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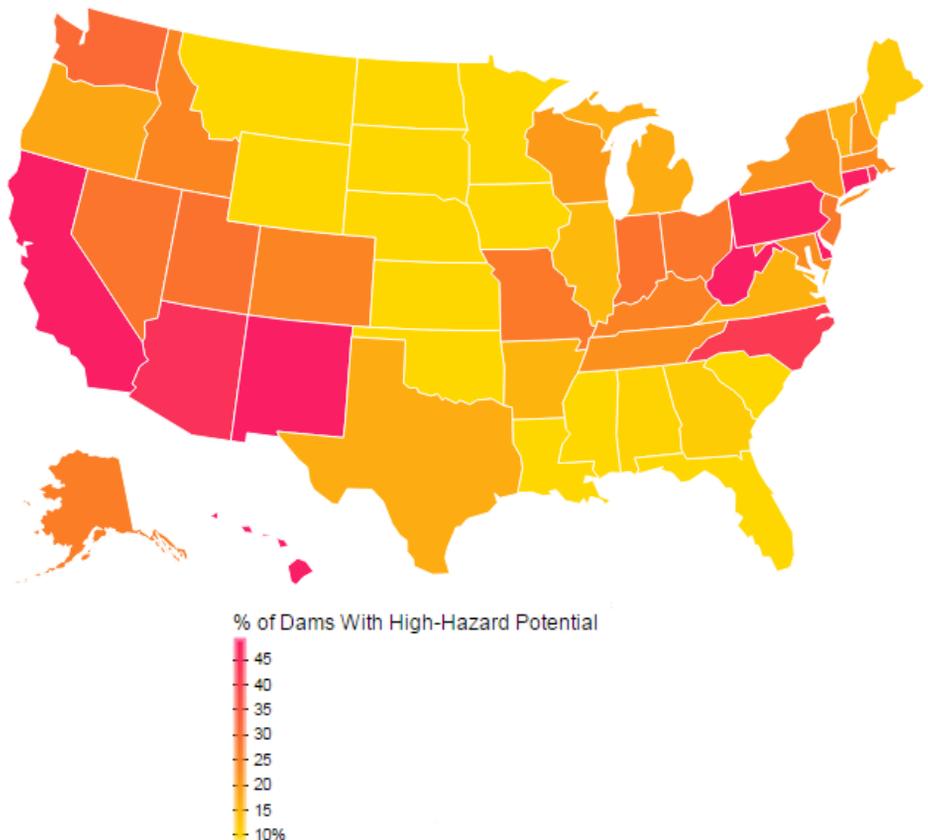
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The Trump election is clearly a paradigm shift for the U.S. economy and asset markets, and until there is greater clarity surrounding budget and policy priorities in the coming weeks and months, market volatility will likely remain high. Per our November election report, 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. After focusing on tax reform in January's report, this month we will explore Trump's infrastructure plan and the possible implications for tax exempt bonds (you can access our tax reform report at www.seixadvisors.com).

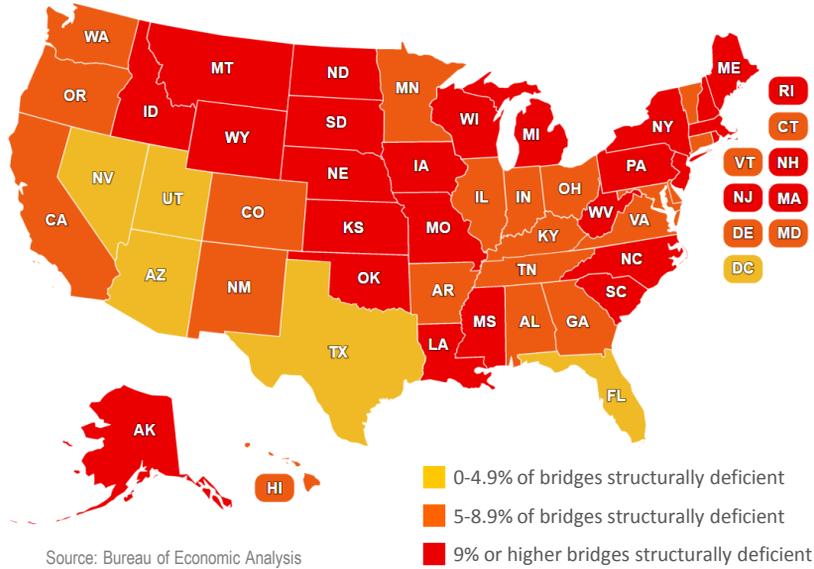
Current State of America's Infrastructure Is Poor

Our domestic infrastructure is the oldest on record and in desperate need of repair and new construction. The average age of the nation's fixed assets in 2015 was 22.8 years, the oldest in data back to 1925. While we are constantly reminded about much-needed upgrades to our roads, bridges, and transit systems on our daily commute, much of the domestic infrastructure is crumbling. This month more than 180,000 people were evacuated due to severe flooding concerns and safety issues with the Oroville Dam in California. As you can see in the map below, many of the nation's dams need repair and are listed as 'high-hazard' potential, which means if they were to fail it would likely result in fatalities.



Source: Brookings Institution analysis of data from the U.S. Army Corps of Engineers' National Inventory of Dams.

Despite the publicity surrounding Flint's water crisis, Amtrak's deadly derailment in 2015, and the fatal Minneapolis bridge collapse in 2007, the state of public infrastructure in the U.S. remains poor. The American Society of Civil Engineers has assigned a D+ rating to America's infrastructure and said it needs \$3.6 trillion in investment by 2020. According to the Bureau of Economic Analysis, the current public investment spending of 1.5% of GDP on transportation is the lowest rate since tracking began in 1947 and well below the 4.5% of the early 1970's. Every day there are 185 million daily crossings over 56,000 structurally deficient U.S. bridges, over 1,900 alone are on the Interstate Highway System (see the 2017 bridge report map on right).

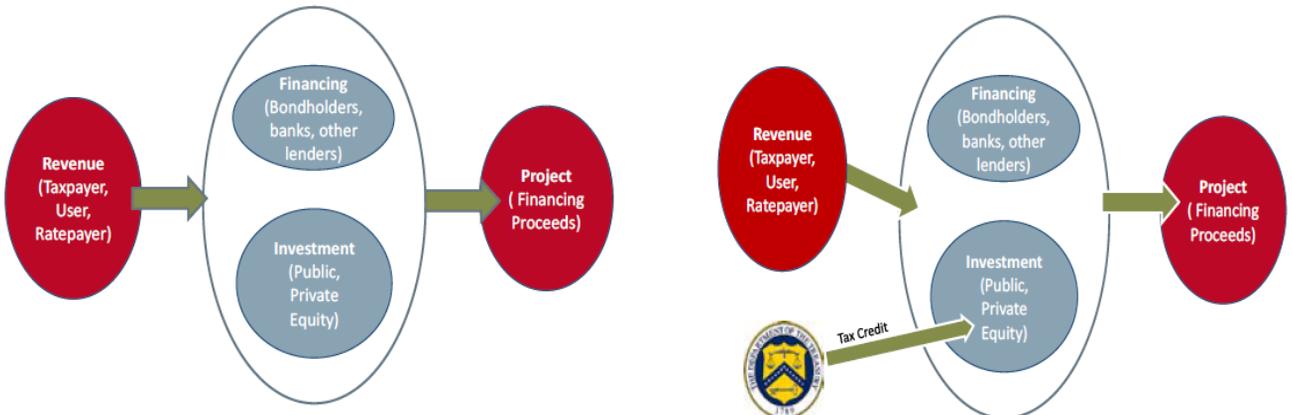


Trump's Infrastructure Finance Plan

One of President Trump's biggest campaign promises was to deliver a massive public infrastructure plan to Congress within his first 100 days in office. President 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 federally subsidized loans. While many of the details of such a plan have not yet been released, the Administration has proposed using approximately \$137B in federal tax cuts to generate private-sector investments to complete projects attractive to investors, such as toll roads, bridges, and airports. The plan's self-funding concept using tax credits coupled with possible repatriated foreign profits is not likely to cause fiscal reflation on its own. Below is a diagram that shows how Trump's expected infrastructure financing would work compared with traditional financing.

Traditional Financing

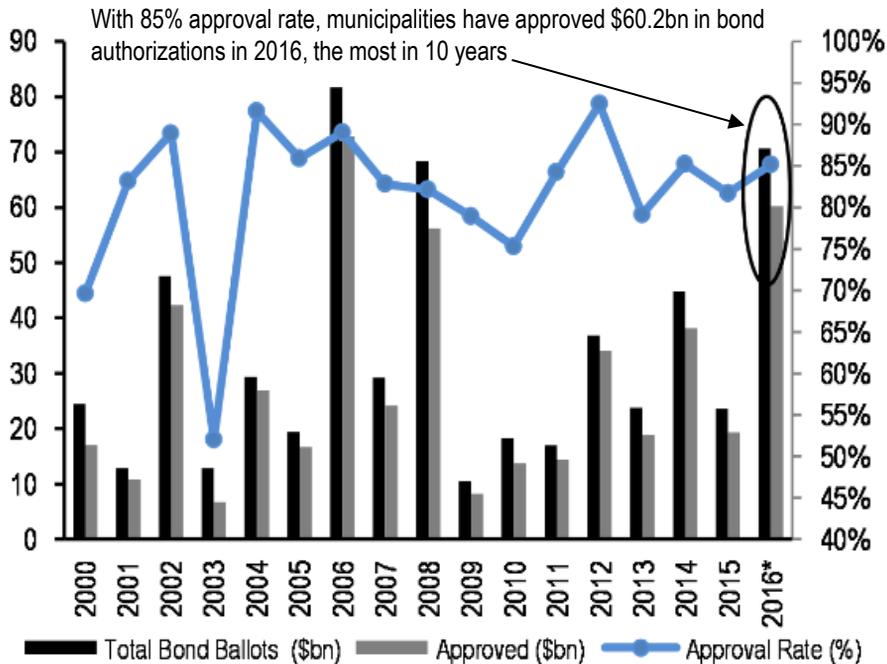
Ross-Navarro Plan/Expected Trump Plan



State and Local Infrastructure Spending

Despite historically low interest rates over the past several years, most public finance issuers have refinanced outstanding debt rather than issuing new debt for capital projects or capital improvements. However, in 2016, states finally increased transportation spending after the five-year Fixing America's Surface Act was enacted by Congress. In addition, there were approximately \$70 billion of municipal bond proposals on the ballot in the November election, the largest since 2006, when about \$82 billion went before voters (see chart below). 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 improvements. New issue muni supply is likely to increase, but the market should be able to handle it as refunding issuance is likely to decline. Historically, responsibility for financing capital domestic infrastructure has remained primarily at the state and local level, which we expect to continue going forward, but could be enhanced with Trump's infrastructure plan.

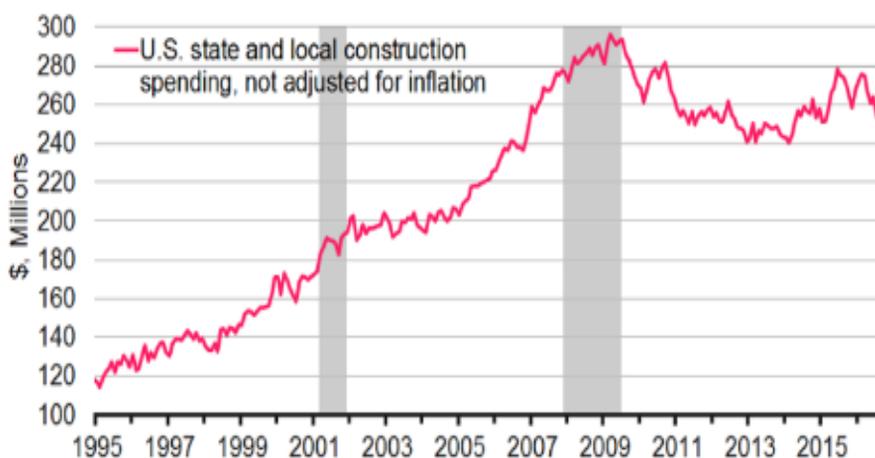
Voters approved an estimated \$60.2bn in 2016, the highest amount of bond ballot initiatives since 2006



Source: Bloomberg, Ipreo, J.P. Morgan

Overall, the anticipated increase in infrastructure funding is good for economic growth and public finance credit quality. Improving our domestic infrastructure is one of the few potential points of agreement in our politically polarized government. The administration may find it easier to enact aspects of its infrastructure plan than tax reform or the repeal and replacement of ACA. Trump's infrastructure proposal is not likely to increase the amount of municipal bond supply as the focus is on tax incentives to be used by private companies. As a result, we think an increase in federal infrastructure spending would be a credit positive for states and localities and not likely to have a technical impact of increased bond supply in the muni market; in fact it may replace some tax exempt financing. That being said, there could be an indirect impact of higher interest rates through fiscal reflation, but we do not think the infrastructure plan by itself is likely to add a significant amount of growth, as it's currently based on self-funding. Once again, the significant volatility our market has experienced since the election is likely to remain throughout the year due to policy uncertainty surrounding tax reform, ACA, and increased infrastructure spending.

State, Local Construction Outlays Are Down 16% from 2009



Source: Commerce Dept., Bloomberg, BloombergBriefs.com

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

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