1. A Shift in Market Sentiment

A shift in market sentiment began to take hold during the third quarter as U.S. inflationary pressures remained firm, coming in on target for the first time since 2012. U.S. economic growth continued to strengthen as indicated by a revised second quarter GDP reading of 4.2% and the national unemployment rate fell below 4%, a level only seen twice over the past 60 years.

Globally, financial markets experienced volatility amid ongoing stresses in certain emerging market economies (EME's) and trade tensions weighing on global risk sentiment. Yet, through the third quarter, U.S. fundamentals have remained strong. The FOMC who unanimously voted to raise the Fed funds target rate in September cited domestic factors including: strength in the labor market, economy, household spending and business investment behind their reasoning for current and continued rate increases. The quarter ended with domestic headline news focused on the impact of Hurricane Florence, which made landfall on September 14th, and may, according to the Fed, "have a modest transitory effect on national economic growth in the second half of the year."

The AAA municipal yield curve, as reported by Municipal Market Data has shown a significant yield increase across the curve since January, 2018; with 2-year yields higher by +47 basis points (bps), the 10-year by +60 bps, and the 30-year by +65 bps as of quarter-end with municipals outperforming Treasuries in the third quarter. Several factors contributed to this shift in the yield curve, most notably : 1. investor perception of potential inflationary pressures as the economy continues to show strength, even with continued headlines over escalating trade tensions and stress on EME's, and 2. supply/demand factors with YTD supply approximately 22% below the three year average for the same period and net negative supply during the month of July and August.

Exhibit 1

Source: CIBC, St. Louis Fed

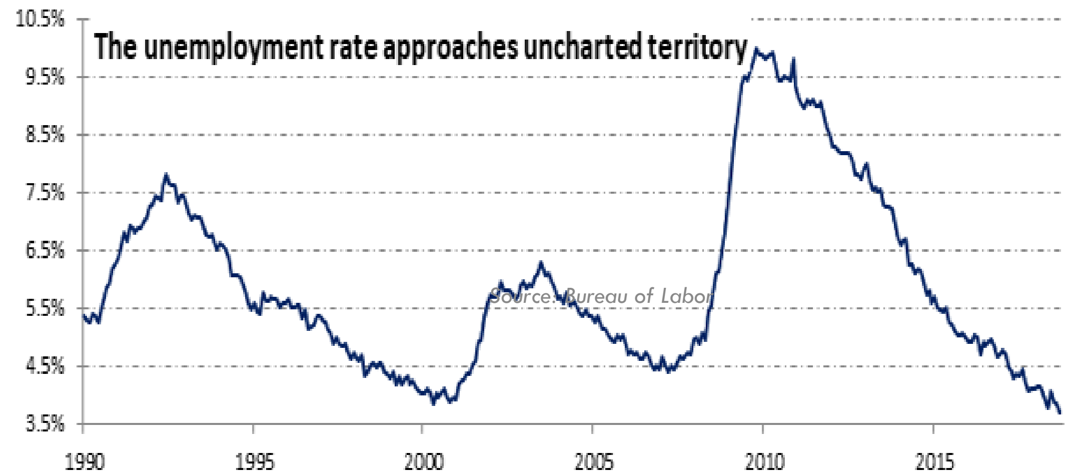


Exhibit 2

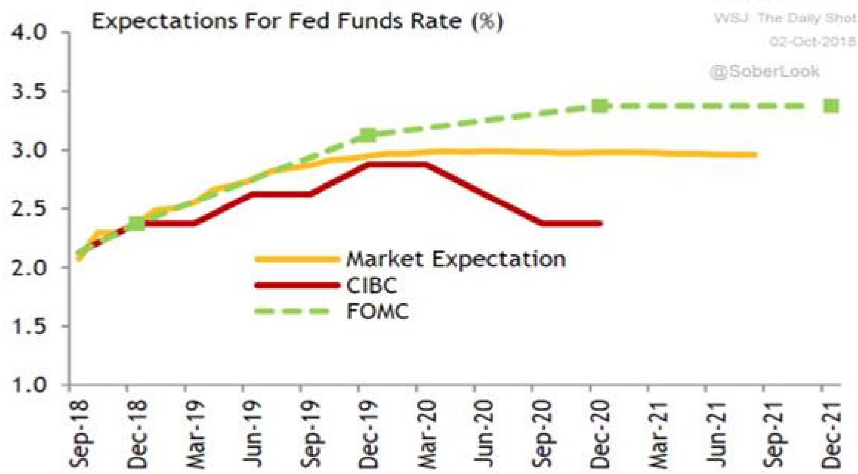
Source: CIBC, St. Louis Fed

2. A Key Psychological Level, Treasury 10-Year Yield Eclipsed 3%

Treasury yields increased, during the third quarter as domestic economic data releases were slightly stronger than expected but remained flat with the 2-year and 10-year spots just 25 basis points apart. Also, driving Treasury yields higher, was an anticipated Fed policy rate increase to a range of 2.00-2.25% at their September meeting. The Fed, giving no indication of near-term pause, removed the word "accommodative" from it's stance on policy, suggesting the potential for restrictive policy in the future. Fourteen of the sixteen voting members favored an outlook of rates being either modestly restrictive for a time or temporarily above their longer term level. Nominal 10-year Treasury yields eclipsed 3% during the quarter, often a key psychological level for investors.

Exhibit 3

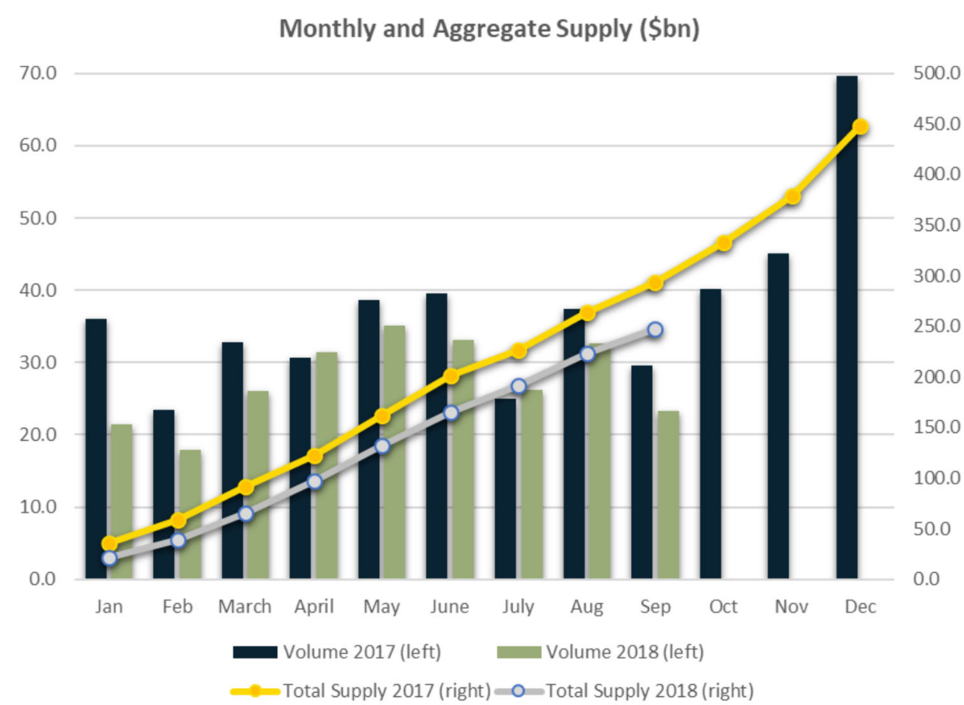
Source: Federal Reserve, Bloomberg, CIBC



3. Municipal Market Supply

Exhibit 4

Source: Bloomberg, MMA



Total muni supply for September came in at $23 billion, which brought issuance for the quarter to $82 billion, or a decrease of -17% quarter over quarter. Supply slowed down for the period during what is traditionally one of the slower quarters for issuance of the year. Through September, year to date supply totaled $247 billion which is 22% behind the prior three-year average for the same period. Interestingly, issuance for new projects, or "new money" issuance, was actually higher for the year by 20%, totaling $173 billion vs. $138 billion for the same period last year. The drag on total supply is attributable to the elimination of advanced refunding issuance as part of the Tax Cuts and Jobs Act that passed late last year.

After net negative supply during July and August, usually the highest months for redemptions of the year, September eked out positive supply of +$1 billion. Despite ending the quarter with outflows for three of the final four weeks, flows were decisively positive for the period at $5.4 billion. However, should outflows continue during what is traditionally a period of low redemptions and positive supply, the market could experience some pressure and ratios may widen.

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