Healthcare Finance

Newsletter | January 2020

So we beat on, boats against the current...

Economic Highlights

- As investors set sail into the new decade, we reflect on the remarkable decade now behind us. The 2010s overcame upheavals in the geopolitical order, credit and oil shocks, and sovereign meltdowns. And despite these volatile winds, equities had an epic bull market run; bonds also had a bull market run; and the U.S. Dollar reigned supreme, enjoying its unique privilege amid unprecedented monetary expansion by major central banks.

- After three consecutive rate cuts, the Federal Reserve (Fed) kept rates steady at its December meeting, maintaining the target range at 1.5% to 1.75%. It signaled a view that the economy is solid and the current policy stance will remain appropriate as long as "incoming data remains broadly consistent with the outlook."

- The final estimate of third quarter U.S. gross domestic product (GDP) growth was unrevised at 2.1%. The consumer provided much-needed ballast to the economy.

- The U.S. economy added 145,000 jobs in December. The positive yet weaker-than-expected payroll report suggested momentum has eased. The unemployment and labor force participation rates were both unchanged at 3.5% and 63.2%, respectively.

- Although the "Phase One" trade deal with China was not yet signed in December, the markets gave a positive signal in that equities continued to move higher and yield spreads remain low and well contained.

- December releases revealed that inflation pressures were muted. While price pressures on services were stable, pressures on goods drifted lower amid a gradual de-escalation in tariff measures. Core personal consumption expenditure (PCE) remains below the Fed's 2% target.

- Housing fundamentals were steady. Existing home sales fell in November, while new home sales increased, making this the best three months since 2007.

Bond Markets

- The U.S. Treasury yield curve steepened during December. Ultra-short (less than three months) Treasury yields fell 15 basis points (bps) as the front end of the curve sought equilibrium with the Fed target rate. Yields on maturities between three months and five years were generally flat (+/- 5 bps), while yields on longer Treasuries (greater than seven years) increased 10 to 20 bps.

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- As result of the uneven yield curve move, short- and intermediate-term Treasuries outperformed longer maturities. For example, the 3-month and 2-year Constant Maturity U.S. Treasury Indexes returned 0.14% and 0.23%, respectively. Meanwhile, the 10-year and 30-year indexes generated total returns of -1.02% and -3.51%, respectively.
- Buoyed by stable credit fundamentals, accommodative central banks and modest new supply, credit sectors once again generated strong incremental performance. By month-end, high-quality credit spreads had reached historically tight levels, making valuations appear rich.

Municipal Bond Market

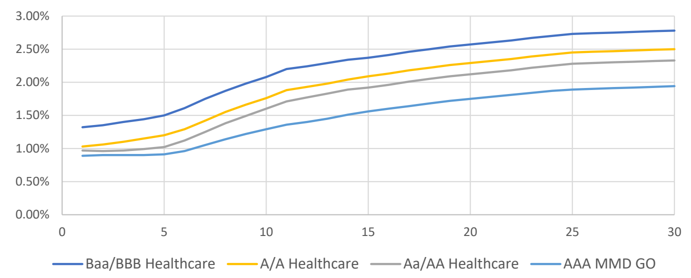
- Municipal new issuance ended the year on a strong note, increasing by 58.3% to $40.9 billion from $25.8 billion December of 2018. New issuance is up 22.0% year-over-year (YoY) to $421.8 billion from $349.5 billion last year, according to Municipal Market Monitor (TM3) data.
- December experienced positive bond flows throughout the month and ended with net inflows totaling $9.61 billion, following November's net inflows of $9.39 billion, according to Investment Company Institute (ICI) data.
- The Municipal Market Data (MMD) Index experienced mixed changes in rates during December. On the front-end, the 1-year rate fell 3 bps to 1.04% and the 3-year rate dropped 4 bps to also reach 1.04%. The 5-year rate decreased 6 bps to 1.09%. On the long-end, the 10-year rate dipped by 3 bps to 1.44% and the 30-year rate increased 3 bps to .09%, according to TM3 data.
- The 10-year MMD Single-A General Obligation (GO) Index credit spread and the Double-A GO Index credit spread both remained unchanged at 30 bps and 14 bps, respectively, according to TM3 data.
- In December, Municipal-to-Treasury ratios experienced a decrease in ratios throughout the curve with one exception on the immediate front end. The 2-year ratio increased slightly to 66.7% from 66.6% in November, and the 5-year ratio dropped to 64.9% from 70.6%. The intermediate-term ratio decreased to 67.0% from 72.7% and the 10-year ratio fell to 75.4% from 82.4%. The 30-year ratio decreased to 87.9% from 93.2%, according to TM3 data.
- The Municipal curve steepened in December with the AAA MMD 2-year/10-year slope remaining unchanged at 40 bps and the AAA MMD 2-year/30-year slope increasing to 105 bps from November's 99 bps.

FIXED-RATE MARKET			
Maturity	AAA MMD	US Treasury	Muni Swap Rate
5-Year	0.91%	1.63%	1.10%
7-year	1.05%	1.74%	1.19%
10-year	1.29%	1.84%	1.32%
30-year	1.94%	2.29%	1.65%

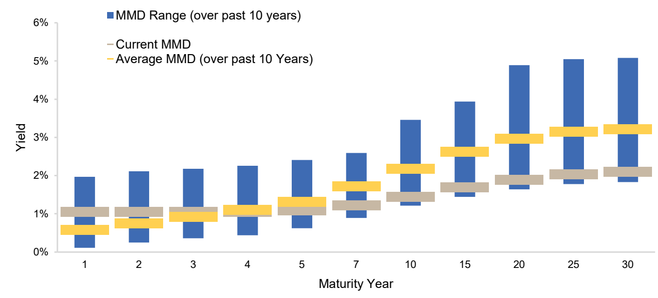
VARIABLE RATE MARKET		
Maturity	Current	1-Month Change
SIFMA Index	0.80%	-31 bps
1-Month LIBOR	1.66%	-11 bps
3-Month LIBOR	1.83%	-8 bps
SOFR	1.55%	1 bps

HEALTHCARE 30Y SPREADS	
Category	Spread to MMD
AAA Level	19 bps
AA Level	39 bps
A Level	56 bps
BBB Level	84 bps

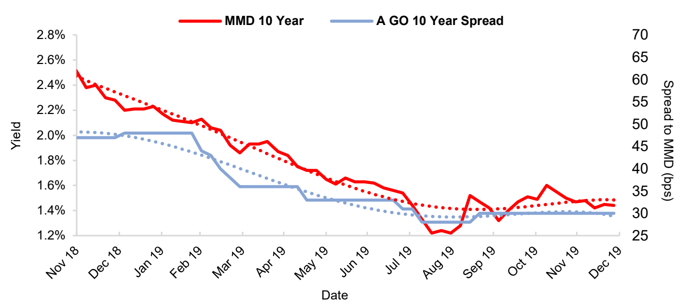
Healthcare Yield Curve



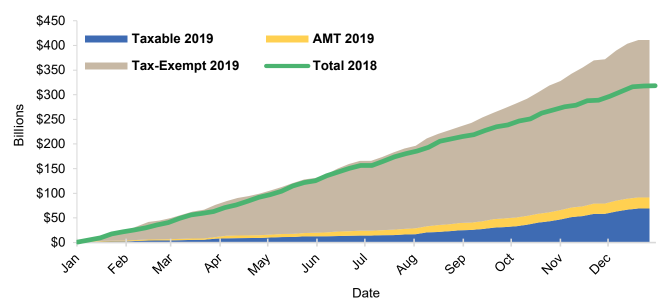
MMD Rates Over Time



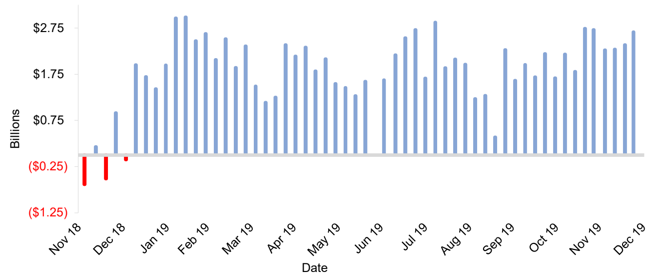
Rate and Spread Movement



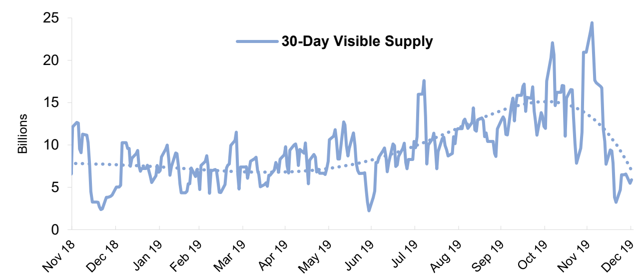
2019 Cumulative Issuance



Weekly Mutual Fund Inflows (Outflows)



30-Day Visible Municipal Supply



Mergers and Acquisitions

- Merger between Mayo Regional Hospital and Northern Light clears major hurdle (mainepublic.org, January 16, 2020).
- Jefferson, Welltower partnership aims to improve senior care (phillyvoice.com, January 15, 2020).
- Uniontown Hospital signs letter of intent to join WVU Health System (heraldstandard.com, January 14, 2020).
- ChristianaCare and GoHealth Urgent Care annouce new partnership to develop largest urgent care network in DE (prnewswire.com, January 10, 2020).
- Grove City Medical Center finalizes agreement with Allegheny Health Network (Pittsburgh Business Times, January 10, 2020).

SELECTED HEALTHCARE ISSUANCES								
Borrower	Tax Status	Par Amount	Ratings	Dated Date	Final Maturity	Coupon	Spread	Senior Manager
Sentara Healthcare	Tax-Exempt	$186,970	Aa2/AA/NR	1/16/2020	2040	3.00%	88 bps	Citi Group
University Hospitals Health System Inc.	Tax-Exempt	$290,400	A2/A/NR	1/9/2020	2050	5.00%	52 bps	BofA Securities
Griffin Hospital	Tax-Exempt	$58,540	NR/BB+/NR	12/18/2019	2050	5.00%	327 bps	UBS Financial Services Inc.
Loyola University Maryland	Tax-Exempt	$43,640	A2/A/NR	12/10/2019	2049	5.00%	41 bps	BofA Securities
Presbyterian Healthcare Services	Tax-Exempt	$146,400	Aa3/AA/AA	12/5/2019	2048	4.00%	76 bps	JP Morgan
Baptist Health	Tax-Exempt	$86,385	NR/A/NR	12/5/2019	2049	3.20%	126 bps	Crews & Associates Inc
Trinity Health Credit Group	Tax-Exempt	$205,890	Aa3/AA-/AA-	12/5/2019	2049	4.00%	79 bps	BofA Securities

Sources: Bloomberg, Refinitiv and ICI. Unless otherwise noted, all data is presented as of December 31, 2019.