

Healthcare Finance

Newsletter | October 2019

Economic Highlights

- The global economy has continued to cool, following the change of seasons in the U.S and Europe. With mounting manufacturing woes, a looming Brexit deadline and the threat of escalating trade wars, the economic outlook has weakened. Recent geopolitical events around the globe (e.g., Iran/Saudi Arabia, Syria/Turkey/U.S. and Ukraine/Russia/U.S.) add yet another layer of uncertainty and the specter of a presidential impeachment in the U.S. doesn't help.
- The Federal Reserve (Fed) cut the overnight interbank rate by 0.25% in September to a new target range of 1.75% to 2.00%. Fed Chair Jerome Powell explained that the move was made "to help keep the U.S. economy strong in the face of some notable developments and to provide insurance against ongoing risks." The Chair noted that "since the middle of last year, the global growth outlook has weakened, notably in Europe and China. Additionally, a number of geopolitical risks, including Brexit, remain unresolved. Trade policy tensions have waxed and waned, and elevated uncertainty is weighing on U.S. investments and exports." The move was not unanimously supported by Federal Open Market Committee members who are openly divided on the need for future policy adjustments.
- The labor market continued to decelerate through the third quarter. The U.S. economy added only 136,000 jobs in September, much weaker than the average pace of 223,000 jobs per month in 2018. The unemployment rate ticked lower to 3.5% – a 50-year low – but wage growth slipped to 2.9% year-over-year, the slowest pace in more than a year. Weaker wage growth and slower job creation may portend weaker consumer spending in coming months.
- U.S. manufacturing activity also continued to decelerate. The ISM Manufacturing PMI survey came in at 47.8, the lowest level since 2009 and an indication that the manufacturing part of the economy may be slipping into recession. Uncertainty caused by the ongoing trade war with China has led to this slowdown.
- Falling mortgage rates are finally benefiting the U.S. housing market. Existing and new home sales have trended higher and strong readings on housing starts and building permits point to an expected boost in future housing activity.

Bond Markets

- U.S. Treasury yields reversed their year-long decline in September as rates on Treasuries with maturities greater than one year rose. Longer-term yields rose 10 to 20 basis points (bps) over the month. Meanwhile, shorter-term yields (less than six months) declined by 15 to 25 bps as the curve adjusted to the two recent Fed rate cuts.

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- After eight months of strong outperformance, rising rates led longer maturities to underperform their shorter duration counterparts in September. For example, the three-month and one-year constant maturity U.S. Treasuries returned 0.17% and 0.11%, respectively, while two-year, five-year and 10-year Treasuries generated total returns of -0.13%, -0.62% and -1.41%, respectively, for the month.
- Broadly diversified portfolios that included allocations to corporate and mortgage-related securities generally outperformed government-only portfolios as yield spreads narrowed modestly over the month.

Municipal Bond Market

- Municipal new issuance increased in September by 42.1% to \$36.1 billion from \$25.4 billion the same month last year. Year-to-date municipal new issuance is up 9.1% to \$276.3 billion for 2019 from \$253.2 billion during the same period last year, according to Municipal Market Monitor (TM3) data.
- September experienced positive bond flows throughout the month and ended with net inflows totaling \$5.17 billion, following August's net inflows of \$9.05 billion, according to Investment Company Institute (ICI) data.
- The Municipal Market Data (MMD) Index saw rising rates across the yield curve in September. The 1-year rate rose 25 bps to 1.26%, while the 3-year rate increased 21 bps to 1.23%. The 5-year and 10-year rates both jumped 20 bps to 1.23% and 1.42%, respectively. On the long end, the 30-year rate rose 17 bps to 2.01%, according to TM3 data.
- The 10-year MMD Single-A General Obligation (GO) Index credit spread increased 2 bps to 30 bps and the Double-A GO Index credit spread rose 2 bps to 14 bps, according to TM3 data.
- In September, Municipal-to-Treasury ratios experienced increasing rates across the yield curve. The 2-year ratio rose to 74.9% from 66.7% in August, and the 5-year ratio increased to 79.0% from 73.9%. The intermediate-term ratio rose to 78.4% from 72.7% and the 10-year ratio rose to 85.0% from 81.2%. The 30-year ratio grew to 94.8% from 93.7%, according to TM3 data.
- The Municipal curve flattened in September with the AAA MMD 2-year/10-year slope falling to 20 bps from 21 bps in August, and the AAA MMD 2-year/30-year slope decreasing to 79 bps from August's 83 bps.

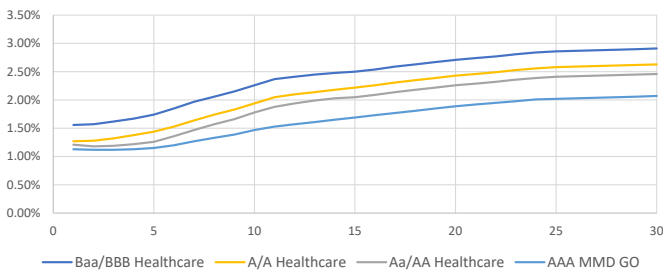


FIXED-RATE MARKET			
Maturity	AAA MMD	US Treasury	Muni Swap Rate
5-Year	1.15%	1.56%	1.07%
7-year	1.27%	1.66%	1.14%
10-year	1.47%	1.76%	1.26%
30-year	2.07%	2.25%	1.58%

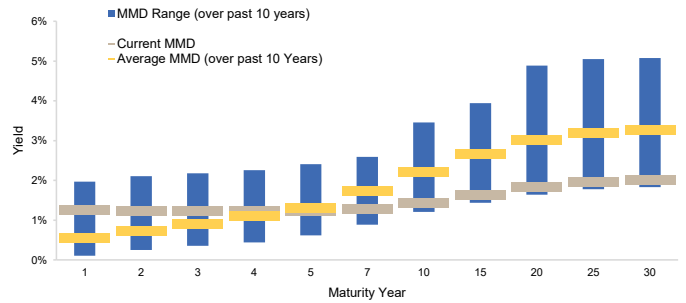
VARIABLE RATE MARKET		
Maturity	Current	1-Month Change
SIFMA Index	1.29%	-18 bps
1-Month LIBOR	1.85%	-19 bps
3-Month LIBOR	1.97%	-17 bps
SOFR	1.95%	9 bps

HEALTHCARE 30Y SPREADS	
Category	Spread to MMD
AAA Level	19 bps
AA Level	39 bps
A Level	56 bps
BBB Level	84 bps

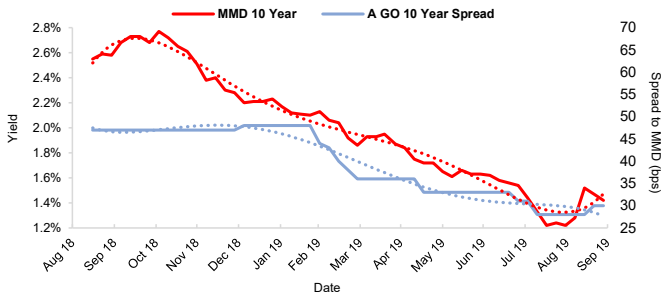
Healthcare Yield Curve



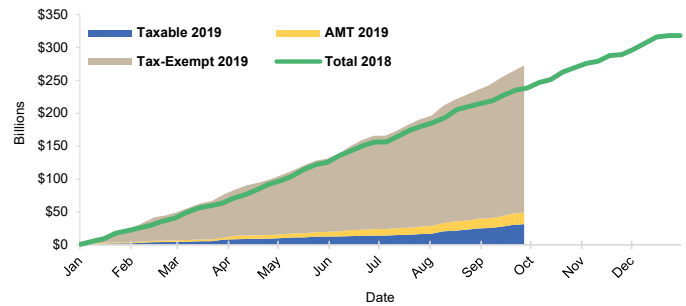
MMD Rates Over Time



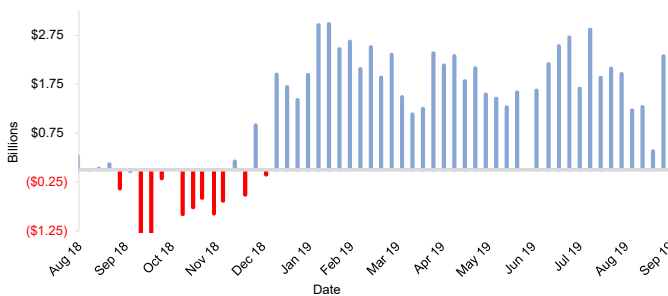
Rate and Spread Movement



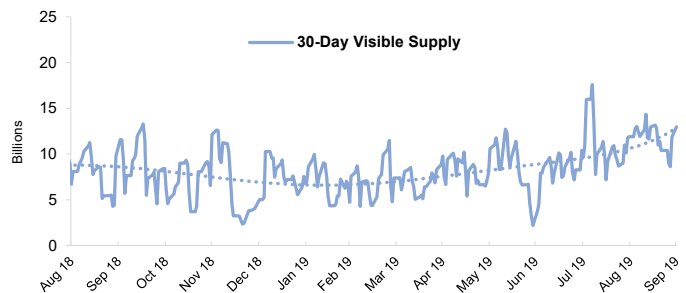
2019 Cumulative Issuance



Weekly Mutual Fund Inflows (Outflows)



30-Day Visible Municipal Supply





Mergers and Acquisitions

- Deborah Heart and Lung Center has entered an alliance to become an affiliate of the Cleveland Clinic (Philadelphia Business Journal, October 17, 2019).
- Marshfield Clinic has entered into a non-binding agreement to purchase St. Claire’s and Flambeau Hospital from Ascension (Wausau Wisconsin News, October 16, 2019).
- Englewood Health and Hackensack Meridian have signed a definitive merger agreement (NorthJersey.com, October 15, 2019).
- Penn State Health signed a letter of intent to acquire Holy Spirit Health System from Geisinger (Penn State News, October 15, 2019).
- RWJBarnabas Health has signed a letter of intent to acquire Trinitas Regional Medical Center (Fierce Healthcare, October 10, 2019).

SELECTED HEALTHCARE ISSUANCES								
Borrower	Tax Status	Par Amount	Ratings	Dated Date	Final Maturity	Coupon	Spread	Senior Manager
Piedmont Healthcare	Tax-Exempt	\$369,445	A1/AA-/NR	10/17/2019	2044	5.00%	74 bps	BAML
Allina Health System	Tax-Exempt	\$68,180	Aa3/AA-/AA-	10/8/2019	2029	5.00%	34 bps	JP Morgan
Cincinnati Childrens Hospital Medical Center	Tax-Exempt	\$135,585	Aa2/AA/NR	10/8/2019	2049	5.00%	76 bps	Goldman Sachs.
Memorial Sloan Kettering Cancer Center	Tax-Exempt	\$77,415	Aa3/AA-/AA	10/8/2019	2034	3.00%	63 bps	Morgan Stanley
Dallas County Hospital District	Tax-Exempt	\$191,380	Aa2/AA-/NR	10/3/2019	2034	4.00%	65 bps	JP Morgan
Shands Teaching Hospital and Clinics	Tax-Exempt	\$280,270	A3/A/NR	10/2/2019	2049	4.00%	105 bps	BAML
NJH SJH Center for Outpatient Health	Tax-Exempt	\$72,050	NR/A+/AA-	10/2/2019	2050	4.00%	91 bps	JP Morgan
Baptist Health South Florida	Tax-Exempt	\$365,775	A1/AA-/NR	9/24/2019	2049	4.00%	92 bps	BAML

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

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