Healthcare Finance

Newsletter | October 2020

Economic Highlights

- Although the season is changing, the clouds of uncertainty have not dissipated. Economic risks are still rooted in the country's struggle to contain the coronavirus, increasing business layoffs, stalled fiscal stimulus and the upcoming highly acrimonious presidential election.
- At the September Federal Open Market Committee meeting, members continued to acknowledge the "tremendous human and economic hardship" the COVID-19 pandemic is causing. In new economic projections, the Committee extended the horizon of expected zero rates through 2023. They also referenced their new inflation policy by suggesting that they will allow "inflation moderately above 2% for some time so that inflation averages 2% over time." Meanwhile, Federal Reserve (Fed) leaders continue to strongly call for additional fiscal stimulus.
- The U.S. economy added 661,000 jobs in September, falling well short of the estimated 859,000 jobs and the 1.3 million job gain in August. The unemployment rate ticked lower to 7.9% from 8.4%, but a fall in the labor force participation rate accounted for most of the improvement. At the same time, a total of 25.3 million people are receiving unemployment insurance benefits, compared to just 1.4 million a year ago.
- Consumer spending rose at a sluggish pace in August, while personal income fell 2.7% as the government's supplemental unemployment benefits expired. An increasing number of permanent layoffs and a drop in income threatens to slow the recovery in the coming months.
- The housing market remains a bright spot in the economy as low mortgage rates and limited inventory have fueled strong sales and appreciating home prices.

Bond Markets

- Low volatility and directionless trading barely moved Treasury yields in September. The yield on the benchmark 2-year Treasury note remained anchored at 0.13%, and the yield on the benchmark 10-year Treasury note slipped two basis points (bps) to 0.68%.
- Treasury index returns were muted as yields traded in a very tight range for most of the month. For the period, the 3-month Treasury Index and the 5-year Treasury Index returned 0.01%, while the 10-year Treasury Index returned 0.22%.
- September was another busy month for corporate issuance. Investment-grade (IG) corporations continued to capitalize on the low borrowing rate environment and fortify balance sheets by locking in cheap financing. IG companies raised $167 billion of debt, the largest of any September in history.
- Meanwhile, IG corporate spreads ticked slightly higher as economic uncertainties took hold. The result was to depress returns compared with Treasury benchmarks. For example, the return on the Bloomberg Barclays U.S. Intermediate Corporate Index was -0.18%.

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Municipal Bond Market

- Municipal new issuance increased in September by 34.3% to $50.3 billion from $37.4 billion the same month last year. Year-to-date municipal new issuance is up 22.8% to $344.8 billion for 2020 from $280.7 billion during the same period last year, according to the Municipal Market Monitor (TM3) data.
- September experienced positive bond flows throughout the month and ended with net inflows totaling $7.5 billion, following August's net inflows of $11.7 billion, according to Investment Company Institute (ICI) data.
- In September, the Municipal Market Data (MMD) Index experienced decreasing rates across the short-end while rates further out increased slightly. The 1-year rate fell 3 bps to 0.12% and the 3-year dropped 3 bps to 0.14%. The 5-year rate remained unchanged at 0.26%. The 10-year rate increased 6 bps to 0.87%. On the long end, the 30-year rate rose by 6 bps to 1.62%, according to TM3 data.
- During September, the 10-year MMD Single-A General Obligation (GO) Index credit spread remained at 34 bps and the Double-A GO Index credit spread remained at 15 bps, according to TM3 data.
- Municipal-to-Treasury ratios experienced mixed changes across the yield curve. The 2-year ratio decreased to 104.0% from 122.1% and the 5-year ratio fell to 95.9% from 98.9% last month. The intermediate-term ratio rose to 107.3% from 99.2% and the 10-year ratio increased to 128.5% from 114.7% in August. The 30-year ratio increased to 111.5% from 106.1% in August, according to TM3 data.
- The Municipal curve steepened in September with the AAA MMD 2- through 10-year slope increasing to 74 bps and the slope between the AAA MMD 2- through 30-year rising to 149 bps from August's 140 bps.

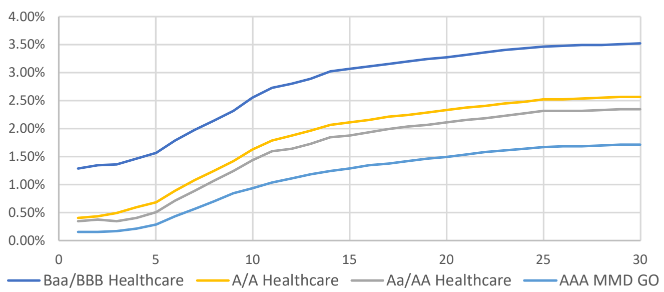
FIXED-RATE MARKET			
Maturity	AAA MMD	U.S. Treasury	Muni Swap Rate
5-Year	0.28%	0.32%	0.30%
7-year	0.57%	0.53%	0.43%
10-year	0.94%	0.76%	0.62%
30-year	1.72%	1.52%	1.05%

VARIABLE RATE MARKET		
Maturity	Current	1-Month Change
SIFMA	0.12%	0 bps
1M LIBOR	0.15%	0 bps
3M LIBOR	0.27%	4 bps
SOFR	0.10%	0 bps

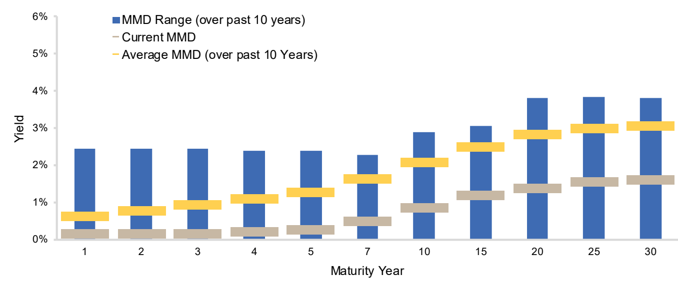
HEALTHCARE 30Y SPREADS	
Category	Spread to MMD
AAA Level	42 bps
AA Level	63 bps
A Level	85 bps
BBB Level	180 bps

Source: TM3 as of 10/16/2020

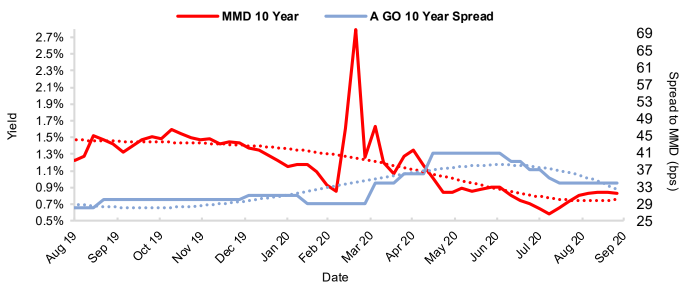
Healthcare Yield Curve



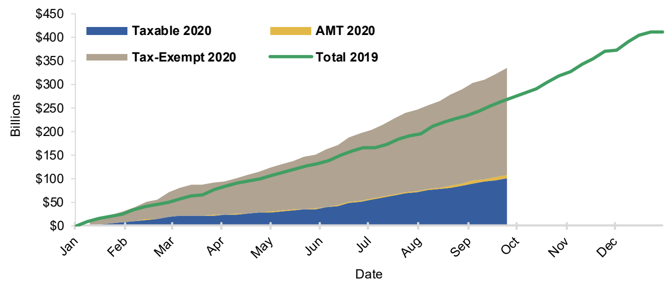
MMD Rates Over Time



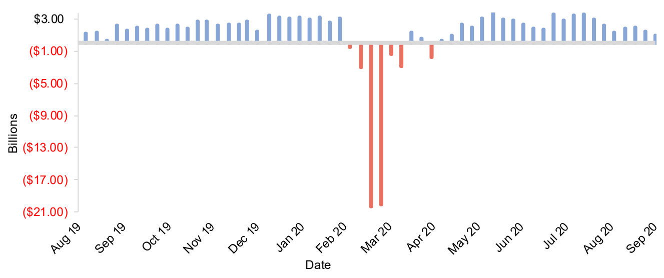
Rate and Spread Movement



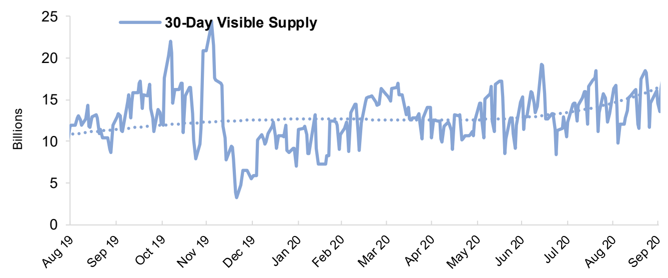
Cumulative Issuance



Weekly Mutual Fund Inflows (Outflows)



30-Day Visible Municipal Supply



Mergers and Acquisitions

- Direct primary care provider to acquire 230 clinics (Fierce Healthcare, October 16, 2020).
- Atrium, Wake Forest Baptist merge to create 42-hospital system (Rev Cycle Intelligence, October 9, 2020).
- Orlando Health closes $86M acquisition of CHS hospital (News Break, October 7, 2020).
- Seven hospital system merges with Ochsner (Ochsner Health, October 1, 2020).
- CHS divests Florida hospital, plans to sell two others in Tennessee (News Break, October 1, 2020).

SELECTED HEALTHCARE ISSUANCES									
Borrower	State	Tax Status	Par Amount	Ratings	Sale Date	Final Maturity	Coupon	Spread	Senior Manager
Florida Health Sciences Ctr	FL	Tax-exempt	$438,280	Baa1/NR/NR	10/16/2020	2055	4.00%	166 bps	J.P. Morgan
Florida Health Sciences Ctr	FL	Taxable	$100,785	Baa1/NR/NR	10/16/2020	2040	4.27%	274 bps	J.P. Morgan
Nationwide Children's Hospital	OH	Taxable	$148,925	Aa2/NR/NR	10/14/2020	2050	2.87%	138 bps	J.P. Morgan
University of Mississippi Medical Center	MS	Taxable	$158,125	Aa2/AA/NR	9/30/2020	2041	2.92%	147 bps	Raymond James
Mercy Health	MO	Tax-exempt	$378,570	A1/A+/NR	9/29/2020	2053	4.00%	120 bps	Bank of America
PIH Health	CA	Tax-exempt	$278,955	NR/A/NR	9/24/2020	2050	4.00%	90 bps	Barclays
OSF Healthcare System	IL	Tax-exempt	$149,705	A3/A/A	9/18/2020	2050	5.00%	79 bps	J.P. Morgan

Sources: Bloomberg, Refinitiv and ICI. Unless otherwise noted, all data is presented as of September 30, 2020.