Treasuries sold off modestly on expectations of the renewed hopes of China trade talks resumption. Economic data were mixed – manufacturing was poor and labor was good. Muni curve relative value curve steepens.

**Bottom Line:**
- Treasury yields moved higher and the curve steepened on hopes of renewed Chinese trade talks.
- Muni funds completed the 35th consecutive week of net inflows.
- Wisconsin’s credit review by Moody’s highlights the sensitivity to lagging national manufacturing environment and low revenue growth potential.
- Not-for-Profit healthcare medians highlight some stability.
- S&P Puerto Rico Total Return Index was +0.2% last week (+14.3% YTD).

**What Happened in the Bond Markets Last Week?**
- Treasuries rose off recent lows. For the bulk of the week, yields had been range-bound until Thursday when some renewed optimism of a Chinese trade talk resumption lifted risk-taking attitudes. Economic data highlighted the bifurcation of manufacturing (with weak ISM Manufacturing – in contractionary territory and lowest level since 2016) and still resilient labor data (jobs and workweek data hung in there) with a sprinkling of weak consumer sentiment (Univ. of Michigan Sentiment at lowest level since 2016). Of course Brexit dynamics churn in the background with complete uncertainty. The ECB Meeting this week will be viewed with heightened importance by global markets.
- Municipal bonds’ yields lifted slightly.

**Yields (Figure 1):**
- During the past week, Treasury yields were broadly higher; 2-year Treasury Note yields +6.4 bps to 1.57%, 5-year Notes yields +7.4 bps at 1.46%, 10-year Notes yields +9.5 bps to 1.59% and 30-year bonds yields +10.1 bps at 2.07%.
- Bloomberg Municipal Index curve yields were higher; AAA-rated GO yields 2-year bonds +3bps to 1.0%, 5-year bonds +3 bps at 1.04%, 10-year bond yields +5 bps to 1.31% and 30-year bonds were +4 bps to 2.01%.
- The 10yr AAA GO Ratio ended at 84.4.
One can observe these changes by looking at how rates have changed along the curve for both the Treasury curve and for the AAA-rated G.O. Index since last week. The top panel shows four yield curves; two for the Treasury curve - one for the most current date and one from last week and two for the AAA-rated G.O. - current and last week. The bottom panel of the graph shows changes in the rates along both curves for the week for both Treasuries and the AAA G.O. Index.
Supply (Figure 3) – Bloomberg 30-Day Visible Supply currently stands at $16.5 billion up from $12.8 billion this time last week. The YTD average visible supply is $10.0 billion and the 12-mo average is $9.6 billion.
Articles of Interest

**Muni Fund Flows:** According to Refinitiv Lipper muni funds had a 35th consecutive week of net inflows. Net inflows amounted to $820.1 million of net inflows. The four-week moving average is $1.4 billion. Both ETFs and high-yield funds experienced net inflows.

![Lipper: Muni funds see inflows for 35th straight week](image)

**Wisconsin’s Local Governments (Moody’s):** Moody’s issued a Sector In-Depth report on Wisconsin’s credit profile. The highlights from the report include: 1) economic growth in terms of employment, GDP and population in WI lags that of the nation and will constrain local revenue growth resulting in tight expenditure controls to maintain credit quality (lower cost of living offsets modest income levels) 2) WI, being a manufacturing-centric economy has slowed its expansion but its low population growth and an aging work force is restraining expansion, 3) Madison, with its diverse economy of higher value-added industries will experience the strongest growth.

**Not-for-Profit Healthcare – (Moody’s):** In a Sector Profile report Moody’s updates the Not-for-profit and public healthcare credit medians. The highlights of the report include 1) the median revenue growth (at 5.5%) exceeded the median expense growth rate (5.4%) for the first time in three years although revenue growth remains challenging in the face of weak inpatient growth and reimbursement difficulties, 2) margins are steady but well-below past levels, 3) median days cash on hand fell slightly (to 200.9 days) with the result that hospitals have reduced capital spending, 4) leverage is constant and 5) inpatient admissions growth declined (for a third year)trails outpatient growth.

**Puerto Rico**
- The **S&P Municipal Bond Puerto Rico Index** finished at 203.9 vs. 203.4 at the end of the previous week, +0.2% (+14.3% YTD).
Relative Value by Maturity

Table 1 - AAA Muni Ratios and Spreads by Maturity - Data Source: Bloomberg

<table>
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<tr>
<th>Maturity (yrs)</th>
<th>Yield-to-worst (%)</th>
<th>0% Tax Rate</th>
<th>35% Tax Equivalent</th>
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<td></td>
<td>AAA Gen. Oblig.</td>
<td>Treasury</td>
<td>Spread (bps)</td>
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<tr>
<td>1</td>
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</table>
Figure 4 – AAA General Obligation Ratios and Spreads – Data Source: Bloomberg

Relative Value by Rating

Figure 5 – Muni Index Yield Curve by Credit Rating – Data Source: Bloomberg

For more information please contact your Financial Advisor.
Appendix – Important Disclosures

Some of the potential risks associated with fixed income investments include call risk, reinvestment risk, default risk and inflation risk. Additionally, it is important that an investor is familiar with the inverse relationship between a bond’s price and its yield. Bond prices will fall as interest rates rise and vice versa.

When considering a potential investment, investors should compare the credit qualities of available bond issues before they invest. The two most recognized rating agencies that assign credit ratings to bond issuers are Moody's Investors Service (“Moody’s”) and Standard & Poor's Corporation (“S&P”). Moody's lowest investment-grade rating for a bond is Baa3 and S&P's lowest investment-grade rating for a bond is BBB-. Ratings are measured on a scale that ranges from AAA or Aaa (highest) to D or C (lowest).

The Bond Buyer 20-Bond Index consists of 20 general obligation bonds that mature in 20 years. The average rating of the 20 bonds is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp.'s AA. The Bond Buyer 11-Bond Index uses a select group of 11 bonds in the 20-Bond Index. The average rating of the 11 bonds is roughly equivalent to Moody's Aa1 and S&P's AA-plus. The Bond Buyer Revenue Bond Index consists of 25 various revenue bonds that mature in 30 years. The average rating is roughly equivalent to Moody's A1 and S&P's A-plus. The indexes represent theoretical yields rather than actual price or yield quotations. Municipal bond traders are asked to estimate what a current-coupon bond for each issuer in the indexes would yield if the bond was sold at par value. The indexes are simple averages of the average estimated yields of the bonds, are unmanaged and a direct investment cannot be made in them.

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