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## **Neighborly Insights: Flattening Treasury Curve and Tax Reform Concerns Outweigh Temporary Spike in Muni Supply.**

According to Bond Buyer data, muni new-issue supply in the upcoming week is expected to reach nearly \$12 billion, as a number of issuers rush deals to market to avoid potential deadlines in House and Senate Tax Cut Bills, which would eliminate both advanced refundings and Private Activity Bonds (PABs) on the House side, but potentially preserve PABs on the Senate side. What the outcome will be after a) a Senate vote and b) some form of Senate/House negotiations, if we get that far, remains uncertain. Nevertheless, some issuers are in a hurry to get their deals done before a potential 12/31/17 deadline, just in case prohibitions of advance refundings and PABs actually make it to a final law. Such a law could be signed after 12/31, but with a year-end effective date.

So, we expect issuance in vulnerable sectors to remain heavy right through year-end, unless it becomes clear that the Tax Cut bill in the Senate is foundering — a distinct possibility. Of the 26 major negotiated deals this week, 20 are revenue-based issues. Many have noted that generic revenue bonds have outperformed high-grade GOs by 50 basis points. Additional concession can be expected in the sector with the influx of supply and should offer interesting yield options (5 year 2%, 15 year 3%). The 5-year AAA has moved 20 basis points higher, while intermediate yields are nominally higher and 20 year-plus yields have seen a modest rally. Short munis are looking the most attractive to short U.S. Treasuries in nearly a year.

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