

# Healthcare Finance

Newsletter | May 2019

## Economic Highlights

- U.S. Gross Domestic Product (GDP) expanded at 3.2% in the first quarter, surprising to the upside. This was a full percent higher than the fourth quarter of 2018. Net exports plus inventory growth were responsible for 1.7% of the 3.2% reading. These components are quite volatile from quarter to quarter, while personal consumption expenditures generated only 0.8% - a sign that the sustainable pace of growth was quite a bit weaker than the headline. In other contributions, residential housing was a minimal subtraction (-0.1%), non-residential fixed investment was on the weaker side (+0.4%), federal government spending was flat, and state and local government spending was stronger than normal (+0.4%).
- At the FOMC meeting on May 1, the committee signaled once again that it had moved from a policy of tightening monetary conditions to one of watchful waiting. The Federal Reserve (Fed) noted that "on a 12-month basis, overall inflation and inflation for items other than food and energy have declined and are running below 2 percent," and that "growth of household spending and business fixed investment slowed in the first quarter." Fed Chair Jay Powell provided affirmation that "risks have moderated somewhat" and that a "patient" Fed is still warranted at this time, and surmised that lower inflation is "transitory."
- The U.S. labor market remains robust, highlighted by the latest jobs report which indicated nonfarm payrolls increased 263,000 in April, outpacing March's increase of 189,000 and exceeding April expectations of 190,000. Moreover, the unemployment rate decreased to a 50-year low of 3.6%. Hourly earnings grew at an annual rate of 3.2%. This was more than one percent higher than core inflation for the period, giving consumers a bit more spending power than this time in 2018.
- Lower mortgage rates over the past several months helped strengthen the housing market as pending home sales and new home sales increased 3.8% and 4.5% respectively, month-over-month.

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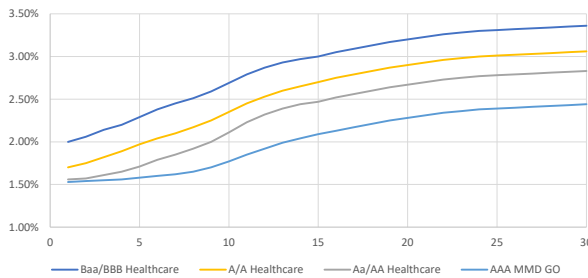


FIXED-RATE MARKET			
Maturity	AAA MMD	US Treasury	Muni Swap Rate
5-Year	1.58%	2.28%	1.57%
10-year	1.62%	2.38%	1.66%
20-year	1.77%	2.49%	1.81%
30-year	2.44%	2.89%	2.16%

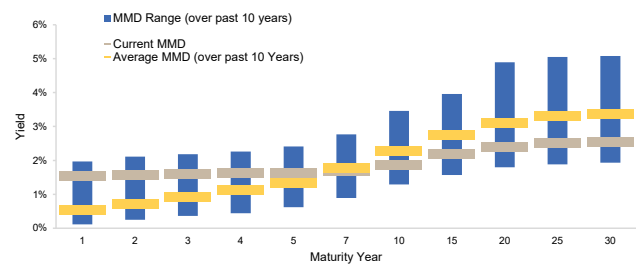
VARIABLE RATE MARKET		
Maturity	Current	1-Month Change
SIFMA Index	1.59%	11 bps
1-Month LIBOR	2.46%	-2 bps
3-Month LIBOR	2.56%	-2 bps
SOFR	2.43%	-2 bps

HEALTHCARE 30Y SPREADS	
Category	Spread to MMD
AAA Level	19 bps
AA Level	39 bps
A Level	62 bps
BBB Level	92 bps

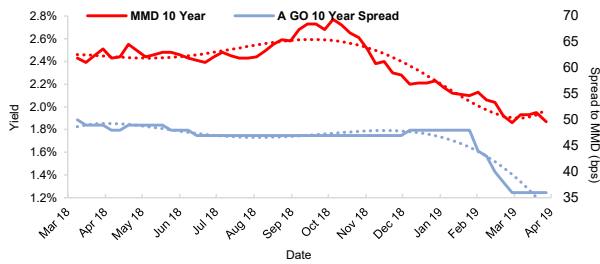
Healthcare Yield Curve



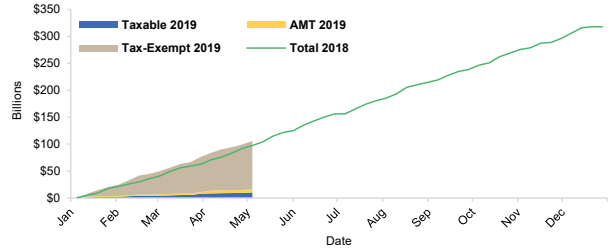
MMD Rates Over Time



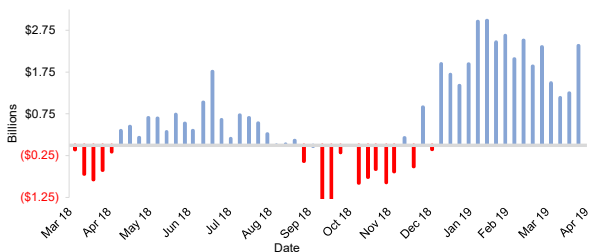
Rate and Spread Movement



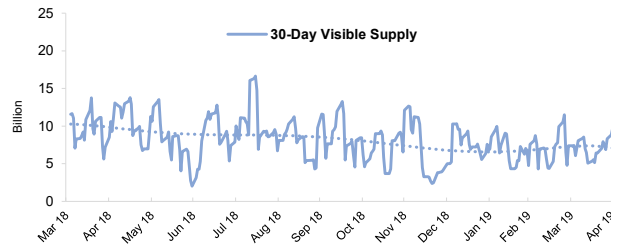
2019 Cumulative Issuance



Weekly Mutual Fund Inflows (Outflows)



30-Day Visible Municipal Supply





## Mergers and Acquisitions

- Louisville-based KentuckyOne Health may be nearing a sale of Jewish Hospital. (Source: Courier Journal, May 7, 2019).
- Marshfield Clinic Health System (Wisconsin) and Gundersen Health System (Wisconsin) are exploring a merger that would create a 13-hospital rural healthcare network. (Source: Marshfield News Herald, May 7, 2019).
- Loyola Medicine (Illinois) and Palos Health (Illinois) have called off merger discussions after signing a nonbinding letter of intent in January. (Source: Chicago Business, May 1, 2019).
- Cincinnati-based Bon Secours Mercy Health signed a letter of intent to merge with Ireland's largest private healthcare provider, Bon Secours Health System in Dublin. (Source: Bizjournals.com, April 30, 2019).
- Healthcare deals in the first quarter of this year were 16.1% higher than the \$26.1 billion quarterly average recorded from 2014-2018. (Source: PwC, Q1 2019).

### SELECTED HEALTHCARE ISSUANCES

Borrower	Tax Status	Par Amount	Ratings	Dated Date	Final Maturity	Coupon	Spread	Senior Manager
Cleveland Clinic Health System	Tax-Exempt	\$497,365	Aa2/AA/NR	5/9/2019	2046	4.00%	73 bps	Barclays Capital
Henry Ford Health	Tax-Exempt	\$227,910	A2/A/NR	5/2/2019	2050	4.00%	95 bps	JPMorgan
Lee Memorial Health System	Tax-Exempt	\$421,410	A2/A+/NR	4/17/2019	2049	4.00%	100 bps	BAML
WakeMed	Tax-Exempt	\$207,650	A2/NR/A+	4/10/2019	2049	4.00%	113 bps	Barclays Capital
WellSpan Health	Tax-Exempt	\$228,465	Aa3/NR/AA-	4/3/2019	2049	5.00%	45 bps	Morgan Stanley
Atrius Health	Taxable	\$34,595	NR/BBB/NR	5/21/2019	2029	4.45%	200 bps	Morgan Stanley

Sources: Bloomberg, Refinitiv and ICI. Unless otherwise noted, all data is presented as of April 30, 2019.

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