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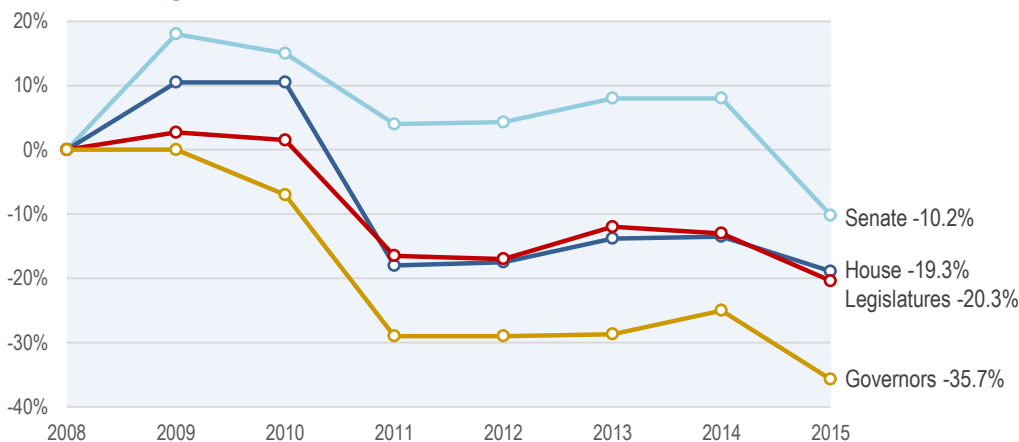
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The Republican Party was a clear winner on November 8th by taking the White House, maintaining control of Congress, and now leading the governorship of 33 states (the most in 94 years). Exhibit 1 below shows the significant decline in Democrats since 2008. The Trump election is clearly a potential paradigm shift for the U.S. economy and asset markets, and until there is greater clarity surrounding budget and policy priorities in the coming weeks and months, market volatility will likely remain high. At this point, we believe the election impact on the municipal market will surround three key policies: tax reform, repeal of the Affordable Care Act (ACA), and an increase in domestic infrastructure spending.

Exhibit 1: Change in Number of Democrats Since 2008

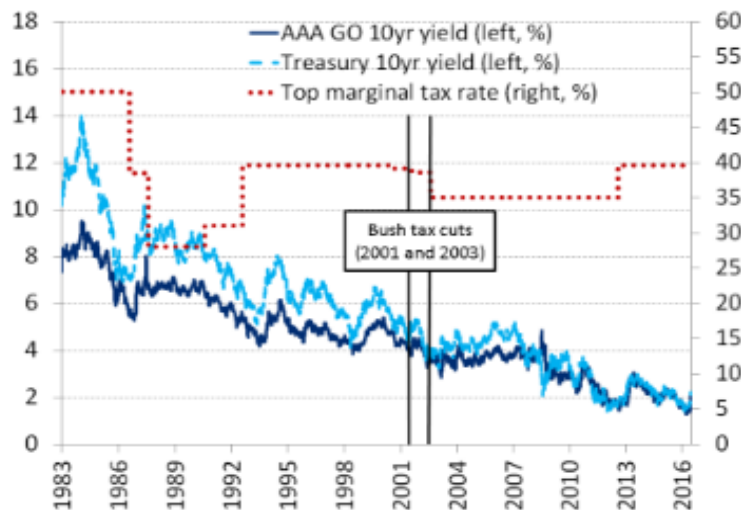


Tax Reform

Tax reform will likely be one of the main public policy issues in 2017, as both President-Elect Trump and House Speaker Ryan have repeatedly called for a lower and simpler tax code. The probability of tax reform has clearly increased with Republican control of Congress and the White House. The Trump tax policy plan is to lower the corporate rate to 15% and the highest personal income rate to 25%, while Ryan's plan would lower the corporate rate to 20% and highest personal rate to 33%. Either tax policy, if enacted, could reduce overall demand for tax exempt bonds. Tax reform has historically been difficult to accomplish and while the GOP does not have the 60 votes in the Senate to stop Democratic filibusters, it could possibly use budget reconciliation with just 51 votes to pass measures.

It's important to note that Trump's tax plan (unlike the Clinton plan) does not mention the municipal tax exemption. Even if the personal income tax rate is lowered, there is no correlation between municipal yields and the top marginal tax rate. Since 1980, the top marginal tax rate has fluctuated from 70% in 1980 to 28% in 1988, and municipal rates have trended down with Treasury rates with no change in demand for tax exempt bonds. The most recent tax cuts of 2001 and 2003 did not impact muni rates at all (see Exhibit 2). Finally, as we have said in the past, over 75% of the country's infrastructure has historically been funded by municipal bonds, which will remain a strong headwind against any tax reform that negatively impacts the value of tax exemption going forward.

Exhibit 2: 10Yr AAA MMD Yield Have Followed 10YR UST Yields Downwards and Show No correlation with the Marginal Tax-Rate...



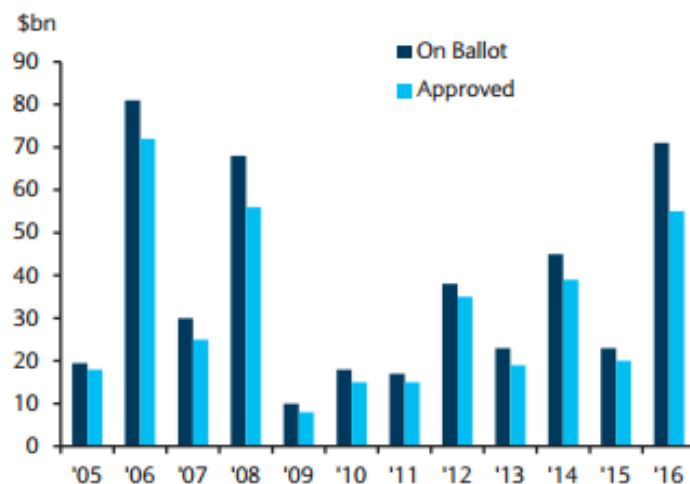
Source: Citi Research

Infrastructure Finance

President-elect Trump envisions a \$1.0 trillion infrastructure plan over 10 years that will be funded through deficit neutral tax credits for equity investment in infrastructure projects supplemented by federal subsidized loans. Overall, the anticipated increase in infrastructure funding is good for economic growth and public finance credit quality. Trump's proposal is not likely to increase the amount of municipal bond supply as the focus is on tax credits for private companies.

There were approximately \$70 billion of municipal bond proposals on the ballot this election, the largest since 2006, when about \$82 billion went before voters. Just over \$60 billion of bonds were approved by voters with the largest debt issues in California and Texas. The uptick in borrowing is a signal that the spirit of austerity is ending among local governments and that voters recognize the need to fund infrastructure. New issue supply is likely to increase, but the market should be able to handle it as refunding issuance is likely to decline as many callable bonds have already been advanced refunded over the past two years.

Exhibit 3: Bond Ballot Measures Tend to Be Higher in Even Years



Source: Bloomberg

Repeal of ACA is Negative for Hospital Bonds

Republicans are committed to “repealing and replacing” ACA and we believe the election is highly likely to have a negative effect on the tax exempt hospital sector. In a recent 60 Minutes interview, Trump said he intended to immediately repeal ACA. Since the election, we have seen hospital credit spreads widen out significantly as repealing or scaling back ACA would reduce revenues for hospitals. We have an underweight recommendation to the hospital sector and we expect the \$250 billion in hospital debt to continue to underperform over the near and medium term.

The assertions in this perspective are Seix Investment Advisors’ opinion.

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