

**Municipal Market Commentary****Jan 2019****Key Features this Month****Renewal of PABs?****SALT****MSRB on Bid Wanted****Municipal Market Overview**

During the month of January 2019, 30-year Treasury interest rates declined by 2 basis points to 3.00% and 30-year MMD rates remained unchanged. Long-term new issue supply was \$22.3 billion for January, up about 3.9% from last January. Long-term municipal bond mutual funds have seen inflows since early January, averaging \$1.5 billion per week over the past six weeks.

Renewal of PABs?

A bipartisan bill to expand the use of tax-exempt private activity bonds (PABs) and establish an infrastructure tax credit, the Move America Act, was introduced in Congress by Republican Senator John Hoeven and Democratic Senator Ron Wyden. They introduced this bill in 2017 and 2015 as well. The bill would leverage \$8 billion of federal investment into \$226 billion of bonding authority over 10 years or up to \$56 billion in tax credits over 10 years for infrastructure projects. The State of the Union Address had very little detail on infrastructure, it being mentioned only in passing. Perhaps once the focus on wall construction passes, the administration may shift focus to infrastructure, one area where there is bipartisan support.

SALT

The effects of the cap on SALT (state and local tax) deductions is starting to show its effects on high tax states. NY Governor Cuomo said that NY's personal income tax receipts in December and January were \$2 billion to \$3 billion below forecasts, which he believes was driven by the capping of SALT deductions as many wealthy residents are relocating. The full impact of this tax law change is not yet apparent as many residents have not yet filed their taxes so they do not know what impact it has on them. The impact needs to be known before decisions can be made on how to deal with the changes. Tax refunds are also reported to be lower than expected for many people, although changes in withholding could partly explain this. It is possible that ratings may be affected over time if the improving economy does not overcome the negative impact of this tax law change on high tax state finances.

MSRB and Bid Wanted

The Municipal Securities Rulemaking Board (MSRB) has clarified that dealers don't have to post bid-wanted on multiple alternative trading systems to meet Rule G-18's best execution requirements to use "reasonable diligence" to identify the best market for the securities. There was an adverse effect of posting bid-wanted on multiple systems. It made the market seem bigger than it really was and a lower percentage of bid-wanted would be sold, reducing the incentive for bidders to bid. The MSRB believes here may have been "bidder fatigue" from too many bid-wanted.

The Fed made the pause in its increases of the Federal Funds rate clearer, but one or more rate increases are still possible in 2019. With the 10-year part of the yield curve relatively rich and the long-end relatively cheaper, we shifted our average maturity out to about 16.2 years to maturity and increased our duration to about 5.9 years.

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