

Issuance Forecast Highlights

| MUNICIPAL ISSUANCE FORECAST                  |          |          |          |
|--|----------|----------|----------|
| \$ Billions                                  | 2015 (e) | 2016 (f) | % Change |
| <b>Long-Term Issuance</b>                    |          |          |          |
| Tax-Exempt Municipal Issuance                | 352.5    | 347.5    | -1.4%    |
| Taxable Municipal Issuance                   | 29.2     | 30.5     | 4.5%     |
| AMT Municipal Issuance                       | 11.8     | 10.5     | -10.8%   |
| <b>Short-Term Issuance</b>                   |          |          |          |
| Total  | 428.8    | 431.5    | 0.6%     |
| of which are Long-Term Municipal Bonds       | 393.4    | 388.5    | -1.3%    |
| Refunding as % of Long-Term Tax-Exempt Total | 0.62     | 0.55     | -11.6%   |
| <b>Other Municipal Categories</b>            |          |          |          |
| VRDO Issuance                                | 6.2      | 8.0      | 29.5%    |
| Direct Placements/Bank Loans                 | N/A      | 50.0     | N/A      |
| Floating Rate Note (FRN) Issuance            | 5.3      | 12.5     | 136.1%   |

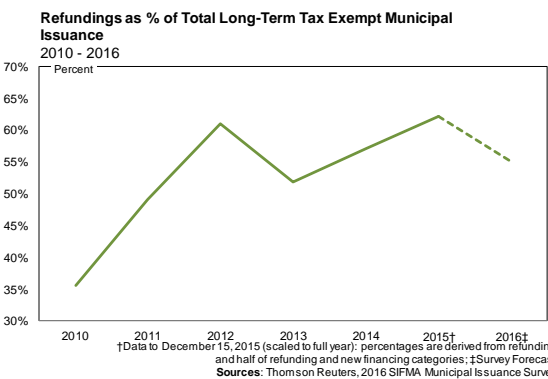
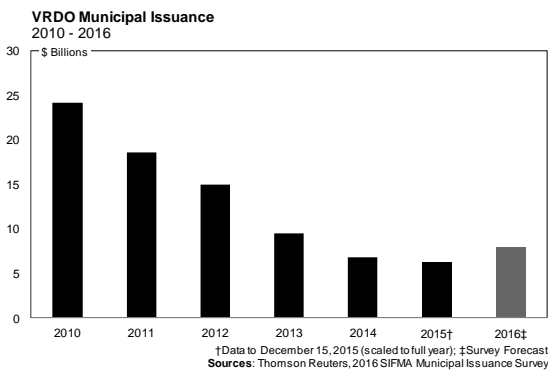
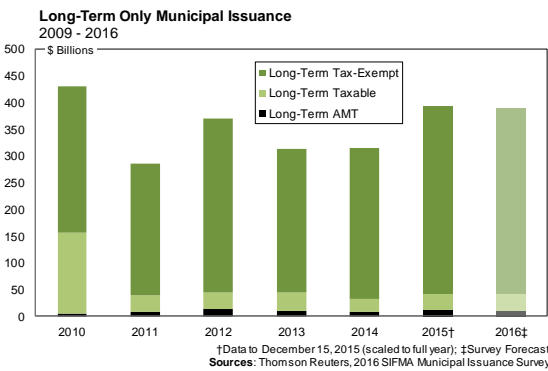
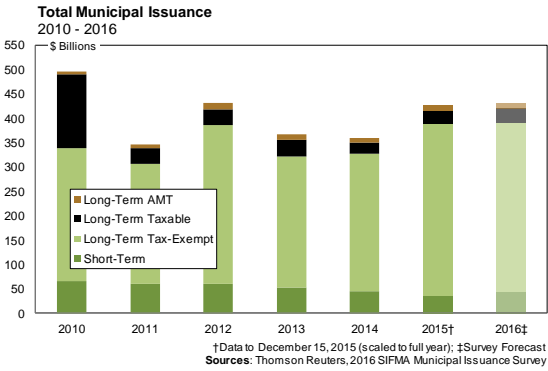
Respondents to the 2016 SIFMA Municipal Issuance Survey<sup>1</sup> expect total municipal issuance, both short- and long-term, to reach \$431.5 billion in 2016, slightly up from the \$428.8 billion estimated issuance in 2015.<sup>2</sup> While short-term issuance is expected to increase in 2016, with \$43.0 billion in short-term notes expected to be financed, compared to \$35.4 billion in 2015, long-term issuance is expected to decrease in 2016, with \$388.5 billion in long-term bonds expected, compared with \$393.4 billion in 2015.

Respondents were polled as to events that would most likely have the greatest effect on the municipal market in 2016. Survey respondents, as in prior years, continue to agree that the curtailment of the tax-exemption on municipal bond interest would be one of the factors to have the greatest impact on the municipal market along with fiscal pressures resulting from underfunded pensions. Respondents also considered a single, big name default to have some importance in 2016. One respondent opined that “Basel III capital and liquidity requirements” were highly important factors, while two others responded that “oil bust” and “authority to access Chapter 9” were also quite important.

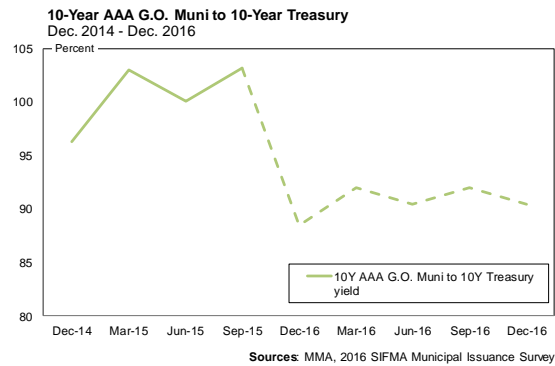
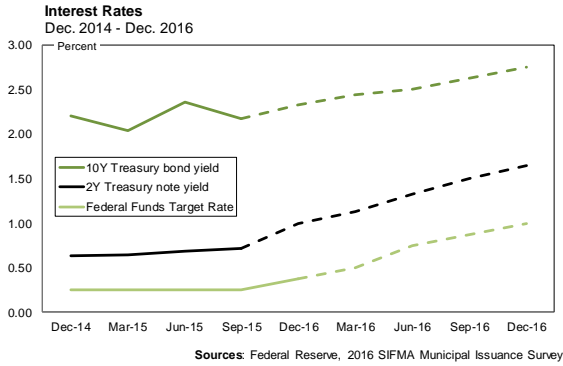
Respondents project long-term tax-exempt municipal issuance to reach \$347.5 billion in 2016, 1.4 percent below the \$352.5 billion issued in 2015<sup>3</sup> and alternative minimum tax (AMT) issuance is expected to drop by 10.8 percent to \$10.5 billion in 2016 from \$11.8 billion in 2015.<sup>4</sup> On the other hand, taxable municipal issuance is expected to increase in 2016 to \$30.5 billion, a 4.5 percent increase from \$29.2 billion issued in 2015.<sup>5</sup>

Refundings are expected to comprise a small share of total issuance in 2016, falling to 55.0 percent from 62.2 percent in 2015.<sup>6</sup>

Respondents expect variable-rate demand obligation (VRDO) issuance to rise slightly to \$8.0 billion in 2016, recovering from the record low of \$6.2 billion in 2015.<sup>7</sup> Direct placements/bank lending is expected to come in at \$50.0 billion,



<sup>1</sup> The survey was conducted from November 11 – December 18, 2015. The forecasts discussed in the text and appearing in the accompanying data tables are the median values of all submissions of individual member firms, unless otherwise specified.  
<sup>2</sup> 2015 data are to December 15, 2015, scaled to full year approximations; source: Thomson Reuters.  
<sup>3</sup> Survey estimates for long-term tax-exempt municipal bonds ranged from \$260 billion to \$385 billion for 2016.  
<sup>4</sup> Survey estimates for long-term AMT municipal bonds ranged from \$8 billion to \$40 billion for 2016.  
<sup>5</sup> Survey estimates for long-term taxable municipal bonds ranged from \$30 billion to \$100 billion for 2016.  
<sup>6</sup> Survey estimates for refundings as a percentage of long-term tax-exempt issuance ranged from 20 percent to 57 percent in 2016.  
<sup>7</sup> Survey estimates for VRDO issuance ranged from \$4 to \$90 billion in 2016.



or 12.9 percent of long-term issuance, in 2016.<sup>8</sup>

Although floating rate note issuance (FRN) 2015 volume failed to meet respondents' expectations (\$5.3 billion issued in 2015, compared to the \$12.5 billion expected by respondents in last year's survey), respondents still expect FRN issuance to remain robust in 2016 with \$12.5 billion of issuance.<sup>9</sup>

The majority of respondents (62.5 percent) agreed that the largest issuing use-of-proceeds sector will be general purpose for 2016, with the balance split between transportation, education and housing as the largest sectors. In prior years, the general purpose sector has been the largest issuing sector, by gross amount.

Respondents expressed a wide range of views regarding municipal defaults, defined for the purpose of the survey as the occurrence of a missed interest or principal payment or a bankruptcy filing. The median response is for 30 issuers to default for a par value of \$69 billion in 2016.<sup>10</sup> Majority of respondents noted that the bulk of par amount defaults is expected from defaults in Puerto Rico-related debt.

**Interest Rate Forecast Highlights**

Following the FOMC raising the federal funds target rate to 0.25-0.50 percent in mid-December, the federal funds rate is expected to rise from 0.38 percent in end-December 2015 to 0.50 percent by end-March 2016 and gradually increase to 1.00 percent by the end of 2016.<sup>11</sup> The two-year Treasury note yield is expected to rise from 1.00 percent end-December 2015 to 1.65 percent by

end-December 2016.<sup>12</sup> The 10-year Treasury note yield is also expected to climb from 2.33 percent end-December 2015 to 2.75 percent end-December 2016.<sup>13</sup> The ratio of the yield on 10-year AAA G.O. municipal securities to the 10-year Treasury benchmark is expected to first fall to 88.5 percent by end-December 2015 from 103.21 end-September but then increase slightly to 90.5 percent by end-December 2016.<sup>14</sup>

<sup>8</sup> Survey estimate for bank loans/direct purchases ranged from \$5 billion to \$125 billion in 2016.

<sup>9</sup> Survey estimates for floating rate note issuance ranged from \$8 billion to \$65 billion in 2016.

<sup>10</sup> Survey estimate for the number of issuers to default ranged from 5 to 126 issuers. Par value estimated to be in default ranged from \$2.5 billion to \$100 billion.

<sup>11</sup> The range for the federal funds target rate was 0.25 percent to 0.50 percent in December 2015, 0.375 percent to 0.625 percent in March 2016, 0.375 percent to 0.875 percent in June 2016, 0.375 percent to 1.125 percent in September 2016, and 0.125 percent to 1.375 percent in December 2016.

<sup>12</sup> The range for the two-year Treasury note yield was 0.75 percent to 1.4 percent in December 2015, 0.95 percent to 1.6 percent in March 2016, 0.75 percent to 1.6 percent in June 2016, 0.65 percent to 1.7 percent in September 2016, and 0.5 percent to 2.0 percent in December 2016.

<sup>13</sup> The range for the 10-year Treasury yield was 2.2 percent to 2.45 percent in December 2015, 2.35 percent to 2.6 percent in March 2016, 2.1 percent to 2.7 percent for June 2016, 2.0 percent to 2.85 percent in September 2016, and 1.9 percent to 3.05 percent in December 2016.

<sup>14</sup> The range for the 10-year AAA G.O. muni yield as a percentage of the 10-Year Treasury bond yield was 85 percent to 95 percent in December 2015, 80 percent to 95 percent in March 2016, 80 percent to 93.5 percent in June 2016, 78 percent to 93.5 percent in September 2016, and 75 percent to 92.75 percent in December 2016.

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