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Bond Market Review | May 7, 2018

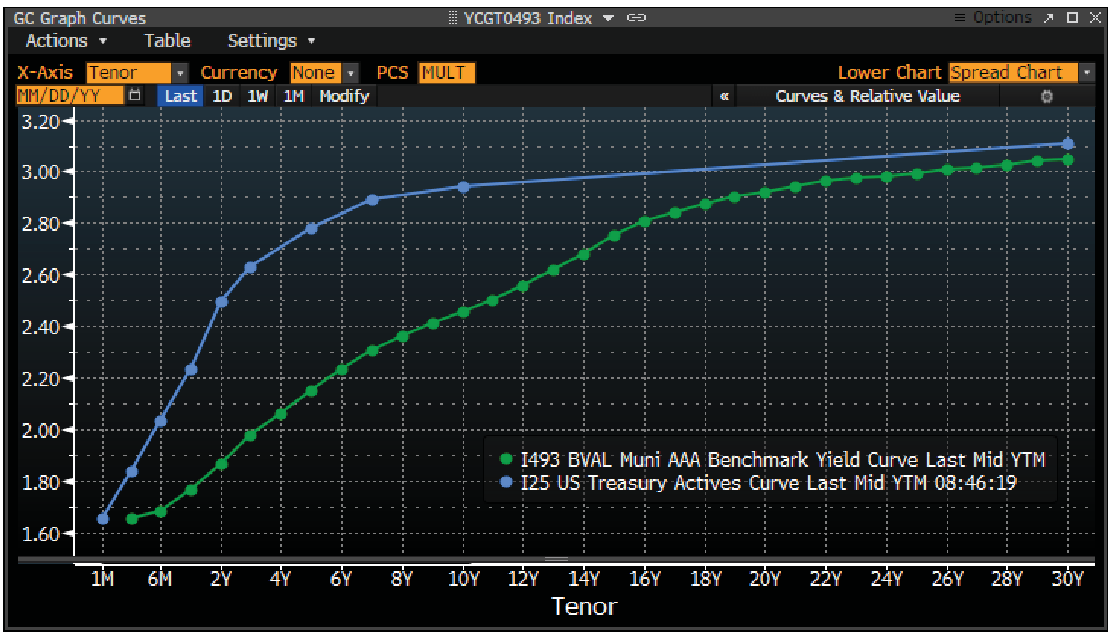
Municipal Bonds Rally Despite Treasury Weakness

- The municipal market rallied strongly last week in a bull flattening fashion. Uncertainty about global issues (China trade/North Korea, etc.) and a weaker jobs report led to strength in addition to many investors believing a 3% yield in the 10 year Treasury is a buying opportunity. Relative value ratios near 100% for long-term municipals appeared to attract investors off the sidelines as they had been sitting on cash throughout tax season.

- Connecticut's Office of Policy and Management and the Office of Fiscal Analysis showed that a spike in tax revenues on mostly one-time factors related to tax reform is expected to bring in $1.3 billion more revenue than estimated at the state of FY18. Due to legislation passed last year, nearly all of this amount must be deposited into the budget reserve fund bringing it to an estimated $1.5 billion. The state is expected to close FY18 with a $380 million budget deficit, so some of these funds will be tapped immediately to cover the deficit. Still, on a net basis, the state is expected to end the fiscal year with its highest general fund balance since the financial crisis.

- Detroit exited state fiscal oversight last Monday after posting three consecutive annual operating surpluses. Michigan's Financial Review Commission voted unanimously on the measure after placing the city under state oversight in 2012.

Municipal vs. Treasury Yield Curve



Source: Bloomberg