Healthcare Finance

Newsletter | February 2021

Economic Highlights

- January, true to the name's Latin roots, marked beginnings and transitions in the new year. A new administration began in Washington D.C., shattering racial and gender barriers across the new leadership team, portending major policy changes. At the same time, the COVID-19 pandemic continued to take its toll on health and wellbeing, while an early phase of the vaccination program held out hope for bringing the disease under control.
- Consumer and business confidence fell amid a strong resurgence of COVID-19 cases, an initially slow vaccine rollout and political unrest that culminated in the capitol siege on January 6.
- Joe Biden was sworn in as the 46th President of the United States and quickly signed a historic number of executive actions, reversing many of the former administration's policies. The immediate priorities were then focused on fighting the COVID-19 pandemic and enacting a $1.9 trillion economic relief package designed to support families, schools and businesses.
- As expected, the Federal Reserve (Fed) maintained near-zero short-term rates and reaffirmed its commitment to support employment and manage price stability. The Fed kept the large scale of its current asset purchase program of $120 billion in government bonds per month.
- The U.S. labor market faltered as the economy added only 49,000 jobs in January, following a revised-lower 227,000 job loss in December. Although the number of Americans filing for unemployment benefits fell, it has remained above 700,000 for 47 straight weeks. The unemployment rate fell to 6.3%, but the improvement has come mainly because people have left the workforce. Total non-farm employment is nearly 10 million lower than pre-pandemic levels.
- The housing market strength is seemingly immune to the ongoing pandemic. After a small November dip, both existing and new home sales rebounded in December, supported by record-low mortgage rates.

Bond Markets

- The U.S. Treasury yield curve steepened in January due to anticipated economic improvement later in the year and the potential for higher inflation. The yield on the benchmark 2-year note was relatively unchanged at 0.11%, while the yield on the 10-year note rose 15 basis points (bps) to 1.07%, pushing the 2-year to 10-year maturity yield spread to the highest level since 2017.
- Rising yields on longer-dated U.S. Treasuries produced negative returns for the month, while stable yields on short maturities generated marginally positive returns. The 3-month and 2-year Treasury indices returned 0.01% in January, while the 10-year index posted a loss of 1.62%.
- Financing conditions remain favorable, supporting somewhat higher monthly returns for investment-grade (IG) corporate bonds compared to matched maturity Treasuries. Corporate issuance was robust, an indication that companies are continuing to take advantage of the attractive borrowing environment.

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Municipal Bond Market

- Municipal new issuance fell in January by 22.9% to $25.3 billion, from $32.8 billion the same month last year.
- January experienced positive bond flows throughout the month and ended with net inflows totaling $15.2 billion, following December's net inflows of $11.9 billion, according to Investment Company Institute (ICI) data.
- In January, the Municipal Market Data (MMD) Index experienced slight mixed changes in rates across the curve. The 1-year rate fell 4 bps to .09%, and the 3-year declined 3 bps to 0.13%. The 5-year rate remained at 0.22%, while the 10-year rate rose by 1 bp to 0.72%. On the long end, the 30-year rate dropped 1 bp to 1.38%, according to TM3 data.
- During January, the 10-year MMD Single-A General Obligation (GO) Index credit spread fell 2 bps to 30 bps, and the Double-A GO Index credit remained at 13 bps.
- The Municipal-to-Treasury ratios declined across the curve in January. The 2-year ratio dropped to 94.0% from 115.7%, and the 5-year ratio fell to 50.6% from 60.9% last month. The intermediate-term ratio dropped to 52.4% from 62.2%, and the 10-year ratio decreased to 66.9% from 77.2% in December. The 30-year ratio also declined in January to 75.0% from 84.2% last month, according to TM3 data.
- The Municipal curve steepened in January, with the AAA MMD 2- through 10-year slope increasing from 57 bps to 61 bps and the slope between the AAA MMD 2- through 30-year rising to 127 bps from December's 125 bps.

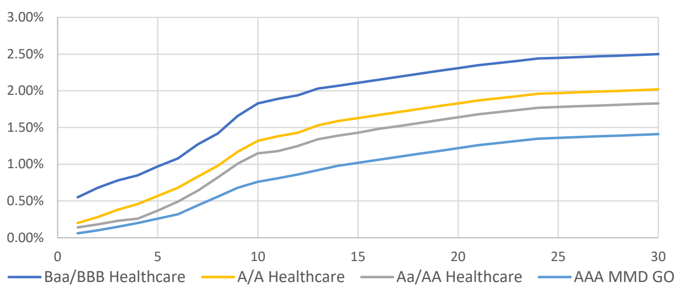
FIXED-RATE MARKET			
Maturity	AAA MMD	U.S. Treasury	Muni Swap Rate
5-Year	0.26%	0.57%	0.44%
7-year	0.44%	0.94%	0.69%
10-year	0.76%	1.30%	0.99%
30-year	1.41%	2.08%	1.53%

VARIABLE RATE MARKET		
Maturity	Current	1-Month Change
SIFMA	0.03%	-3 bps
1M LIBOR	0.11%	-2 bps
3M LIBOR	0.19%	-3 bps
SOFR	0.06%	-2 bps

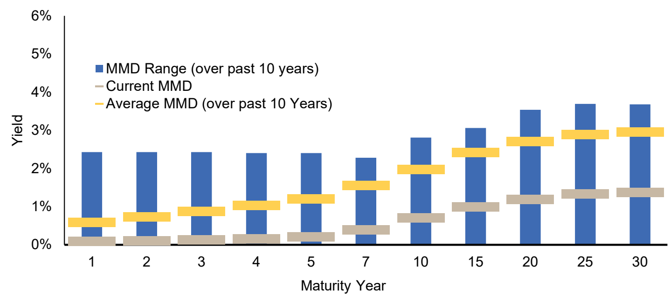
HEALTHCARE 30Y SPREADS	
Category	Spread to MMD
AAA Level	25 bps
AA Level	42 bps
A Level	61 bps
BBB Level	109 bps

Source: TM3 as of 2/17/2021

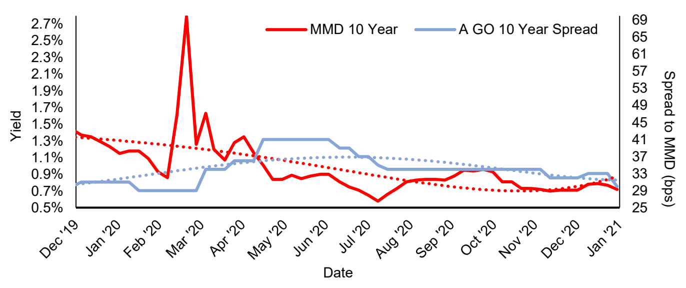
Healthcare Yield Curve



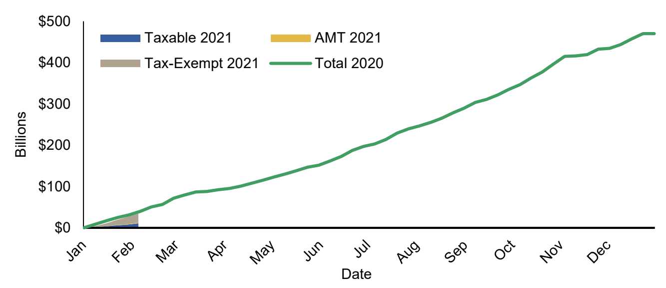
MMD Rates Over Time



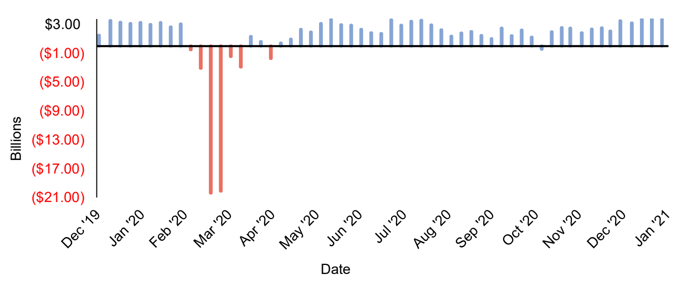
Rate and Spread Movement



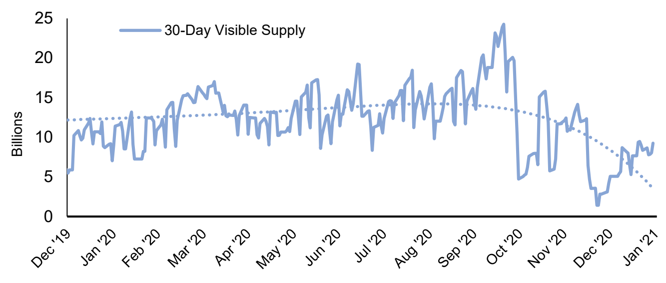
Cumulative Issuance



Weekly Mutual Fund Inflows (Outflows)



30-Day Visible Municipal Supply



Mergers and Acquisitions

- Ohio health system finalizes deal for 4th hospital (U.S. News 18, February 16, 2021).
- LifePoint in talks to acquire 30-hospital system, WSJ reports (Repertoire, February 12, 2021).
- Geisinger, Children's Hospital of Philadelphia enter affiliation (Modern Healthcare, February 4, 2021).
- CHS breaks with Mississippi hospital (Health System Review, February 1, 2021).
- 476-bed Ohio hospital joins Cleveland Clinic, gets new name (Cleveland Business Journal, February 1, 2021).

SELECTED HEALTHCARE ISSUANCES									
Borrower	State	Tax Status	Par Amount	Ratings	Sale Date	Final Maturity	Coupon	Spread	Senior Manager
Stamford Hospital	CT	Tax-Exempt	$68,820	NR/BBB+/NR	2/10/2021	2030	4.00%	53 bps	Goldman Sachs
Stamford Hospital	CT	Taxable	$76,820	NR/BBB+/NR	2/10/2021	2051	3.54%	162 bps	Goldman Sachs
Honor Health	AZ	Tax-Exempt	$168,180	A2/NR/A+	2/3/2021	2051	4.00%	55 bps	RBC Capital Markets
Honor Health	AZ	Taxable	$50,000	A2/NR/A+	2/3/2021	2051	3.17%	126 bps	RBC Capital Markets
Bowling Green-Warren County Community Hospital	KY	Tax-Exempt	$35,510	NR/A+/AA-	1/28/2021	2032	5.00%	47 bps	Bank of America
Bowling Green-Warren County Community Hospital	KY	Taxable	$44,360	NR/AA/AA-	1/28/2021	2035	2.33%	128 bps	Bank of America
Community Health Center Coast	CA	Tax-Exempt	$44,610	NR/NR/NR	1/22/2021	2054	5.00%	283 bps	Piper Sandler
Community Health Center Coast	CA	Taxable	$20,895	NR/NR/NR	1/22/2021	2039	5.50%	364 bps	Piper Sandler
Southcoast Health System	MA	Tax-Exempt	$83,010	Baa1/BBB+/A-	1/21/2021	2050	5.00%	62 bps	Bank of America

Sources: Bloomberg, Refinitiv and ICI. Unless otherwise noted, all data is presented as of January 31, 2021.