

# **Bond Case Briefs**

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## **How Tax Reform Hurt Municipals in Q1.**

Municipal bond performance in the first quarter of the year was clearly hurt by tax reform, according to Peter Hayes, head of BlackRock's municipal bond group.

Speaking Wednesday at a fixed-income roundtable event for reporters, he said that the muni market reacted too early and too strongly when it came to the new tax legislation.

"That totally took out the seasonal aspect of munis," he said, "We are now down roughly 30% in terms of volume and the net negative return we saw this first quarter was the worst it's been since 1996."

Hayes added that demand continues to be very strong and so far, there has been little change from retail investors due to tax reform, though the market was still going through a discovery period.

"The market is trying to settle in between the new tax rates," he said. "There is still a lot of value in municipals but the market is holding back right now."

Hayes said it is still too early to tell how the tax changes are affecting holdings of banks and casualty and insurance companies, but that the asset class looks attractive despite the rising interest rate environment.

"There is plenty of income to be had in this market and it does do well when rates rise, but curve positioning will be very important," he said.

### **Secondary market**

Municipal prices ended mostly flat on Wednesday after equities rebounded from earlier in the day and the market priced the \$3.2 billion New Jersey tobacco deal, which was oversubscribed, according to a New York trader.

"It was extremely attractive," he said of the tobacco deal, which was priced with a 5% coupon in 2046 to yield 4.90%.

"The market opened up a little stronger following equities, and the deals today seemed to go OK," he said. "Equities are back in the green and as equities caught a bid, we got a little cheaper."

The New York Municipal Water Finance Authority deal also caught some attention from investors, but "all of the focus was on the New Jersey tobacco deal, which was like 10 times oversubscribed," the trader estimated.

The trader expected the market to stay steady heading toward week's end, but said upcoming economic reports could put activity on hold.

"You've got a fairly well-focused employment number on Friday, so I think it will start to get quiet [on Thursday] as everyone waits for that number," he said.

## Primary market

Jefferies priced and repriced the New Jersey Tobacco Settlement Financing Corp.'s Series 2018A senior and Series 2018B subordinate tobacco settlement bonds for institutions after holding a one-day retail order period.

Siebert Cisneros Shank priced and repriced the New York City Municipal Water Finance Authority's \$426.14 million of Fiscal 2018 Series EE water and sewer system second resolution revenue bonds for institutions after holding a one-day retail order period.

SCSCO also priced the Bexar County Hospital District, Texas' \$242.02 million of Series 2018 certificates of obligation.

Citigroup priced and repriced the San Diego County Regional Transportation Commission's \$537.48 million of Series 2018A subordinate sales tax revenue short-term notes.

In the competitive arena on Wednesday, Howard County, Md., sold \$129.89 million of Series 2018A consolidated public improvement project tax-exempt bonds.

Citigroup won the bonds with a true interest cost of 3.0611%.

Since 2008, the county has sold about \$2.45 billion of bonds with the most issuance in that time occurring in 2017 when it sold \$644.6 million of debt. The county sold the least amount of bonds in that period in 2012 when it offered only \$57.3 million of securities.

Late Tuesday, the Board of Trustees of the University of Illinois announced it was postponing Wednesday's sale of Series 2018A and 2018B auxiliary facilities system revenue bonds while it "considers a change in accounting principles brought about by the adoption of GASB Statement 75. In recent days, the university learned that its interpretation of GASB 75, affecting fiscal year 2018 reporting and forward, varied from that of the State of Illinois Comptroller's Office. After the board has reviewed, analyzed and adopted any required changes in accounting principles, it intends to resume the sale of the bonds."

## The Bond Buyer

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