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U.S. Trade Policy Fears and the Specter of Stalled Growth Drive Market Volatility.

Interest Rate Volatility

Once again bond traders participated in a volatile interest rate environment week. U.S. 10 year interest rates bounced from 2.92 to approach 3.00% by mid week and then returned back to 2.92% by the close of trading today. The volatility this week was driven by policy fears, specifically that trade tension with US trading partners could stall the pace of economic growth.

Strong Demand for California Debt

Municipal New Issue Supply was twice the YTD weekly average ($4.9bn) with approximately $10 billion coming to market this week.

California debt continues to have the strongest demand and California Municipal bonds continue to perform well, exemplified by the reception for $1.1 billion California Municipal Finance Authority AMT deal. The purpose of the deal is to design, construct, finance and maintain a 2.25 mile elevated people mover system at LAX.

In addition, the borrowing rate in California is decreasing. AAA rated City of San Francisco bonds came to market in the 5 year part of the curve at 26 basis points through AAA National Benchmark. Just a month later, AA+ Southern California Metro Water came to market with a new issue on Tuesday June 5th at 28 basis points through benchmark rates.

Election Results

On the policy front, the California voters approved a $4.1 billion state bond measure in Tuesday's primary election. Neighborly is most excited about Prop 68 authorizing $4 billion in general obligation bonds for state and local parks, environmental protection and restoration projects, water infrastructure projects, and flood protection projects. The measure requires that between 15% and 20% of the bond funds be dedicated to projects in communities with median household incomes less than 60% of the statewide average. The largest amount of bond revenue, $725 million, was earmarked for neighborhood parks in park-poor neighborhoods.

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Neighborly Insights

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