

PIMCO Weekly Municipal Update

Market Monitor

Global Rates	Current (Yield)	WTD Change	YTD Change	IG Corporates	Current (OAS)	WTD Return	YTD Return	ILBs	Current (Yield)	WTD Change	YTD Change
US 10Yr	2.55	0.07	0.14	BBG Barclays US Agg Credit	86	0.0%	-0.4%	US TIPS 10Yr	0.52	0.08	0.10
Currencies	Current (Index)	WTD Change	YTD Change	High Yield	Current (OAS)	WTD Return	YTD Return	Commodities	Current (Index)	WTD Change	YTD Change
Dollar Index Spot	91	-1.1%	-1.2%	BofAML US HY	337	-0.1%	0.7%	Bloomberg Commodity Index	181	1.0%	0.7%
EM External	Current (Spread)	WTD Change	YTD Change	Bank Loans	Current (YTM)	WTD Return	YTD Return	DM Equities	Current (Index)	WTD Change	YTD Change
EMBI Global	300	-0.3%	0.1%	JPM Leveraged Loan	6.4	0.2%	0.4%	MSCI World	2185	1.3%	3.9%
EM Local	Current (Yield)	WTD Change	YTD Change	Municipals	Current (YTW)	WTD Return	YTD Return	EM Equities	Current (Index)	WTD Change	YTD Change
GBI-EM Global Div.	6.1	0.7%	2.5%	BBG Barclays Muni Index	2.4	-0.4%	-0.5%	MSCI EM	1208	0.6%	4.3%
Agency Mortgages	Current (OAS)*	WTD Change	YTD Change					US Equities	Current (Index)	WTD Change	YTD Change
BBG Barclays US MBS	23	-0.2%	-0.4%					S&P 500	2786	1.6%	4.3%

* Barclays Fixed Rate OAS

Municipal Bond Update

- Municipal rates rose across the curve, continuing 2018's trend so far. Muni-to-Treasury ratios moved higher as municipals underperformed. The month of January is typically favorable for the muni market given lower overall supply levels and an influx of cash flow from coupon reinvestment, although higher interest rates have pressured overall returns so far this year.
- EPFR reported \$496mm of inflows to muni funds for the week ending 1/10. Short Term funds indicated outflows of \$440mm, Intermediate funds indicated inflows of \$214mm, while Long Term funds experienced inflows of \$199mm. High Yield muni funds indicated inflows of \$349mm.
- Issuance for this week ahead is again expected to be light, with \$3.5 billion expected to price. The largest planned deal is Chicago's \$795mm Sales Tax Securitization, although towards the beginning of the week it looked like this might be delayed. Thirty-day visible supply currently totals \$6.5 billion, below the average of \$11.8 billion.
- *Muni Focus:* The municipal market is still assessing the overall impact of the final tax reform bill, but several aspects of the bill should be favorable for the market. Municipal supply is likely to fall as a result of the legislation, as municipal issuers are prohibited from advance refunding their debt in the tax-exempt market. Advance refundings typically make up 15-20% of annual supply. Demand should also be supported, particularly in high tax states, where limited state and local tax deductions may lead to higher overall rates for many.

Municipal Yields and Ratios

Maturity	AA MMD Yield (%)			Muni Market Ratios
	1/12/2018	1/5/2018	Change	AA MMD/UST (%) on 1/12
5yr	1.80%	1.75%	+5 bps	77%
10yr	2.33%	2.20%	+13 bps	91%
30yr	2.93%	2.78%	+15 bps	103%

Source: Thomson Reuters; MMD – Municipal Market Data. AA MMD Yield refers to the Thomson Reuters Municipal Market Data yield for AA rated municipal bonds. UST is the yield on a comparable maturity US Treasury.

The term “tax-exempt” municipal referred to herein refers to municipal bond federal tax-exempt income. Income from **municipal bonds** may be subject to state and local taxes and at times the alternative minimum tax.

Past performance is not a guarantee or a reliable indicator of future results. Investing in the **bond market** is subject to risks, including market, interest rate, issuer, credit, inflation risk, and liquidity risk. The value of most bonds and bond strategies are impacted by changes in interest rates. Bonds and bond strategies with longer durations tend to be more sensitive and volatile than those with shorter durations; bond prices generally fall as interest rates rise, and the current low interest rate environment increases this risk. Current reductions in bond counterparty capacity may contribute to decreased market liquidity and increased price volatility. Bond investments may be worth more or less than the original cost when redeemed. **All investments** contain risk and may lose value.

The credit quality of a particular security or group of securities does not ensure the stability or safety of an overall portfolio. The quality ratings of individual issues/issuers are provided to indicate the credit-worthiness of such issues/issuer and generally range from AAA, Aaa, or AAA (highest) to D, C, or D (lowest) for S&P, Moody’s, and Fitch respectively. The Barclays Municipal Bond Index consists of a broad selection of investment-grade general obligation and revenue bonds of maturities ranging from one year to 30 years. It is an unmanaged index representative of the tax-exempt bond market. The index is made up of all investment-grade municipal bonds issued after 12/31/90 having a remaining maturity of at least one year. It is not possible to invest directly in an unmanaged index. General obligation bond (GO).

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