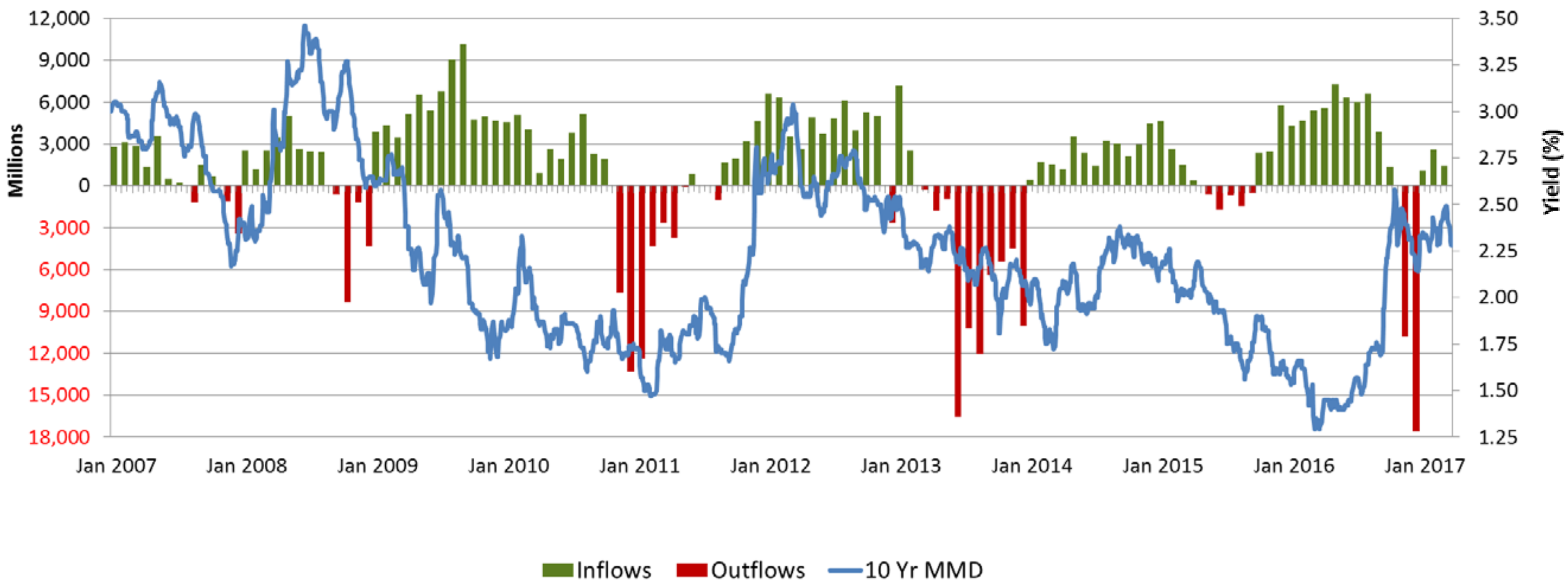


	1	5	10	15	20	25	30
Record Low since 1/1/07	0.11	0.62	1.29	1.57	1.80	1.88	1.93
Record High since 1/1/07	3.73	3.97	4.86	5.47	5.74	5.88	5.94
Average since 1/1/07	0.75	1.65	2.61	3.14	3.47	3.68	3.75
Current (5/24/17)	0.83	1.27	1.97	2.42	2.68	2.76	2.82

Source: Thomson Reuters

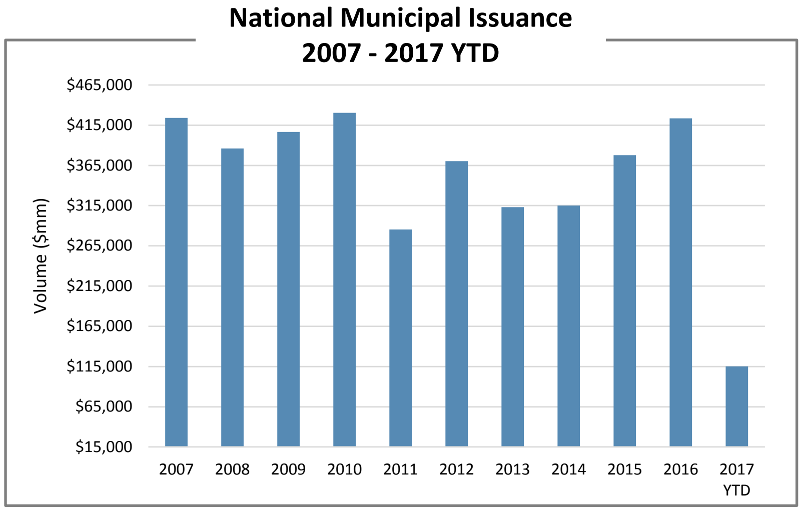
HISTORICAL PERSPECTIVES: MUNICIPAL BOND FUND FLOWS

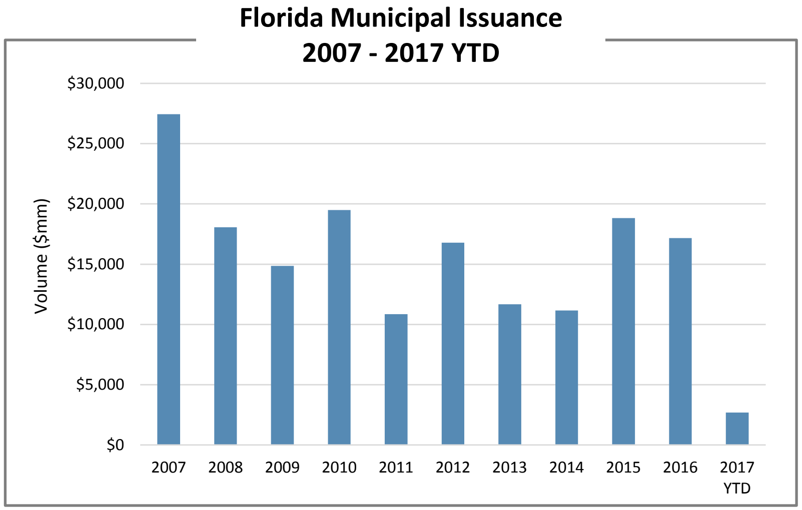
Monthly Municipal Bond Fund Flows
January 2007 to January 2017

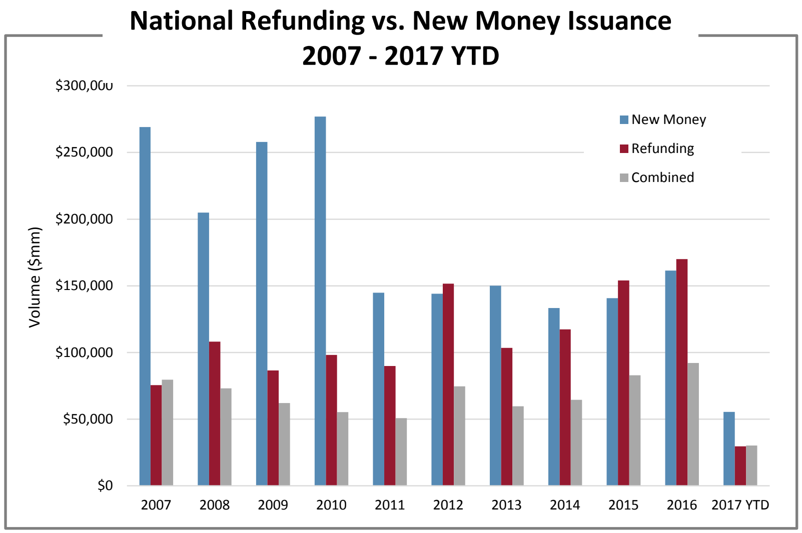


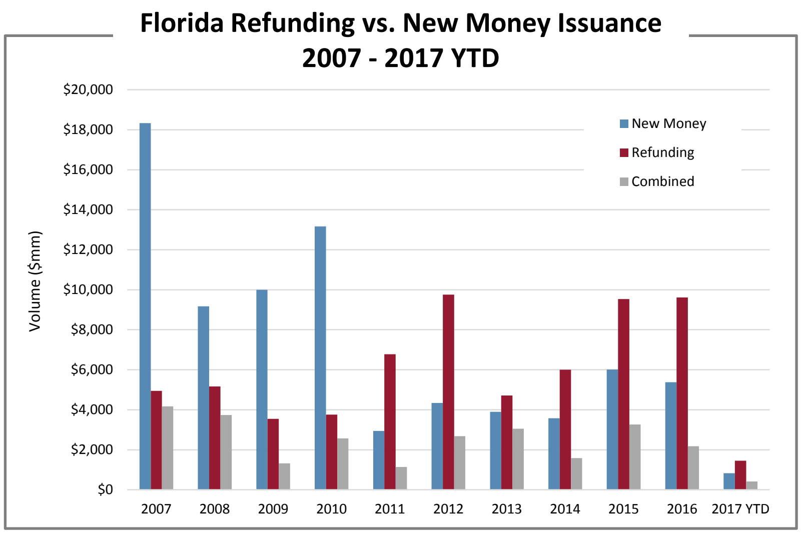
Source: Investment Company Institute

HISTORICAL PERSPECTIVES: MARKET SUPPLY



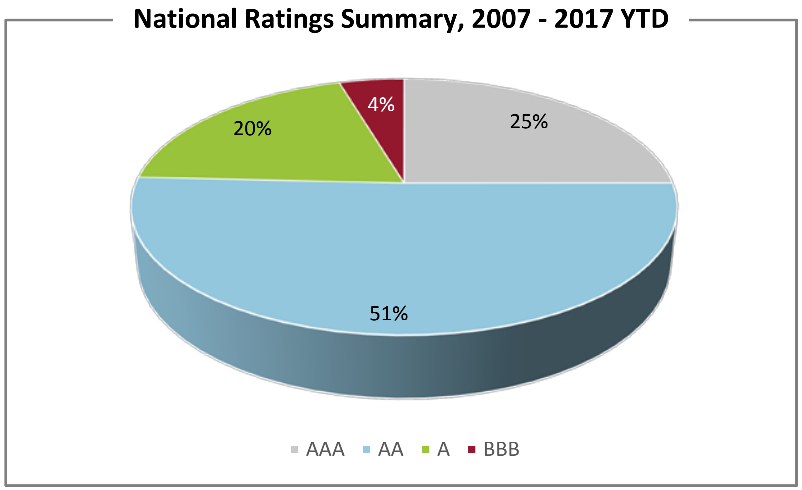


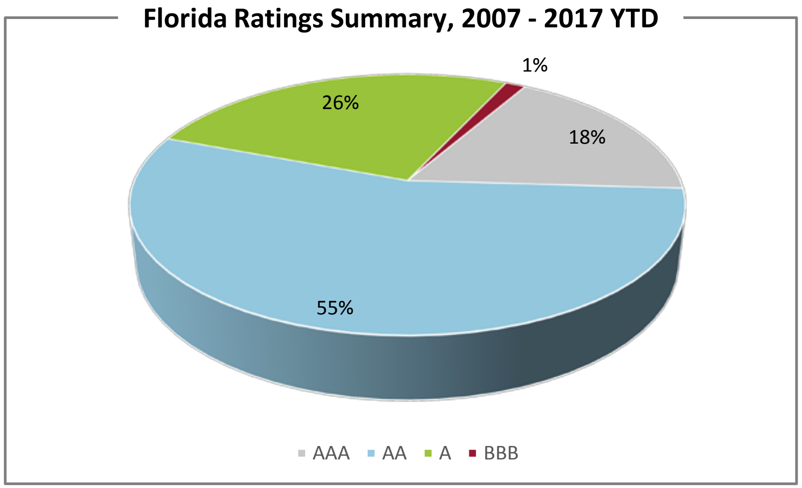


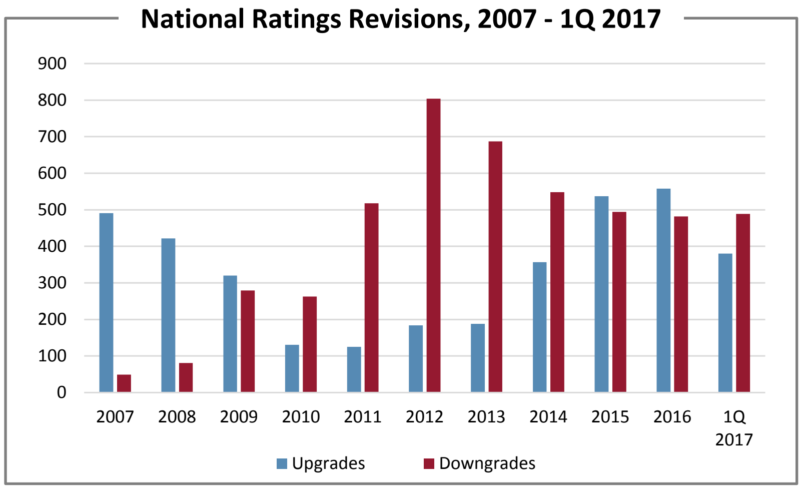


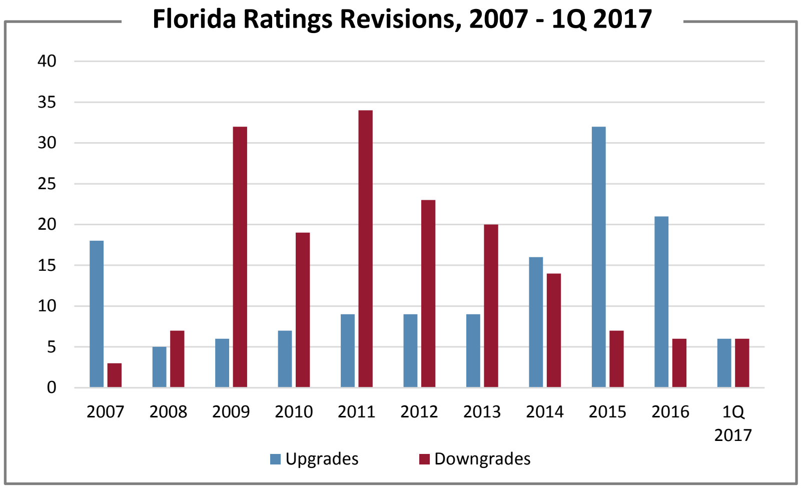
Source: Thomson Reuters

HISTORICAL PERSPECTIVES: CREDIT RATINGS



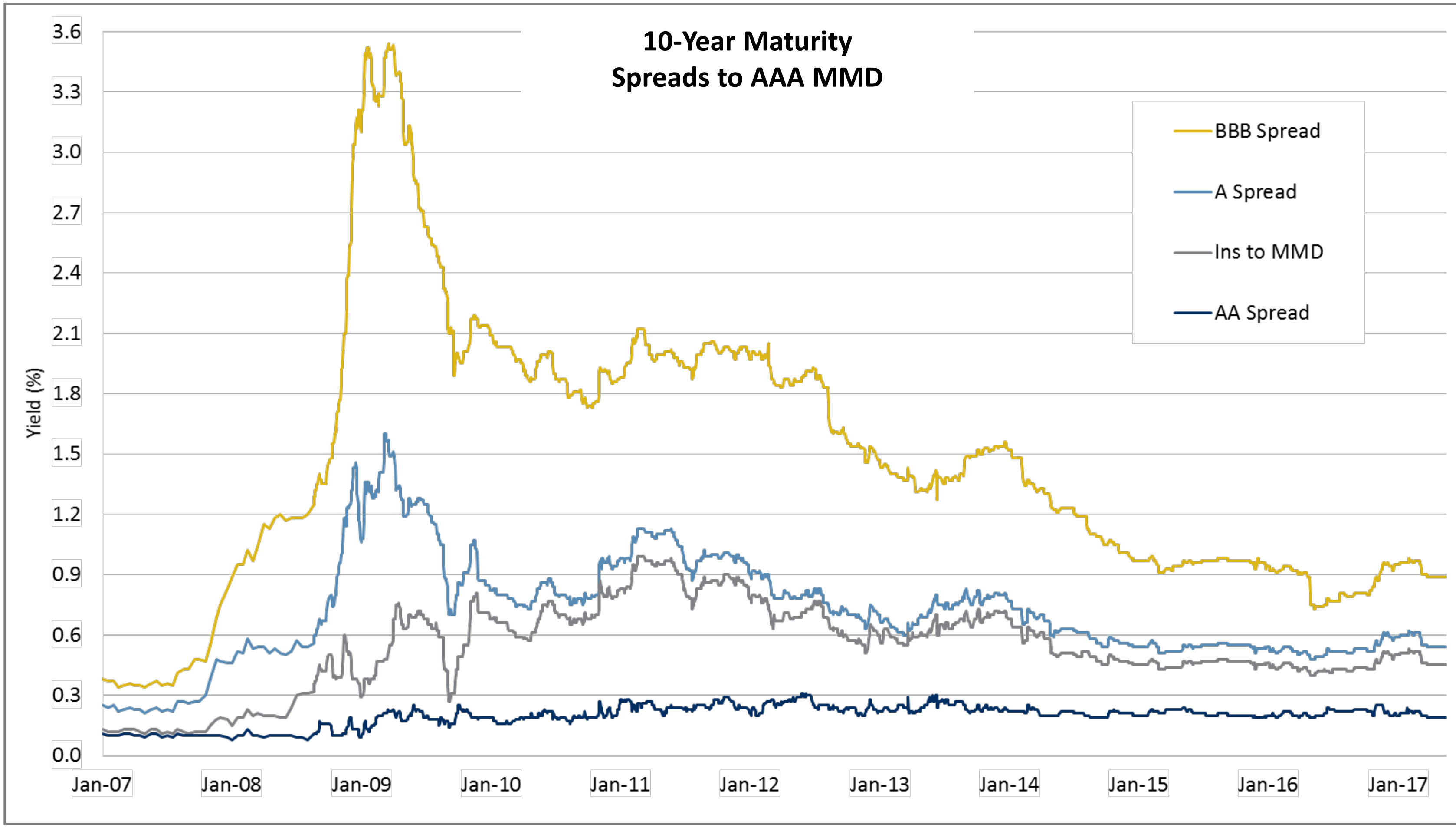






Source: Moody's Quarterly Ratings Revision Reports, Thomson Reuters

HISTORICAL PERSPECTIVES: RATING IMPACTS ON BOND PRICING



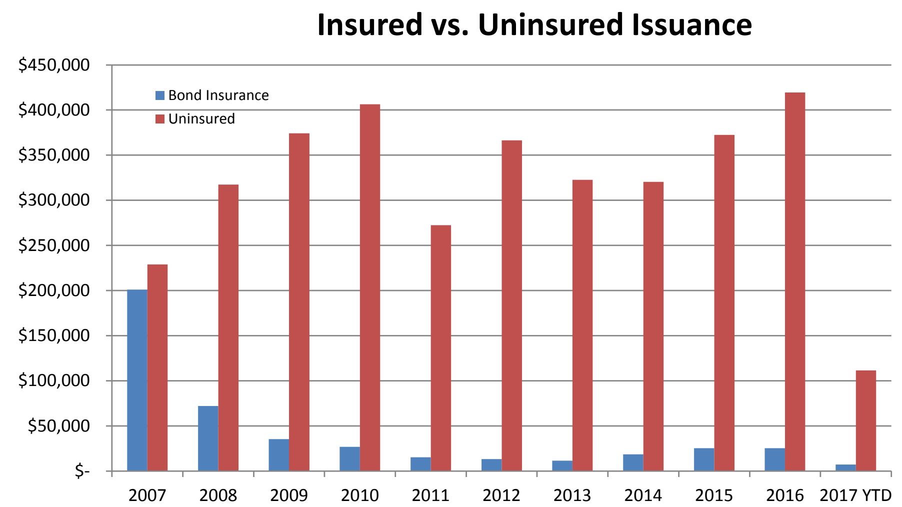
Source: Thomson Reuters

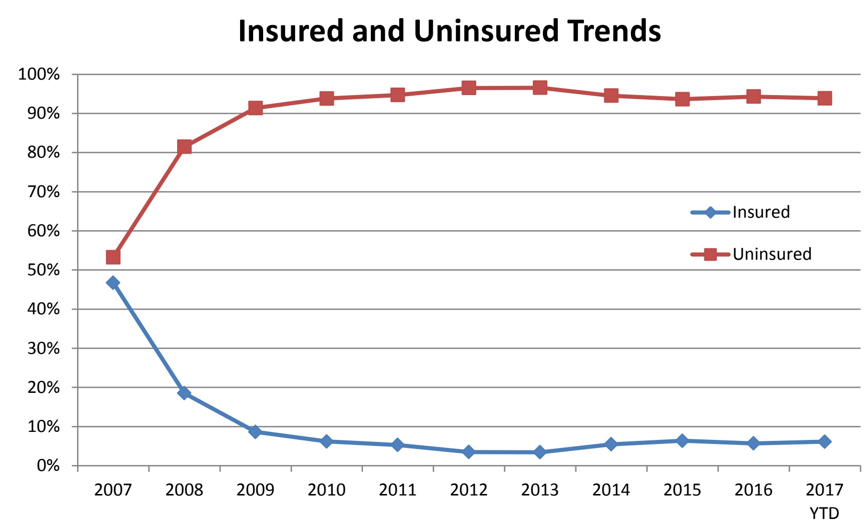
HISTORICAL PERSPECTIVES: CREDIT ENHANCEMENT

- The use of bond insurance declined dramatically in the years following the financial crisis, but this trend began to reverse since 2012.

- Market penetration of insured bonds in the new issue market was around 50% pre-financial crisis and has remained around 6% for the past several years.

- Low interest rates and tight credit spreads act as a constraint on the use of bond insurance.

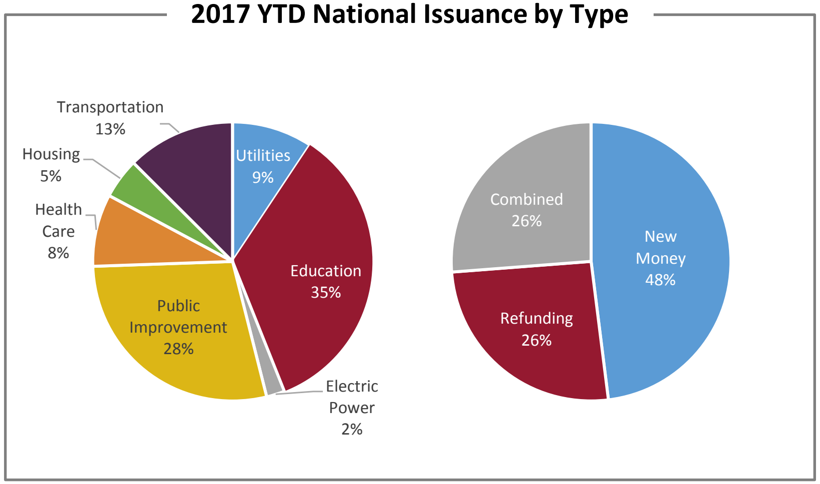


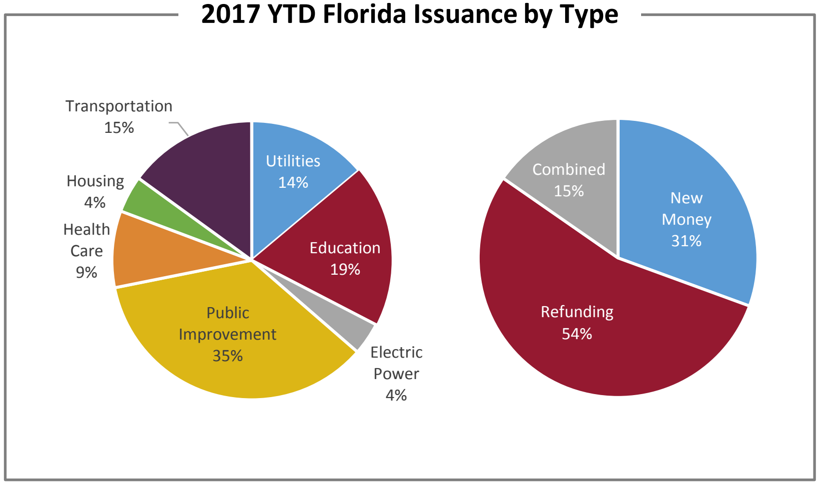


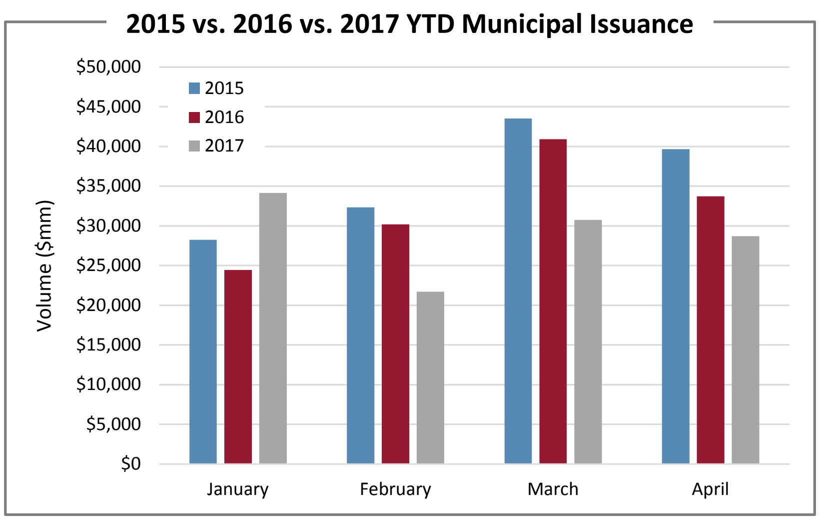
SECTION II

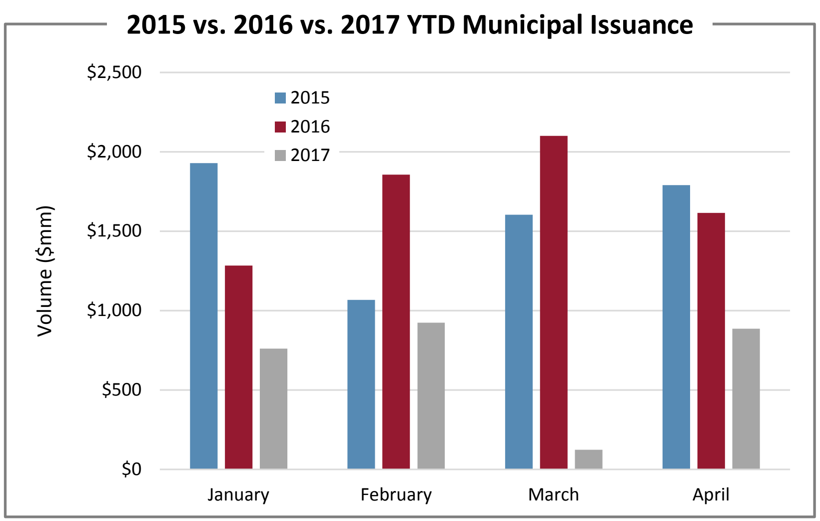
Current Trends, Investor Perceptions and Rating Considerations

MARKET SUPPLY: ISSUANCE TRENDS









Source: Thomson Reuters

MARKET DEMAND: INVESTOR TYPES

Households

- Largest holders of municipal bonds
- Decreasing over the past several years
- Holds 43% of municipal debt

Mutual Funds

- Second largest holder of municipal bonds
- Increased their share of municipal debt in most years since 2007

U.S. Chartered Depository Institutions

- Third largest holders of municipal bonds
- Increased share of municipal bonds held over the last 10 years

Property & Casualty Insurance and Life Insurance Companies

- Property & Casualty Insurance Companies are the fourth largest holder of municipal bonds
- Life Insurance Companies overtook Money Market Funds as the fifth largest holder in 2016

Source: The Federal Reserve, Financial Accounts of the United States, 4th Quarter 2016

MARKET DEMAND: INVESTOR PREFERENCES

1st Tier Accounts

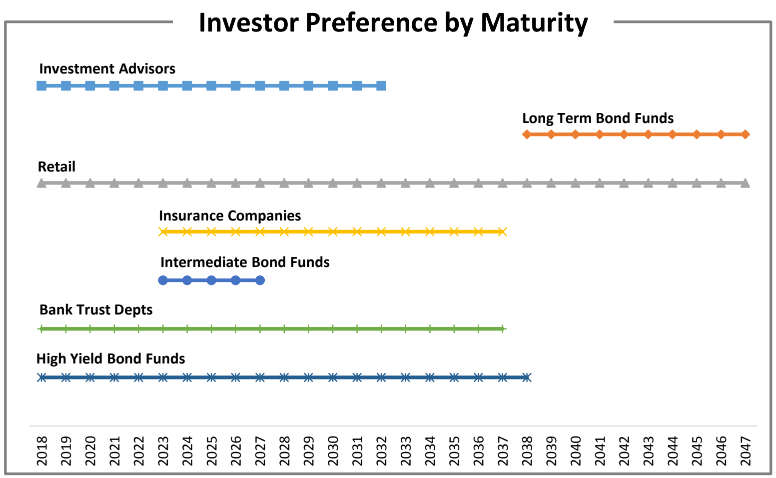
- Typically buy blocks of $5 million and more; 20 years and longer
- Includes bond mutual funds, asset managers and insurance companies
- Prefers premium coupon structure
- Major purchasing consideration is liquidity
- The number of accounts has decreased as tender option bond programs and arbitrage accounts have exited the market

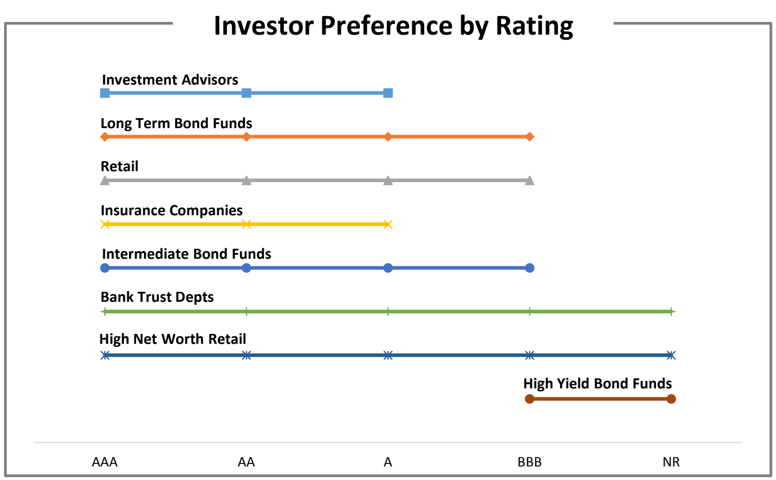
2nd Tier Accounts

- Typically buy in blocks of $500,000 to $5 million throughout the entire yield curve
- Includes bank trust departments, investment advisors and small insurance companies
- More varied coupon preferences
- Less price sensitive/ more coupon sensitive

3rd Tier Accounts

- Typically buy blocks of $100,000 to $250,000 throughout the entire yield curve
- Similar to 2nd tier accounts, but on a smaller scale
- Major concern is structure (buyer looks for specific underlying rating, maturity and coupon)

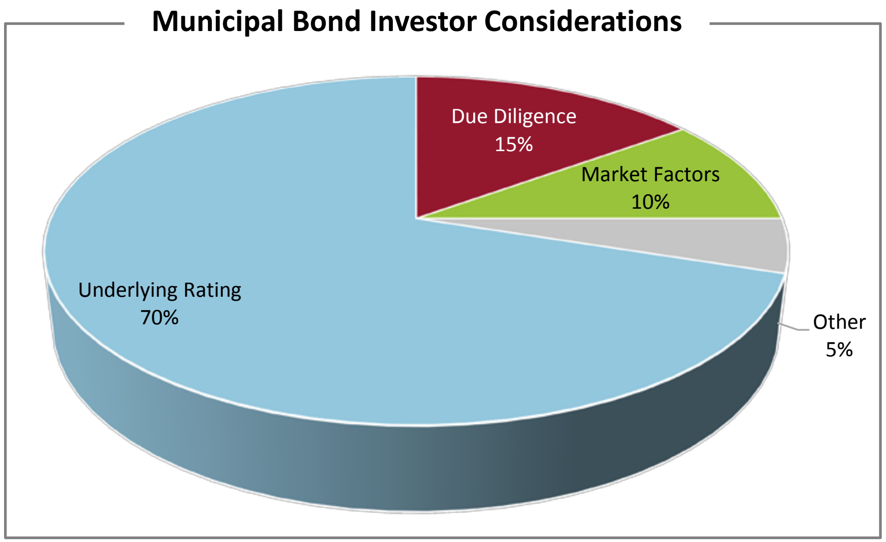




CREDIT RATINGS: INVESTOR PERCEPTIONS

- The world related to credit ratings and credit enhancement has changed dramatically.
  - ➢ Downgrade of bond insurers led to less market participants and shifts in perception of credit enhancement.

- Underlying credit ratings are the key decision point for reviewing investment alternatives.
  - ➢ Investors are digging in and doing their own due diligence.
  - ➢ Tighter credit requirements and need for long-term plan.



CREDIT ENHANCEMENT: BOND INSURERS

- Rating agencies downgraded municipal bond insurers due to ongoing concerns about their exposure to subprime mortgages, collateralized debt obligations, and other financial instruments.

- Assured Guaranty represented the only major player in the new issue bond insurance market since 2009 until Build America Mutual (BAM) entered the market in 2012. In 2016, Assured accounted for 55%+ of insured par and BAM followed with 40%+ of insured par.

- National Public Finance Guarantee (NPFG) re-engaged with the new issue market in recent years with market share of about 3% in 2016.

Bond Insurer Ratings Grid

As of 05/30/2017

RATING ISSUED BY	Assured Guaranty (acquired Radian, CIFG)	AGM (formerly FSA)	MAC	BAM	NPFG (formerly MBIA) (FGIC novation)
Moodys	A3	A2	-	-	A3
S&P	AA	AA	AA	AA	AA-
Fitch	WD	WD	-	-	WD
Kroll	AA	AA+	AA+	-	AA+
Moodys	STABLE	STABLE	-	-	NEG
S&P	STABLE	STABLE	STABLE	STABLE	STABLE
Fitch	-	-	-	-	-
Kroll	STABLE	STABLE	STABLE	-	STABLE

CREDIT ENHANCEMENT: INVESTOR PERCEPTIONS

- Today, bond insurance typically provides the most benefit to issuers in the mid-A category and below.
- The insurance benefit represents the estimated yield reduction that investors are willing to accept in today's market relative to purchasing an uninsured bond of the same credit rating.

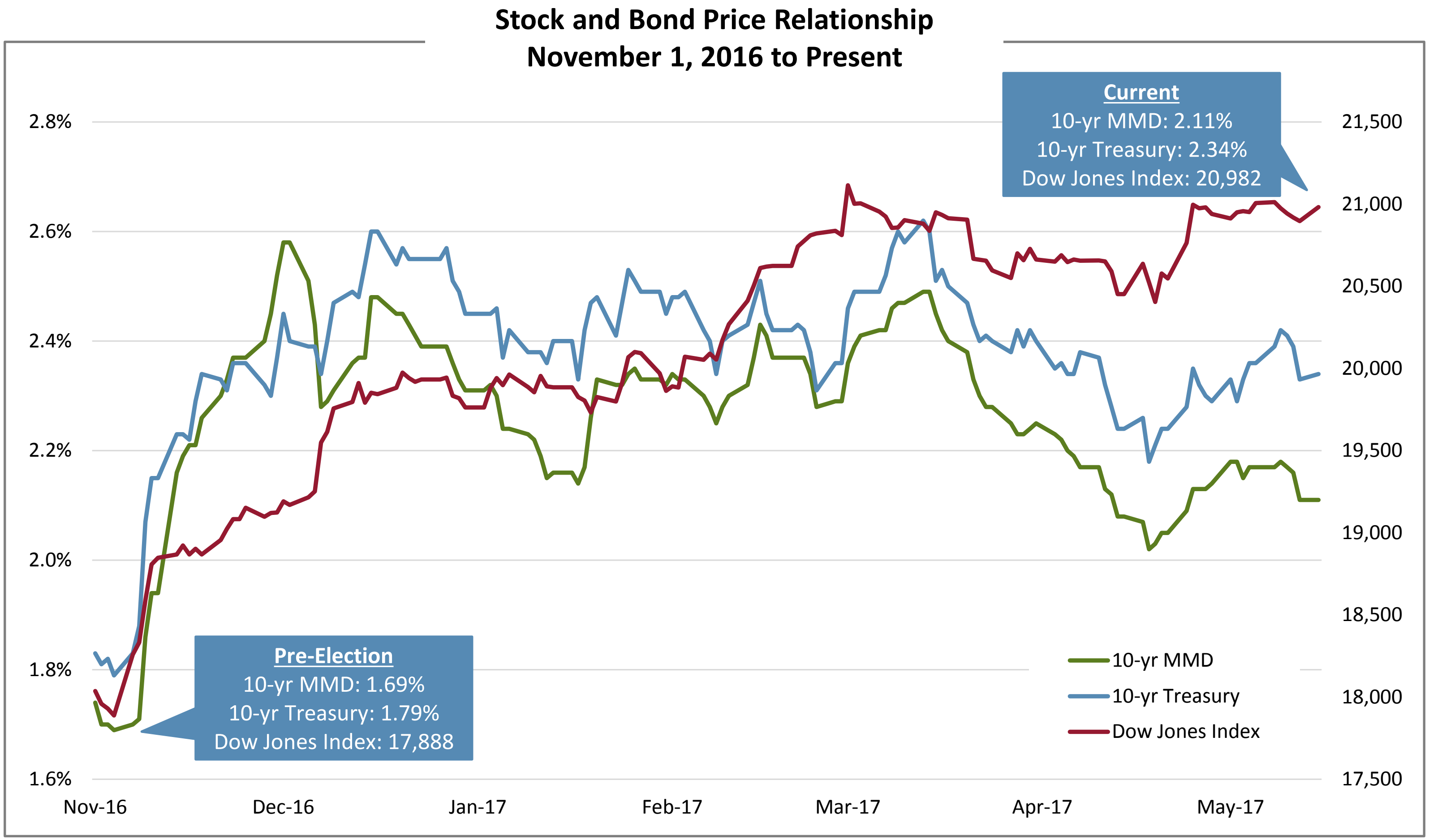
Insurance Benefit by Rating Category

Credit Rating	Insurance Benefit
Aa2/ AA	No Benefit
Aa3/ AA-	0 - 3 bps
A1/ A+	5 - 10 bps
A2/ A	7 - 12 bps
A3/ A-	10 - 15 bps
Baa/ BBB Category	15 - 30 bps

SECTION III

Future Challenges and Opportunities in the Post-Election Market

POST-ELECTION MARKET: EQUITY AND DEBT MARKETS



Source: Thomson Reuters, Federal Reserve Bank of St. Louis Economic Data

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POST-ELECTION MARKET: KEY MARKET DRIVERS

POST-ELECTION MARKET: CHALLENGES

Challenges
Volatility - Market participants are highly sensitive and reactive to economic releases, political uncertainty and global headlines, leading to market volatility
Limited Refunding Opportunities - the vast majority of municipal bonds issued between 2005-2007 were refunded in the last few years
Legal/ Regulatory Requirements - New or enhanced legal and regulatory requirements related to bond underwritings may lead to additional risks, costs and/or time
Trump Policies - Final provisions and timing of new policies and tax reform under the Trump administration may impact state and local government budgets and/or the reduce the value of tax-exemption for investors

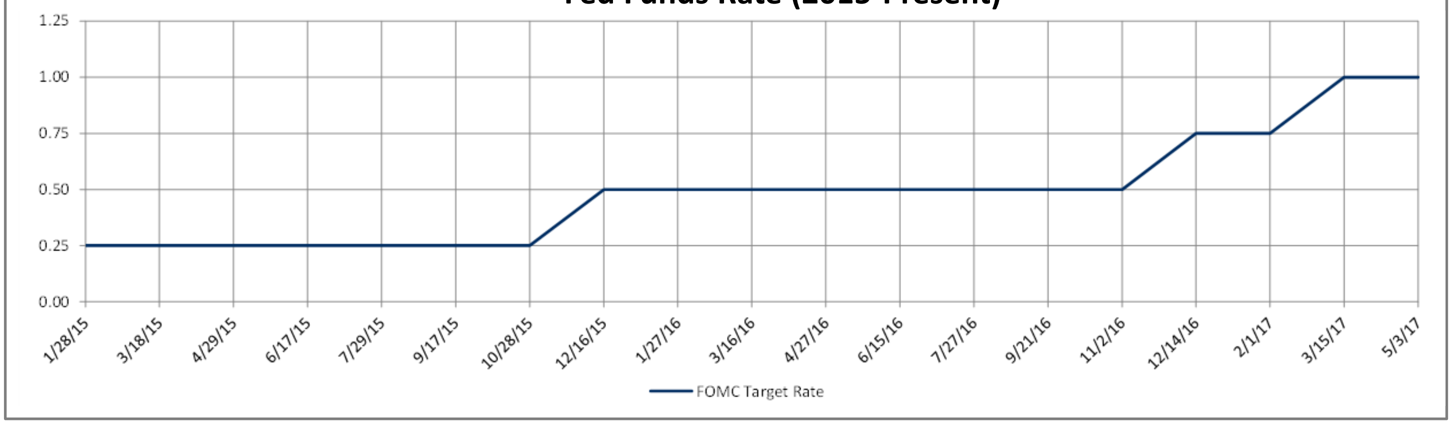
POST-ELECTION MARKET: OPPORTUNITIES

Opportunities
Traditional Refundings – Look for refunding opportunities as interest rates remain near historical lows a flatter yield curve allows for a more efficient refunding escrow
Taxable Refundings – Consider a taxable refunding of certain bonds not eligible for a traditional tax-exempt refunding to lock-in savings and avoid future interest rate risk
New Money - Supply/ demand imbalance and economic recovery represents a favorable environment to fund new capital projects that may have been deferred
Trump Policies - Final provisions and timing of new policies under the Trump administration may allow for beneficial programs and funding options for state and local government projects

FUTURE EXPECTATIONS: FED FUNDS TARGET RATE PROJECTIONS

FOMC Target Rate Projections							
Rate Increase Target Rate	Current Rate 0.75-1.00%	+ 25bps 1.00-1.25%	+ 50bps 1.25-1.50%	+ 75bps 1.50-1.75%	+ 100bps 1.75-2.00%	+ 125bps 2.00-2.25%	+ 150bps 2.25-2.50%
6/14/2017	0.0%	13.7%	**86.3%**	0.0%	0.0%	0.0%	0.0%
7/26/2017	0.0%	13.5%	85.1%	1.5%	0.0%	0.0%	0.0%
9/20/2017	0.0%	8.9%	60.6%	30.0%	0.5%	0.0%	0.0%
11/1/2017	0.0%	8.8%	60.2%	30.2%	0.7%	0.0%	0.0%
12/13/2017	0.0%	6.9%	49.1%	36.7%	7.1%	0.2%	0.0%
1/31/2018	0.0%	6.9%	48.8%	36.8%	7.3%	0.2%	0.0%
3/21/2018	0.0%	5.1%	37.8%	39.9%	15.0%	2.1%	0.1%
5/2/2018	0.0%	5.0%	37.6%	39.9%	15.2%	2.2%	0.1%
6/13/2018	0.0%	3.4%	27.1%	39.2%	23.1%	6.4%	0.7%
8/1/2018	0.0%	3.3%	26.5%	38.8%	23.6%	6.8%	0.9%

Fed Funds Rate (2015-Present)



Source: Bloomberg as of May 25, 2017

FUTURE EXPECTATIONS: INTEREST RATES AND ECONOMIC INDICATORS

Bloomberg Consensus

US Treasury	Current Rate	2017			2018			Change from Current Rate to 2018 Q3
		Q2	Q3	Q4	Q1	Q2	Q3	
2 Year	1.28%	1.39%	1.58%	1.74%	1.92%	2.09%	2.30%	1.02%
Economists Surveyed		52	52	52	51	48	43	
10 Year	2.25%	2.44%	2.64%	2.77%	2.87%	2.96%	3.09%	0.84%
Economists Surveyed		58	58	58	57	53	48	
30 Year	2.91%	3.09%	3.21%	3.32%	3.41%	3.52%	3.67%	0.76%
Economists Surveyed		43	43	43	43	41	38	

Economic Indicators	Current Rate	2017			2018			Change from Current Rate to 2018 Q3
		Q2	Q3	Q4	Q1	Q2	Q3	
Real GDP	0.70%	3.00%	2.40%	2.30%	2.20%	2.40%	2.20%	1.50%
Consumer Price Index	2.53%	2.30%	2.40%	2.30%	2.20%	2.40%	2.40%	-0.13%
Unemployment	4.67%	4.50%	4.40%	4.40%	4.40%	4.30%	4.30%	-0.37%
Fed Funds Target	1.00%	1.20%	1.40%	1.50%	1.70%	1.85%	2.05%	1.05%
3-month LIBOR	1.19%	1.31%	1.52%	1.65%	1.82%	2.04%	2.21%	1.02%

Source: Bloomberg as of May 22, 2017

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