

Healthcare Finance

Newsletter | November 2019

Economic Highlights

- As quickly as the leaves blew off the trees, the markets took on a decidedly better tone in October. The Federal Reserve (Fed) provided another round of monetary stimulus, gross domestic product (GDP) and employment – the most important economic indicators in the U.S. – surprised to the upside, the trade outlook improved as talks between the U.S. and China appeared more productive, and the Brexit deadline was extended. The global economy continues to roll forward at a slow pace.
- The Fed made a third 0.25% cut in the fed funds rate at its October 30 Federal Open Market Committee meeting. Although the Fed continued to acknowledge solid job gains and strong household spending, it also noted that business investment and exports remained weak. It characterized the latest move as “insurance against ongoing risks” and now views policy as “in a good place.” The new target range is set at 1.50% to 1.75% and likely to remain there for the foreseeable future.
- The U.S. economy grew an annualized rate of 1.9% in the third quarter of 2019, which was stronger than expected and virtually unchanged from the 2% growth rate of the second quarter. Growth reflected positive contributions from consumer spending, government spending and residential housing that were partly offset by a continuing decline in business investment.
- The pace of U.S. job growth eased to a gain of 128,000 in October, but that was much stronger than forecast, despite the six week strike at General Motors. Equally important, revisions added 95,000 jobs to the prior two months. The report reaffirmed labor market resiliency. The unemployment rate ticked higher to 3.6%, primarily because of new entrants into the labor force. Wage growth was positive, but modest, reinforcing the narrative of muted underlying inflation pressures.
- In manufacturing, both the ISM and Markit PMI surveys showed slight improvements in October. The trade war has caused business to pull back plans for expansion. If a trade deal emerges, it could set the stage for a recovery in the sector. While manufacturing represents a relatively small share of the U.S. economy and labor force, it has a more significant impact on the global economy.
- The U.S. housing market remained firm, supported by low mortgage rates. Although home sales fell, they remain near cycle highs while a surge in construction spending bodes well for the future.

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Bond Markets

- The U.S. Treasury yield curve un-inverted over the month as short rates fell and longer rates rose. At the end of October, the curve was essentially flat from one month (1.54%) to five years (1.52%). The combination of an additional rate cut in October and Fed purchases of Treasury bills to stabilize money markets helped push short-term yields lower over the month. Changes in intermediate-term maturities (between one and seven years) were muted, while longer Treasury yields (10 and 30 years) moved higher.
- In the U.S. Treasury market, the six-month and two-year Constant Maturity U.S. Treasury Index returned 0.25% and 0.28%, respectively. Meanwhile, the return on the 10-year was zero and the 30-year index returned -1.04%, for the month, partially reversing the strong year-to-date (YTD) gains.
- While shorter-term Treasuries outperformed their longer duration counterparts for the month, YTD 2019 performance has overwhelmingly favored longer duration strategies.

Municipal Bond Market

- Municipal new issuance increased in October by 41.6% to \$53.5 billion from \$37.8 billion the same month last year. YTD municipal new issuance is up 14.0% to \$331.6 billion for 2019 from \$291.0 billion during the same period last year, according to Municipal Market Monitor (TM3) data.
- October experienced positive bond flows throughout the month and ended with net inflows totaling \$7.45 billion, following September's net inflows of \$5.17 billion, according to Investment Company Institute (ICI) data..
- The Municipal Market Data (MMD) Index saw falling rates on the front-end of the yield curve in October. The one-year rate fell 15 basis points (bps) to 1.11% and the three-year rate dropped 12 bps to also reach 1.11%. The five-year rate fell by 8 bps to 1.15%. The long-end saw the opposite of the front-end movement, with the 10-year rate increasing by 7 bps to 1.49% and the 30-year rate rising 5 bps to 2.06%, 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 October, Municipal-to-Treasury ratios experienced mixed rates across the yield curve. The two-year ratio decreased to 73.0% from 74.9% in September, and the five-year ratio fell to 75.7% from 79.0%. The intermediate-term ratio rose to 79.4% from 78.4% and the 10-year ratio rose to 88.2% from 85.0%. The 30-year ratio increased slightly to 94.9% from 94.8%, according to TM3 data.
- The Municipal curve steepened in October with the AAA MMD 2-year/10-year slope rising to 38 bps from 20 bps in September, and the AAA MMD 2-year/30-year slope increasing to 95 bps from September's 79 bps.

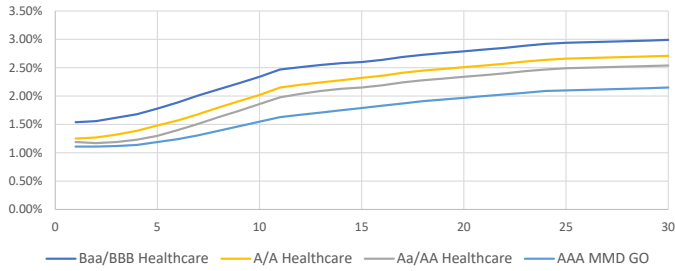


FIXED-RATE MARKET			
Maturity	AAA MMD	US Treasury	Muni Swap Rate
5-Year	1.19%	1.65%	1.10%
7-year	1.31%	1.75%	1.18%
10-year	1.55%	1.84%	1.30%
30-year	2.15%	2.31%	1.61%

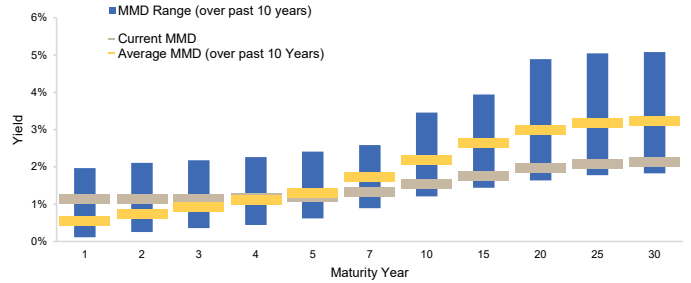
VARIABLE RATE MARKET		
Maturity	Current	1-Month Change
SIFMA Index	1.12%	-28 bps
1-Month LIBOR	1.73%	-16 bps
3-Month LIBOR	1.90%	-10 bps
SOFR	1.59%	-41 bps

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

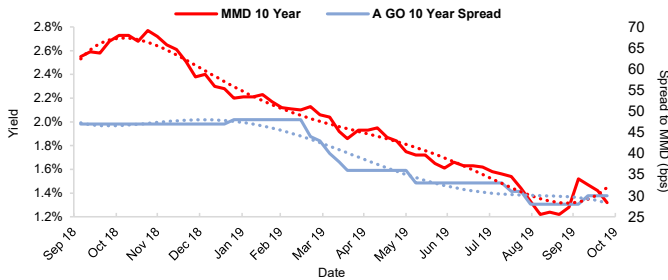
Healthcare Yield Curve



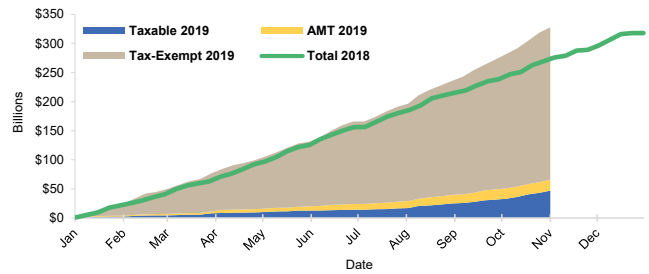
MMD Rates Over Time



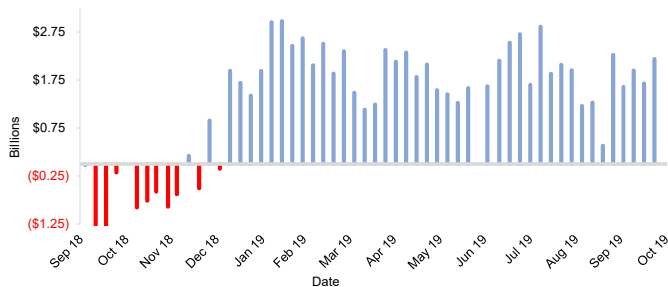
Rate and Spread Movement



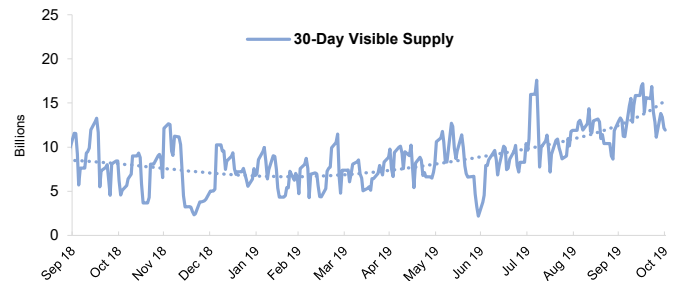
2019 Cumulative Issuance



Weekly Mutual Fund Inflows (Outflows)



30-Day Visible Municipal Supply





Mergers and Acquisitions

- UnityPoint, Sanford Health Call Off \$11B Hospital Merger Deal (*revcycleintelligence.com*, November 15, 2019).
- Mayo Regional Hospital should merge with Northern Light, State regulators say (*Piscataquis Observer*, November 13, 2019).
- UPMC expands Ireland footprint with acquisition of second hospital (*Pittsburgh Post Gazette*, November 13, 2019).
- Dallas group buys HCA Houston Healthcare hospital unit (*Houston Chronicle*, November 13, 2019).
- University of Louisville to face \$100M revenue shortfall in months after KentuckyOne takeover (*Louisville Business First*, October 21, 2019).

SELECTED HEALTHCARE ISSUANCES								
Borrower	Tax Status	Par Amount	Ratings	Dated Date	Final Maturity	Coupon	Spread	Senior Manager
Sanford Health	Tax-Exempt	\$352,375	NR/A+/A+	11/6/2019	2049	5.00%	60 bps	Keybanc
Sanford Health	Taxable	\$384,600	NR/A+/A+	11/6/2019	2039	3.85%	155 bps	Keybanc
St Joseph/ Candler Health System	Tax-Exempt	\$106,960	A3/NR/A-	11/5/2019	2044	3.13%	127 bps	Barclays
Mohawk Valley Health System	Tax-Exempt	\$236,785	NR/AA/NR	10/31/2019	2049	4.00%	83 bps	Barclays
Lehigh Valley Health Network	Tax-Exempt	\$418,120	A2/A+/NR	10/30/2019	2049	3.25%	124 bps	BAML
Penn State Health	Tax-Exempt	\$222,000	A1/A+/NR	10/29/2019	2049	4.00%	87 bps	Morgan Stanley
Cleveland Clinic Health System	Taxable	\$241,835	Aa2/AA/NR	10/29/2019	2042	3.28%	95 bps	Citi
University of Kansas Health System	Tax-Exempt	\$125,440	NR/AA-/AA-	10/23/2019	2041	3.00%	112 bps	Piper Jaffray

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

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