



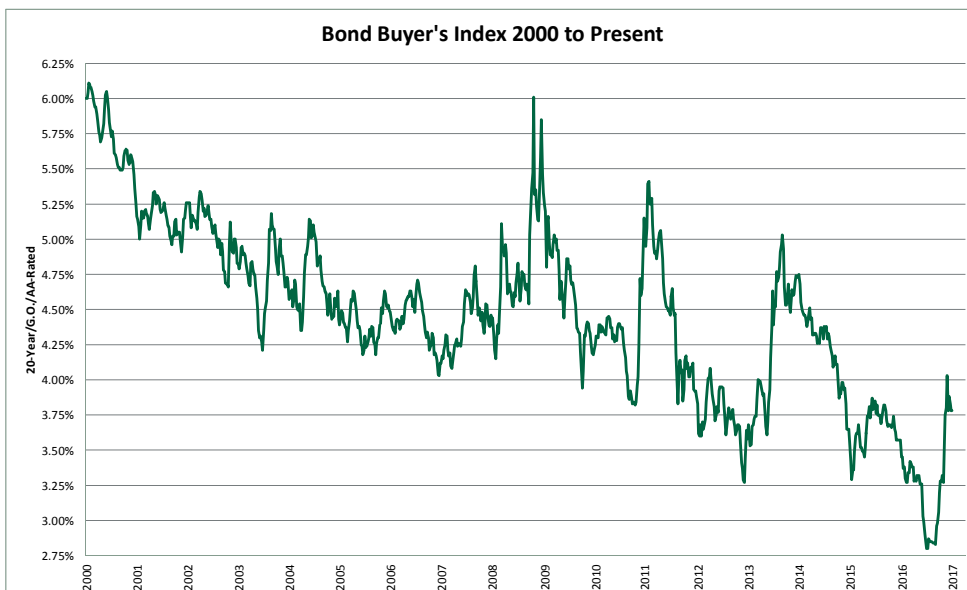
# MARKET PERSPECTIVES DECEMBER 2016

Interest rates have risen sharply in recent weeks. On December 1, the Bond Buyer's 20-Bond G.O. Index rose to 4.03% - the highest level since October 2014 and up 123 basis points from the low point in July 2016. While the degree of change is eye-catching, it is important to keep interest rates for tax-exempt bonds in perspective. The magnitude of the increase is heightened due to the historic low rates earlier this year. The current 20-Bond Index is still below the average for the Index over the past ten years (4.18%). The supply of municipal bonds has surged. Total volume in 2016 may set a new record, surpassing the \$433 billion issued in 2010. The disparity between supply and demand has been a key factor in driving rates up.

This changing interest rate environment complicates decision making for debt issuance in the coming year. Although accurately predicting future bond market conditions has proven to be an elusive task, these observations may offer some guidance:

- There have been three similar spikes over the past ten years. Each time rates peaked and fell back. Historically, supply/demand conditions in the first quarter of the year have fostered lower rates.
- Issuers should be informed and vigilant. A number of bond issues came to market in the fourth quarter after the train had left the station. That said, don't panic and make hasty decisions. Funding for new projects warrants different consideration than an advance refunding. Play an informed and active role in planning your next issue.
- Don't forget that other issuers are wrestling with the same concerns. New money issues are poised on the sidelines waiting for calmer markets. A dip in rates could cause a rush to the market trying to catch a perceived last window of opportunity. Such a boost in supply would close the window quickly.

It is clear that 2017 will be a very interesting year in public finance. Issuers that take the time to understand market conditions and the implications for their bond issues should receive dividends.



Source: Data compiled by Northland Securities from published Bond Buyer's GO 20-Bond Index

Please contact a Northland public finance professional with any questions about how Northland can serve you.

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