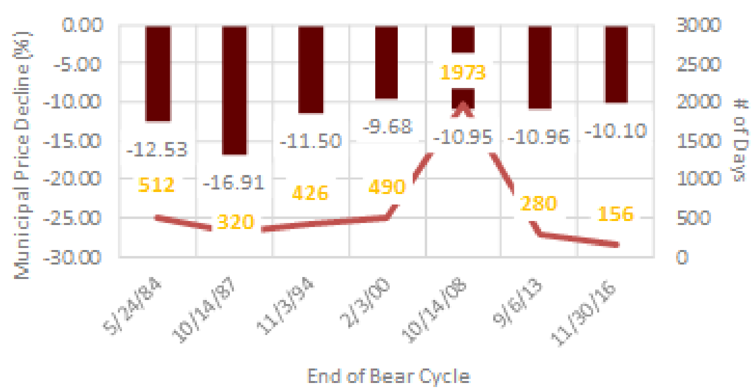
A historic month for the municipal market, November brought a sharp rise in interest rates and a potential buying opportunity.

The month of November was a historical one for the United States not only on the political front, but also economic. Following years of sluggish growth, little inflation and a low interest rate environment, November handed the municipal market its worst performance in a single month since 2008 and with it, a rapid increase in yields. The catalyst was an unexpected President-Elect Trump whose proposed policies during the election cycle created great uncertainty for the market. Infrastructure spending, lower corporate and personal tax rates and deregulation of certain sectors all have the potential to stimulate growth and stoke inflationary pressures. With the GOP in control of Congress, the likelihood that these proposals could be enacted into law is even higher.

During the seven days leading up to November 16th, municipal bond mutual fund outflows reached $3 billion representing the largest outflow since June 2013 (Thompson Reuters' Lipper data). Third quarter GDP was revised higher from 2.9% to 3.2%, lifting the year-over-year rate from 1.5% to 1.6% and making the case for further inflation concerns. APA believes a rate hike by the Fed is almost all but certain this month and with continued inflationary pressures, we could see an increase in their projected rate hikes for 2017. Comments by the Fed this month will be closely watched by the market and are likely to have a major impact on the trajectory of interest rates in the near-term.

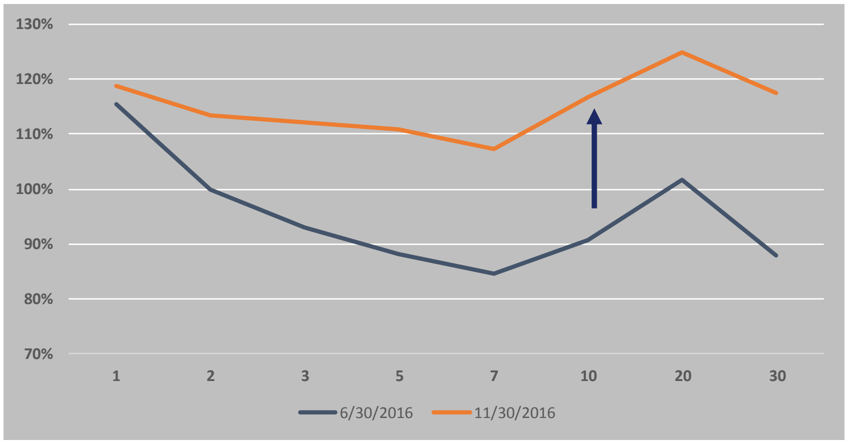
MUNICIPAL PRICE INDEX DECLINES OF MAJOR BEAR CYCLES OF THE LAST 35 YEARS AND CYCLE DURATION



Source: MMA Market Insight November 2016

The distinguishing factor in November's market move was not just the sharply increasing yields but the speed at which it happened. As reported by MMA, through November the current bear cycle had matched past periods since 1982 and attained similar losses in half the number of days. The bear cycle began with the aftermath of the Brexit vote in June and continued through the end of November as selling in the secondary market and fund outflows further pressured pricing.

RATIO OF MUNICIPALS TO TREASURIES SINCE JUNE



Source: Thompson Reuters; Municipal Market Data; Bloomberg

RELATIVE VALUE IN MUNICIPALS

11/30/2016 Term	Municipal % Treasuries	Pre-Re/Muni % Treasuries
6 Month	132%	
1 Year	114%	120%
2 Year	105%	112%
3 Year	102%	108%
5 Year	101%	107%
10 Year	106%	
20 Year	114%	
30 Year	108%	

Source: Thompson Reuters; Municipal Market Data

Opportunity Often Arises, Amid Market Turmoil

Relative Value: APA believes there is relative value in municipals which are currently yielding more than U.S. Treasuries. Pricing pressures have continued to exert greater influence over municipals when compared to U.S. Treasuries causing the ratio of municipals as a percent of Treasuries to exceed 100% across the yield curve.

Sector Dislocation: Spreads have widened in certain sectors of the market, including pre-refunded municipals and general market 'AA' rated bonds where recent and upcoming supply is saturating the market.

Tax-Loss Harvesting: For certain investors, tax-loss harvesting can offer the potential to realize losses in an attempt to provide additional value over the long-run by re-investing at higher prevailing interest rates.

For more information about Asset Preservation Advisors customized portfolio management, contact us at:
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