

## Municipal Bond Investor Weekly

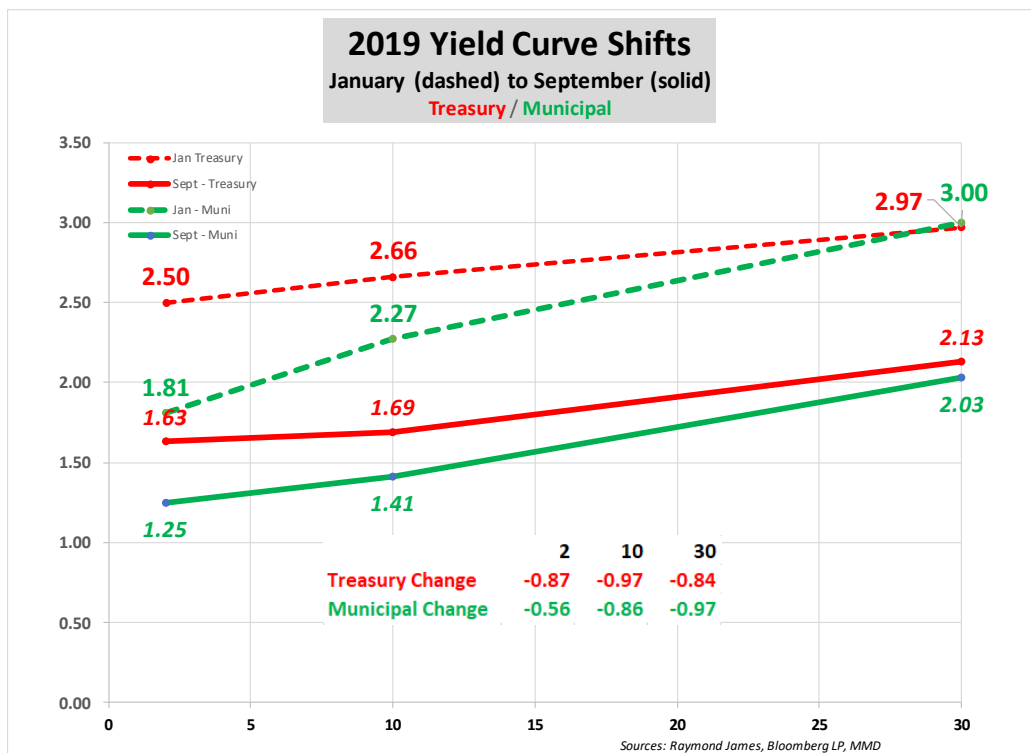
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### Exceptional Year-to-Date: 4<sup>th</sup> Quarter Not Likely to Disappoint

**Three down, One to Go...** As September comes to a close --- completing the first three quarters of 2019, and we head into the final turn toward year end, we thought it might help to recall the interest rate terrain we've covered. We started 2019 with a market "consensus" that rates were going higher, with a Fed biased toward "normalizing" Fed Funds (read higher rates). So, how far have we come? The chart below tells the story. Rates not just lower across the board, but **DRAMATICALLY** lower for both Treasuries and munis. Another big forecasting fail. I'll admit: while I thought rates would stay lower for longer, I didn't see this coming. Ten year yields declining nearly 100 basis points (bp) for Treasuries and 86 bp for munis? No way. And yet here we are. The changes on the short end were similarly dramatic --- as the Fed was initially raising, then lowering Fed Funds. Unfamiliar terrain indeed.



Throughout the year, we've discussed the supply-demand dynamics in the municipal market and this too is turning out to be a bit of a surprise --- with yields a major factor. September is expected to show strong new issuance volume for the muni market --- volume will likely be \$35 – 40 billion --- making it one of the top three strongest months in the past decade; muni new issuance through Q3 will likely be right at the decade average of ~\$275 billion. While unexpected, this is not surprising as issuers take advantage of lower rates. What is rather surprising is the

response of retail investors, as measured by flows *into* muni bond funds over 38 consecutive weeks, with 8 of the last 12 weeks registering over \$1 billion. As MMA analyst Matt Fabian noted in the Bond Buyer, "ICI data shows \$66.4 billion of inflows (in tax-exempt funds) year to date.... That's 23% more than the prior YTD record (\$54 B in 2009) and only \$5 billion behind the full year record of \$72 billion, also in 2009." **That tells you something: even as rates move lower, demand remains strong for tax-efficient investments,** thus prices higher, yields lower. That said, **beware investors chasing total return,** which some investors may be doing as the muni market's total return in 2019 has reached 6.7% based on Bloomberg Barclays muni index. Hardly a surprise given the interest rate moves. Regular readers know we don't normally focus on funds and total return objectives, but this is a key market driver and likely influencing "mainstream" investors. **This strong demand trend is likely to continue unabated through the Q4,** as investors clamor for returns, along with principal preservation and tax efficiency. That will make year ending planning/portfolio adjustment decisions even more important... and the earlier the better. Waiting until December 15 could prove to be a risky strategy for finding the right bonds!

**Credit Update:** For investors still holding Puerto Rico bonds, there was some movement last week as the federal board overseeing the island's debt restructurings submitted another plan to the court, this time addressing the general obligation debt. The board's executive director stated its goal is to have a court approved plan confirmed in the first half of 2020. We'll see. The initial proposal includes a "bi-furcated" settlement option, with holders of GO bonds issued prior to 2012 receiving 64% of what they are owed, and owners of bonds issued in 2012 and 2014 as little as 35% --- on the theory that that post 2012 bonds are invalid as they allegedly exceeded local constitutional debt limits. That will be an interesting issue for the court to decide as GO debt has been trading at similar levels, regardless of when they were issued. Meanwhile, Puerto Rico recently reported \$1.1 billion in revenue collected in July was \$160 million (17%) ahead of estimates. It's hard to square significantly higher revenues with dramatic cuts to GO bondholders and pensioners.

**The Week Ahead...** an even stronger week is expected this week, with new issue volume likely in the \$9 – 10 billion range... up more than 60% over last week's volume, with 29 deals scheduled at the \$100 million mark or larger. It's a week dominated by transportation issues. NYC GOs (Aa1/AA/AA) \$850 million tax-exempts are due on Thursday, with an additional \$150 million in taxable paper also selling. Mass DOT (A2/A+/A+) is selling ~\$490 million of revenue refunding bonds mid-week. Maryland Community Development Administration (Aa2/AA) has \$350 million of residential revenue bonds selling. On the competitive side, Maryland DOT (Aa1/AAA/AA+) has \$490 million of transportation bonds selling Wednesday. One deal of particular note: Wisconsin (Aa1/AA) will be issuing ~\$285 million of *taxable* advance refunding bonds, anticipating a 10% net present value savings even while using taxable bonds because rates have moved dramatically lower. (Recall that tax-exempt advance refunding were eliminated in the 2017 Tax Cut and Jobs Act.) See our calendar below for more details.

**For the Numbers...** Municipal bonds rallied last week, taking prices higher and yields lower. Yields on the long end of the curve fell by 5-6 basis points, while shorter maturities fell by 1-5 bp. With the rise in shorter municipal yields over the past month, especially relative to their taxable counterparts, the short end of the curve is providing significantly more value than it has for most of 2019. For example, the 5-year A-rated corporate yield is higher by ~15 basis points month-over-month, while the 5 year A-rated municipal yield is ~26 basis points higher.

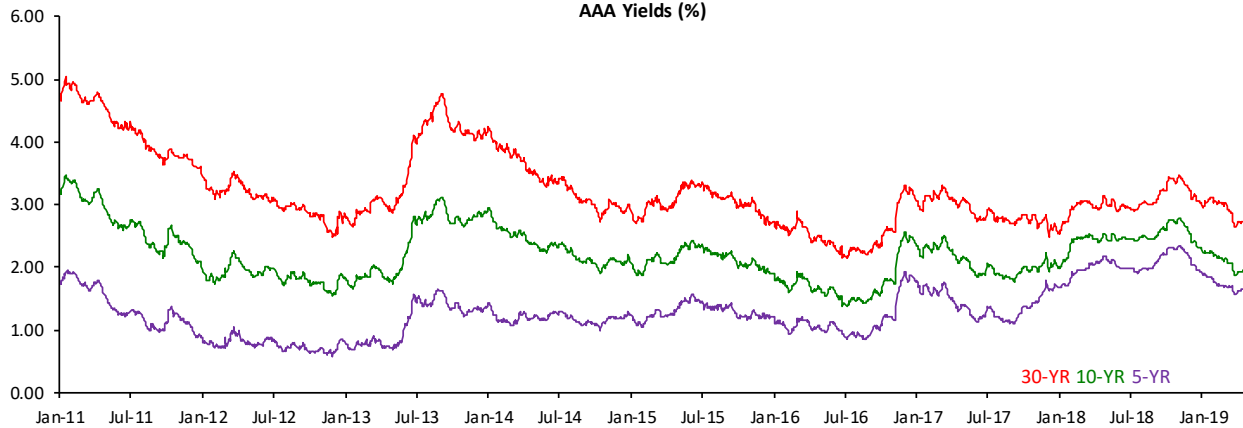
	This Week		Last Week		Change	
	10 Y	30 Y	10 Y	30 Y	10 Y	30 Y
<b>Municipal (AAA)</b>	1.46%	2.03%	1.51%	2.09%	-0.05%	-0.06%
<b>Treasury</b>	1.69%	2.13%	1.74%	2.17%	-0.05%	-0.04%
<b>Ratio</b>	86.2	95.2	86.7	96.3	-0.5	-1.1
<b>Tax Equivalent Ratio (Fed 37%)</b>	136.8	151.1	137.6	152.9	-0.8	-1.7

Bond Yields (%) as of 09/27/19											
	1	2	3	4	5	7	10	15	20	25	30
<b>Muni AAA<sup>1</sup></b>	1.25	1.25	1.25	1.25	1.25	1.31	1.46	1.67	1.84	1.98	2.03
Weekly Change *	▼ -2	▼ -2	▼ -2	▼ -2	▼ -2	▼ -4	▼ -5	▼ -6	▼ -5	▼ -7	▼ -6
<b>Tax Equiv Munis<sup>2</sup></b>	1.98	1.99	1.98	1.98	1.99	2.08	2.31	2.65	2.92	3.14	3.22
<b>Taxable A Muni<sup>3</sup></b>	2.34	2.18	2.15	2.19	2.26	2.41	2.59	2.82	3.07	3.32	3.36
Weekly Change *	▼ -6	▼ -6	▼ -5	▼ -4	▼ -1	▲ 1	▼ -1	▼ -8	▼ -12	▼ -8	▼ -7
<b>Treasuries<sup>3</sup></b>	1.74	1.63	1.58	1.56	1.56	1.62	1.69	1.93	1.95	n/a	2.13
Weekly Change *	▼ -10	▼ -6	▼ -5	▼ -4	▼ -5	▼ -6	▼ -5	▼ -4	▼ -4	n/a	▼ -4
<b>Corporates A<sup>3</sup></b>	2.06	2.03	2.05	2.11	2.20	2.39	2.65	3.04	3.32	3.33	3.31
Weekly Change *	▼ -4	▼ -5	▼ -4	▼ -4	▼ -4	▼ -3	▼ -3	▼ -2	▼ -1	▼ -1	▼ -2

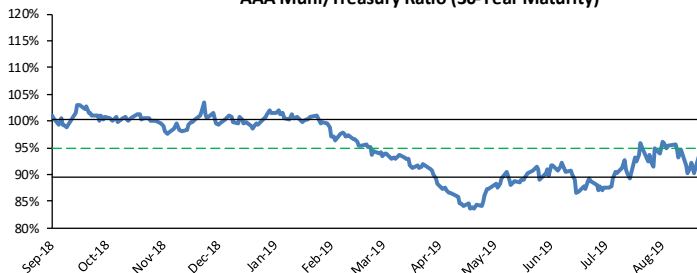
	This Week	1-Week Change	1-Year Change
<b>Dow Jones Industrial</b>	26,820	▼ -0.4%	▲ 1.4%
<b>NASDAQ Composite</b>	7,940	▼ -2.2%	▼ -1.3%
<b>Crude Oil</b>	55.91	▼ -3.8%	▼ -20.2%
<b>U.S. Dollar/Euro</b>	1.094	▼ -0.7%	▼ -5.5%
<b>Gold</b>	1,506	▼ -0.6%	▲ 22.3%

	This Week	Last Week	Last Year
<b>Prime Rate</b>	5.000	5.000	5.250
<b>3-Month LIBOR</b>	2.099	2.135	2.396
<b>Fed Funds</b>	2.000	2.000	2.250
<b>1-Month T-Bill</b>	1.900	1.950	2.100

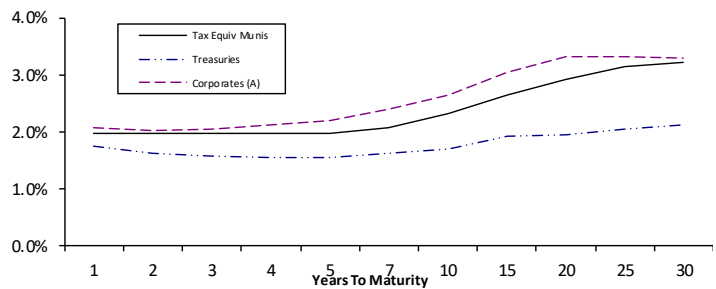
**Historical Perspective on the Municipal Market**  
AAA Yields (%)



**AAA Muni/Treasury Ratio (30-Year Maturity)**



**Comparative Yield Curves**



## New Issue Calendar

Date	Amount	Issuer	ST	Description	Moody's/S&P/Fitch	Maturity
10/1	\$850MM	The City of New York	NY	General Obligation Bonds, Fiscal 2020	Aa1 /AA /AA	10/1/21-44
10/1	\$12MM	Moraga ESD (Contra Costa County)	CA	General Obligation Bonds, Election of	/AA+ /	08/01/2020-44
10/1	\$7MM	La Habra City SD (Orange County)	CA	General Obligation Refunding Bonds 2019	Aa3 / /	08/01/2028-37
10/1	\$0MM	Indiana Bond Bank	IN	Taxable Special Program Refunding Bonds	/AA /	2/1/2025
10/1	\$11MM	Indiana Bond Bank	IN	Special Program Refunding Bonds	/AA /	2/1/2020-2/1/2030
10/1	\$22MM	Franklin-McKinley ESD (Santa Clara)	CA	2019 Taxable General Obligation	Aa3 / /	08-01-2036-44
10/2	\$8MM	Ojai Unified SD (County of Ventura)	CA	2014 General Obligation Bonds, Series C	/AA- /	08/01/2021-39
10/2	\$120MM	New Mexico Mortgage Finance	NM	Singe Family Mortgage Program Class I	Aaa / /	1/1/2021-50
10/2	\$5MM	Dolton-Riverdale SD 148 (Cook)	IL	Taxable General Obligation School Bonds	/AA / ( /A+ / ) BAM	12/1/2020-26
10/2	\$5MM	Dolton-Riverdale SD 148 (Cook)	IL	General Obligation Limited Tax Refunding	/AA / ( /A+ / ) BAM	12/1/2020-26
10/2	\$119MM	Denton County	TX	Permenent Improvement and Refunding	Aaa /AAA /	07/15/2021-44
10/2	\$7MM	Bennett Valley Union SD	CA	2019 Taxable General Obligation	/AA- /	08/01/2029-41
10/3	\$0MM	Lindsay Unified School District	CA	G.O. Refunding Bonds (Tax-Exempt & BQ)	/AA / ( /A+ / ) BAM	08/01/2020-28
10/3	\$0MM	Lindsay Unified School District	CA	General Obligation Bonds, Election of	/AA / ( /A+ / ) BAM	08/01/21 22 26-32
10/3	\$3MM	Lindsay Unified School District	CA	2019 G.O. Refunding Bonds (Federally	/AA / ( /A+ / ) BAM	08/01/2020-43
10/3	\$7MM	Lindsay Unified School District	CA	General Obligation Bonds, Election of	/AA / ( /A+ / ) BAM	08/01/2039-44
10/3	\$90MM	Florida Governmental Utility	FL	Utility Refunding Revenue Bonds (Aloha	A1 /AA /NR (A2 / / )	2020-39
10/3	\$3MM	El Dorado Union HSD	CA	2019 Refunding Certificates of Participation		
10/3	\$190MM	Dallas County Hospital District	TX	Limited Tax Refunding Bonds	Aa2 /AA- /	08/15/2020-34
10/3	\$44MM	Coachella Valley USD	CA	Riverside and Imperial County GO Bonds	/AA / (A2 / / ) BAM	08/01/2020-37

BQ: Bank Qualified, SG: Selling Group, PSF: Permanent School Fund, GO: General Obligation, UT: Unlimited Tax, LT: Limited Tax.

New issues are offered by Official Statement only.

Free copies on request. For full calendar of New Issues visit [www.raymondjames.com/fixed\\_income\\_municipal\\_bonds\\_calendar.htm](http://www.raymondjames.com/fixed_income_municipal_bonds_calendar.htm).

## Economic Calendar for the week of 09/30/19

30	Rosh Hashanah	1 October	2	3	4
9:45 Chicago Bus. Barometer (Sep)		10:00 Construction Spending (Aug) 10:00 ISM Manf. Survey (Sep) TBD Motor Vehicle Sales (Sep)	8:15 ADP Payroll Est. (Sep)	8:30 Jobless Claims (9/28) 10:00 Factory Orders (Aug) 10:00 ISM Non-Manf Survey (Sep)	NHL Seasonal Begins 8:30 Employment Report (Sep) 8:30 Trade Balance (Aug)

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Sources: (1) BVAL Municipal AAA Yield Curve (Callable) (2) Tax Equivalent Yield calculations on AAA-rated tax exempt yields assume a 37% tax rate (3) Treasury, Corporate, and Taxable Municipal yields from Bloomberg. Short Term Yields are from Bloomberg, Federal Reserve and Securities Industry and Financial Markets Association. \* In Basis Points.

BVAL Municipal AAA Yield Curve (Callable) - The curve is populated with high quality US municipal bonds with an average rating of AAA from Moody's and S&P. The yield curve is built using non-parametric fit of market data obtained from the Municipal Securities Rulemaking Board, new issues, and other proprietary contributed prices. The curve represents 5% couponing. The 3 month to 10 year points are bullet yields, and the 11 year to 30 year points are yields to worst for a 10-year call.