

Healthcare Finance

Newsletter | August 2019

Economic Highlights

- The trade war rolls on. Amidst on-again, off-again U.S.-China tariff spats and the resultant spikes in market volatility, investors have to digest a new Fed monetary policy outlook and reduced global growth prospects. While the domestic economy savors the tenth year of this epic expansion, it's the headwinds abroad that remain the most imminent detractors.
- The advance release of second quarter U.S. gross domestic product (GDP) indicated the U.S. economy grew at 2.1%, trailing the 3.1% growth from the prior quarter, but outpacing consensus expectations of 1.8%. Growth was propelled by a jump in personal consumption to 4.3%, an increase from the prior quarter of 1.1% and the largest quarterly consumption figure since December 2017. On the downside, fixed investment posted its first negative contribution to GDP since the fourth quarter of 2015, a development worth monitoring as sustained periods of negative fixed investment typically precede economic downturns.
- At the long-awaited July 2019 Fed meeting, the committee (as widely anticipated) cut the overnight fed funds target rate by 25 basis points (bps) to a new range of 2.00% to 2.25%. This marked the first Fed rate cut since December 2008. Fed Chair Jerome Powell had set the stage for preemptive monetary policy to stoke growth and noted the cut was "in light of the implications of global developments for the economic outlook as well as muted inflation pressures." Despite the cut, the balance of the Fed's post-meeting commentary leaned hawkish, led by the dissenting votes of two Fed members (preferring no change).
- Inflation remains muted. The Consumer Price Index (CPI) indicates inflation near 2%, but the Fed's preferred gauge, the Personal Consumption Expenditure (PCE) Index, grew at 1.6% over the year through June, notably below the 2% target. Inflation remains the focus of future Fed policy. Stay tuned.
- The U.S. labor market is a tailwind to the economy. The July jobs report indicated the economy generated 164,000 jobs, in line with expectations of 165,000. The unemployment rate remained unchanged at 3.7%, near the 50-year low, and the labor force participation rate ticked higher to 63.0%.

Bond Markets

- After months of yield declines across all maturities, yields on intermediate maturities (one-10 years) rose modestly while yields of long and very short maturities declined.

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- As a result, intermediate-term Treasury indices generated negative total returns for the month, while very short- and longer-term indices were positive. For example, the 3-month and 30-year constant maturity U.S. Treasury Index returned 0.18% and 0.21%, respectively. Meanwhile, the 2-year, 5-year, and 10-year indexes generated total returns of -0.14%, -0.26%, and -0.01%, respectively, for the month.
- The trend of lower yields resumed in early August with Treasury rates rallying significantly and more than offsetting the increases in July.
- Spread sectors (including investment-grade credit, AAA-rated asset-backed securities, and mortgage-related sectors) generated positive excess returns (that is, returns higher than those of comparable Treasuries) for the month, benefiting well-diversified portfolios.

Municipal Bond Market

- Municipal new issuance increased in July by 0.8% to \$28.2 billion from \$28.0 billion the same month last year. Year-to-date municipal new issuance is up 3.1% to \$199.7 billion for 2019 from \$193.7 billion during the same period last year, according to Municipal Market Monitor (TM3) data.
- July experienced positive bond flows throughout the month and ended with net inflows totaling \$10.49 billion, following June's net inflows of \$6.99 billion, according to Investment Company Institute (ICI) data.
- The Municipal Market Data (MMD) Index saw declining rates across the yield curve in July. The 1-year rate dropped 17 bps to 1.07%, while the 3-year rate dropped 18 bps to 1.08%. The 5-year rate declined 20 bps to 1.11%, while the 10-year rate decreased 11 bps to 1.52%. On the long end, the 30-year rate dropped 7 bps to 2.24%, according to TM3 data.
- The 10-year MMD Single-A General Obligation (GO) Index credit spread decreased by 2 bps to 31 bps and the Double-A GO Index credit spread remained unchanged at 12 bps, according to TM3 data.
- In July, Municipal-to-Treasury ratios experienced declining rates across the yield curve. The 2-year ratio decreased to 56.4% from 71.8% in June, and the 5-year ratio fell to 60.0% from 74.4%. The intermediate-term ratio dropped to 66.3% from 75.9% and the 10-year ratio decreased to 75.2% from 81.5%. The 30-year ratio dropped to 88.7% from 91.3%, according to TM3 data.

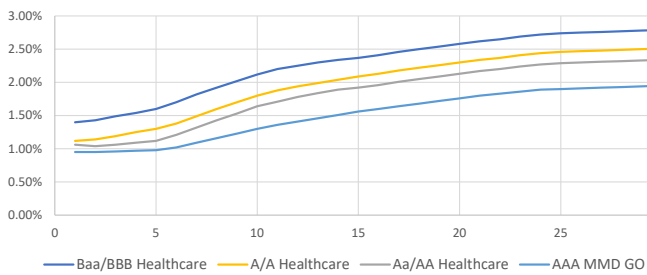


FIXED-RATE MARKET			
Maturity	AAA MMD	US Treasury	Muni Swap Rate
5-Year	0.98%	1.57%	1.02%
10-year	1.09%	1.62%	1.07%
20-year	1.30%	1.68%	1.16%
30-year	1.95%	2.15%	1.44%

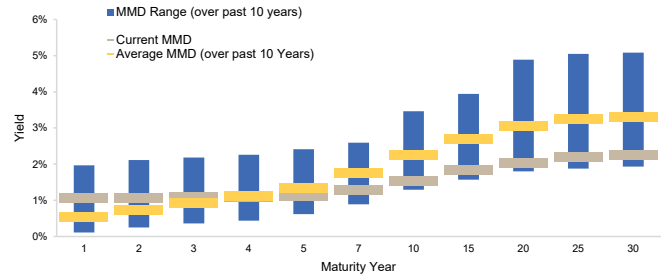
VARIABLE RATE MARKET		
Maturity	Current	1-Month Change
SIFMA Index	1.18%	-14 bps
1-Month LIBOR	2.19%	-14 bps
3-Month LIBOR	2.18%	-15 bps
SOFR	2.36%	24 bps

HEALTHCARE 30Y SPREADS	
Category	Spread to MMD
AAA Level	21 bps
AA Level	39 bps
A Level	56 bps
BBB Level	84 bps

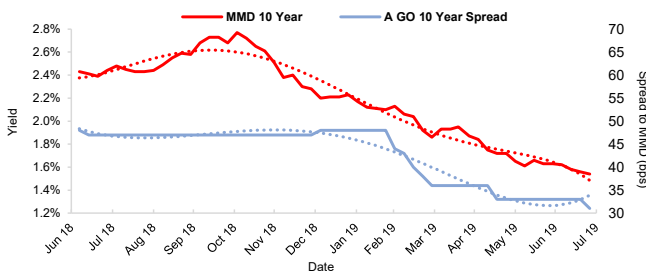
Healthcare Yield Curve



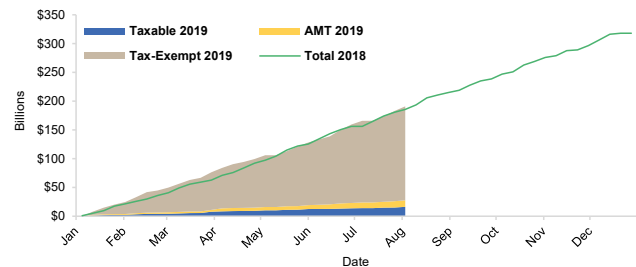
MMD Rates Over Time



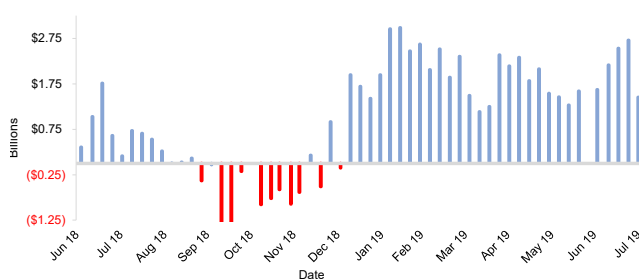
Rate and Spread Movement



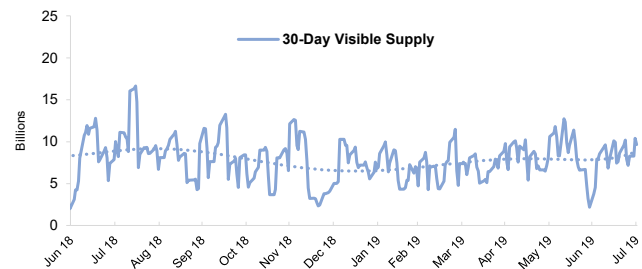
2019 Cumulative Issuance



Weekly Mutual Fund Inflows (Outflows)



30-Day Visible Municipal Supply





Mergers and Acquisitions

- Kootenai Health to acquire two critical access hospitals from Essentia Health (*Idaho Business Review, August 9, 2019*).
- Appalachian Regional Healthcare acquired Highlands Regional Medical Center, its 13th hospital (*WYMT, July 30, 2019*).
- Banner Health plans to acquire North Colorado Medical Center (*The Coloradoan, July 30, 2019*).
- Pennsylvania-based Butler Health System and Clarion Healthcare System have signed a definitive agreement to merge (*Pittsburgh Post-Gazette, July 30, 2019*).
- Adventist HealthCare and Howard University Hospital have signed a letter of intent to explore a partnership agreement (*Howard.edu, July 29, 2019*).

SELECTED HEALTHCARE ISSUANCES								
Borrower	Tax Status	Par Amount	Ratings	Dated Date	Final Maturity	Coupon	Spread	Senior Manager
Lake Charles Memorial Hospital	Tax-Exempt	\$104,935	NR/BB+/NR	7/24/2019	2039	5.00%	116 bps	JP Morgan
City of Hope	Tax-Exempt	\$334,905	A1/A+/NR	7/23/2019	2049	5.00%	26 bps	JP Morgan
Central Maine Medical Center	Tax-Exempt	\$54,640	A1/NR/AA	7/18/2019	2039	3.00%	n/a	Wells Fargo
Adventhealth	Tax-Exempt	\$359,440	Aa2/AA/AA	7/18/2019	2046	3.00%	n/a	JP Morgan
Children Healthcare of Atlanta	Tax-Exempt	\$736,765	Aa2/AA-/NR	7/18/2019	2049	4.00%	67 bps	BAML
Yavapai Regional Medical Center	Tax-Exempt	\$65,620	A2/NR/A+	7/16/2019	2043	4.00%	82 bps	BAML
Beth Israel Lahey Health	Tax-Exempt	\$176,630	A3/A/NR	7/16/2019	2041	5.00%	58 bps	Citi Group

Sources: Bloomberg, Refinitiv and ICI. Unless otherwise noted, all data is presented as of August 13, 2019.

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