Municipal Bond Investor Weekly

High Net Worth Wealth Solutions and Market Strategies // Fixed Income Solutions

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THE WEEK AHEAD

1. According to Bloomberg, June money-in-motion (principal and interest payments) could exceed $55 billion. Bloomberg forecasts currently indicate we could see a supply "deficit" of $16 billion over the next 30 days.
2. This week's new issue calendar is estimated at ~$10 billion, providing an opportunity for investors with redemption money to reinvest.
3. The economic calendar is highlighted by potentially market moving inflation data with the Producer Price Index (PPI) on Tuesday, Consumer Price Index (CPI) on Wednesday, and Import/Export Price Indices on Thursday.

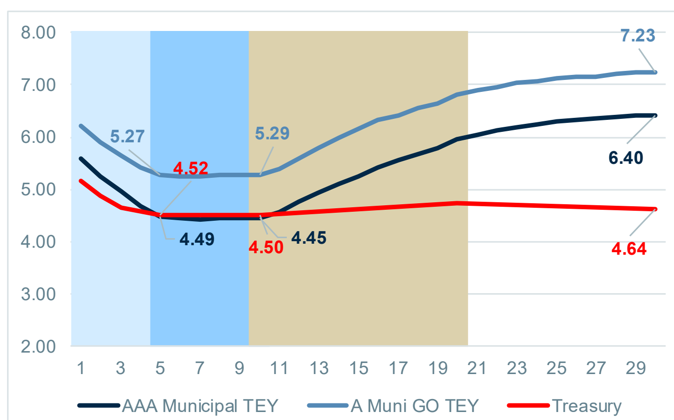
MONDAY'S COMMENTARY

THE NUMBERS THIS WEEK

Treasury yields were higher on the short part of the curve with 1 to 5 year yields increasing by 4 to 6 basis points while intermediate and longer-term yields were unchanged to slightly lower. Municipal bonds rallied, taking yields lower across the curve. The benchmark AAA curve was lower by 6 to 7 basis points for the week. Muni-Treasury ratios fell and currently sit at ~59% at 10-years, ~75% at 20-years, and ~82% at 30-years. While all of these ratios remain below historical averages, they highlight the attractive relative value that is available in municipal bonds on the longer parts of the curve.

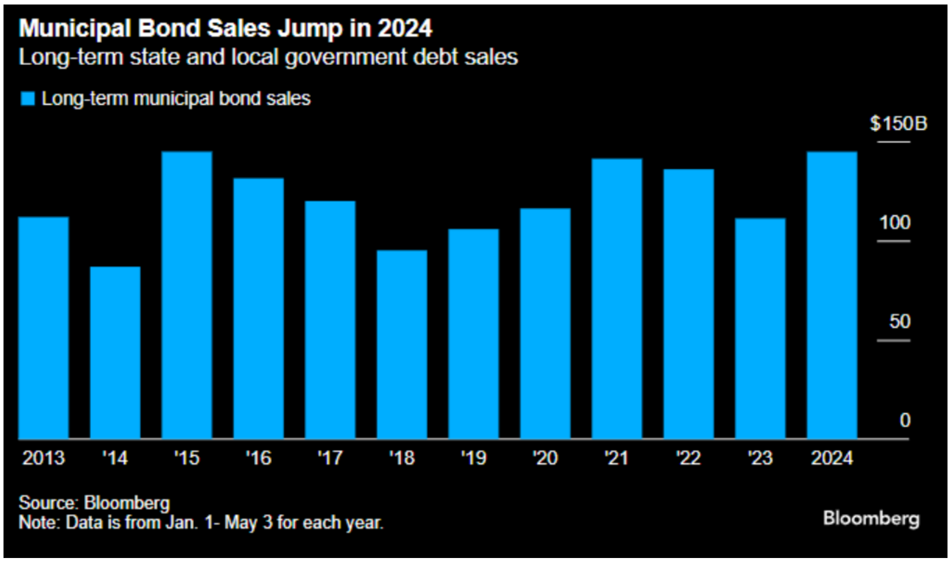
Year		Treasury	Municipal (AAA)	Municipal (A)	Municipal TEY* (AAA)	Municipal TEY* (A)	Muni (AAA)/Tsy Ratio	Muni TEY* (AAA)/Tsy Ratio
1	2025	5.17	3.31	3.68	5.58	6.22	64%	108%
2	2026	4.87	3.11	3.49	5.25	5.90	64%	108%
5	2029	4.52	2.66	3.12	4.49	5.27	59%	99%
10	2034	4.50	2.64	3.13	4.45	5.29	59%	99%
20	2044	4.74	3.53	4.03	5.96	6.81	74%	126%
30	2054	4.64	3.79	4.28	6.40	7.23	82%	138%

Taxable equivalent yield @ 40.8% tax rate



SUMMER DROUGHT?

We are approaching the unofficial start of summer in a couple of weeks, and while in some parts of the country that also means the start of hurricane season, in the municipal bond market that typically coincides with an elevated redemption season. On the supply side, year-to-date new issuance through April totaled ~$142 billion - a ~26% increase over the same period last year (~$113 billion) and ~10% higher vs the 10-year average (~$129 billion). The increase in issuance can be attributed to a variety of factors, including lower borrowing costs from the peak in the fall of 2023, governments prioritizing the financing of large projects, increased costs for infrastructure projects due to inflation, and issuers front-loading their borrowing ahead of November's US elections. In the summer season, it's common to have "negative net supply" as the number of bonds being redeemed outpaces the number of new bonds being issued. The question is: will supply remain elevated or will there be a drought this summer?



The months of ***June, July and August are traditionally the largest redemption months*** in the municipal bond market. Current Bloomberg data suggests approximately ~$108 billion of municipal bonds will either mature or be called over the three months from June 1 through August 31. Add in interest payments and that figure increases to ~$153 billion. In June alone, an estimated total of $55 billion of combined principal (~$40 billion) and interest (~$15 billion) is expected to be returned to investors. If new issuance in June comes in near the 10-year average of ~$42 billion, we could see a supply-demand imbalance in the muni market. An increase of 26% vs last year – keeping pace with the increase seen so far this year – would put June issuance at ~$49 billion. That would still result in a supply deficit of ~$6 billion vs the money-in-motion available for reinvestment. Bloomberg forecasts currently indicate we could see a "deficit" of $16 billion over the next 30 days.

What does that mean for municipal investors? Quite simply, demand (from reinvestment of matured and called bonds and interest payments) may exceed supply (new issues) over the course of the summer. If new issue supply continues to run at a similar increased pace to the start of the year (an increase of 26% in new issue supply vs June through August 2023's ~$107 billion in issuance totaling ~$135 billion based on data from The Bond Buyer), it would still be less than the amount of principal and interest expected to be returned to investors this summer (~$153 billion according to Bloomberg). Interest rates are at some of the best levels available in more than a decade – and we don't know how long this window of opportunity will stay open. For strategic investors in the top tax brackets, **municipal bonds continue to provide attractive tax-efficient income.** Better value can be found in longer maturities where the yield curve is steep. 20-year AAA munis currently yield 3.53% - that equates to a taxable equivalent yield (TEY) of 5.96% (based on the 37% federal tax bracket plus the 3.8% net investment income tax), providing a yield pick-up vs 20-year Treasuries yielding 4.74%. **Even more value can be found in AA and A rated municipal bonds** and for some investors **in high income tax states buying in-state bonds, with TEYs great than 7%**. So, when redemption money is available to reinvest, don't wait - opportunities may be limited. Our team of fixed income professionals is available to work with your financial advisor to help you weather any market conditions that may develop this summer!

ILLUSTRATIVE PORTFOLIOS

Our illustrative proposals reflect three opportunities along the yield curve with bonds maturing from 1 to 30 years. Municipal yields outperformed Treasuries, with portfolio yields lower by 6-7 basis points on the week. Long term investors will continue to realize additional yield further out on the curve. Strategically, to lock in long-term, reliable tax-efficient cash flow, our duration focused 10–20-year maturity illustration continues to offer an excellent tax efficient solution. **Looking to maximize yield?** The 20 – 30-year range continues to offer an additional ~65 basis points (over 10 – 20 years) and may be appropriate for some investors. The yield to worst is ~4.08%, which equates to a **taxable equivalent yield to worst of ~6.87%** for an investor in the top federal tax bracket and subject to the net investment income tax. If the callable bonds are not called, the yield to maturity increases to ~4.28%, which equates to a **taxable equivalent yield to maturity of ~7.21%**. This is a solution with 4-5% coupon bonds with an average coupon of 4.31% and a market price of ~$100.59. The **current yield is ~4.33%**. An investment with $1 million par value (~$1.015 million market value) will generate a federally tax-exempt annual coupon cash flow of ~$43,125.

National Municipal Bond Illustrative Portfolios

Week of May 13, 2024

1 – 10 Years

Totals & Averages @ Market	
Summary Totals	
Original Face	$1,000,000
Current Face (Par)	$1,000,000
Market Principal	$1,054,762
Accrued Interest	$11,122
Cash & Cash Alternatives	$0
-	-
-	-
Total Portfolio Value	$1,065,885
Next 12mo Cpn Cash Flow	$43,000
Generic Annual Cpn Cash Flow	$43,000
Weighted Averages	
Coupon*	4.300%
Maturity**	5.70 yrs
Duration	3.92
Yield to Worst	3.095%
Yield to Maturity	3.306%
Market Price*	105.476
Tax Lots Holdings Included	20 of 20

10 – 20 Years

Totals & Averages @ Market	
Summary Totals	
Original Face	$1,000,000
Current Face (Par)	$1,000,000
Market Principal	$1,065,234
Accrued Interest	$9,858
Cash & Cash Alternatives	$0
-	-
-	-
Total Portfolio Value	$1,075,092
Next 12mo Cpn Cash Flow	$45,089
Generic Annual Cpn Cash Flow	$45,000
Weighted Averages	
Coupon*	4.500%
Maturity**	14.55 yrs
Duration	6.27
Yield to Worst	3.446%
Yield to Maturity	3.844%
Market Price*	106.523
Tax Lots Holdings Included	20 of 20

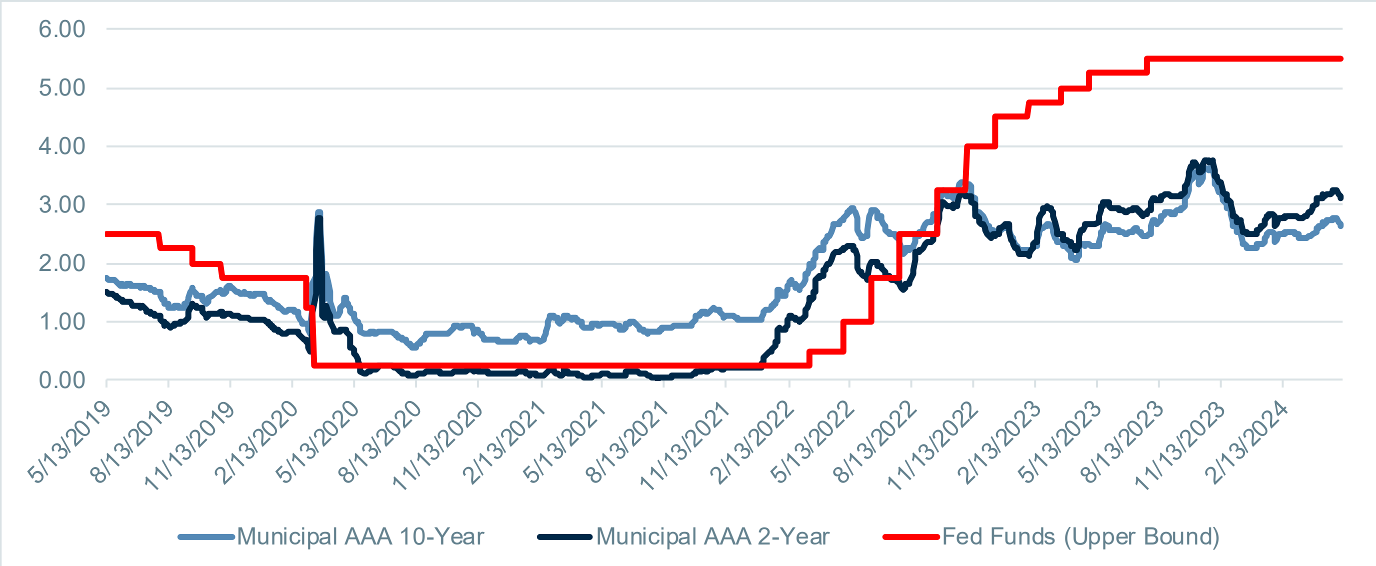
20 – 30 Years

Totals & Averages @ Market	
Summary Totals	
Original Face	$1,000,000
Current Face (Par)	$1,000,000
Market Principal	$1,005,894
Accrued Interest	$9,953
Cash & Cash Alternatives	$0
-	-
-	-
Total Portfolio Value	$1,015,847
Next 12mo Cpn Cash Flow	$43,234
Generic Annual Cpn Cash Flow	$43,125
Weighted Averages	
Coupon*	4.313%
Maturity**	24.65 yrs
Duration	11.44
Yield to Worst	4.074%
Yield to Maturity	4.275%
Market Price*	100.589
Tax Lots Holdings Included	20 of 20

NAVIGATING TODAY'S MARKET

According to The Bond Buyer, $10 billion in new issuance is expected this week. Some of the larger deals include: the New York City Transitional Finance Authority (Aa1/AAA/AAA) is selling $1.5 billion of tax-exempt future tax-secured subordinate bonds; the Dormitory of the State of New York is selling $965 million of School District Revenue Bond Financing Program revenue bonds across a range of series; the San Francisco Airport Commission (A1/-/A+) is issuing $925 million of San Francisco International Airport revenue refunding bonds; Miami-Dade County, FL (Aa3/AA/AA-) is bringing a $495 million water and sewer system revenue bond deal to market; and the Los Angeles Department of Water and Power (Aa2/AA+) is selling $448 million of water system revenue bonds. See table below for additional new issuance.

HISTORICAL YIELDS



Date	Amount	Issuer	ST	Description	Moody's/S&P/Fitch	Maturity
5/14	$77MM	Tennessee Housing Development	TN	Residential Finance Program Bonds	Aa1 /AA+ /	01/01/2025-
5/14	$179MM	Tennessee Housing Development	TN	Residential Finance Program Bonds	Aa1 /AA+ /	01/01/2025-
5/14	$14MM	Susquehanna Township School	PA	Dauphin County, General Obligation	Aa2 /NR /NR	5/15/25-37
5/14	$11MM	Sundance CFD (City of Buckeye,	AZ	General Obligation Refunding Bonds,	(/A- /)	07/01/2024-34
5/14	$14MM	San Bruno Park SD (San Mateo	CA	General Obligation Bonds 2018 Election	Aa2 / /	08/01/2034-53
5/14	$1500MM	New York City Transitional Finance	NY	Future Tax Secured Subordinate Bonds,	Aa1 /AAA /AAA	5/1/26-52
5/14	$180MM	Ector County Independent School	TX	Unlimited Tax School Building Bonds	Aaa /AAA / (Aa3 /A+ /) psf	8/15/2025-45
5/14	$46MM	Dormitory Authority of the State of	NY	School Districts Revenue Bond Financing	/AA / (Aa3 / /AA-) AGM	10/1/25-39
5/14	$60MM	Dormitory Authority of the State of	NY	School Districts Revenue Bond Financing	Aa2 /NR /AA-	10/1/25-39
5/14	$67MM	Dormitory Authority of the State of	NY	School Districts Revenue Bond Financing	NR /AA /AA-	10/1/25-39
5/14	$793MM	Dormitory Authority of the State of	NY	School Districts Revenue Bond Financing	/AA / (Aa3 / /AA-) AGM	10/1/25-52
5/14	$9MM	City of Mayfield Heights, Ohio	OH	General Obligation (Limited Tax) Aquatic	Aa2 /NR /NR	12/1/25-44
5/15	$42MM	West Hollywood PFA	CA	2024 Lease Revenue Bonds, Series A	/AA+ /AA+	04/01/2025-44
5/15	$5MM	Mississippi Development Bank	MS	Special Obligation Bonds, Series 2024	/AA- /	07/01/2025-44
5/15	$17MM	Lawndale Elementary SD (Los	CA	General Obligation Bonds, Election of	/AA- /	04/01/2025-44
5/15	$75MM	Kentucky Housing Corporation	KY	Single Family Mortgage Revenue Bonds	Aaa / /	07/01/2025-
5/15	$75MM	Kentucky Housing Corporation	KY	Single Family Mortgage Revenue Bonds	Aaa / /	07/01/2025-
5/15	$146MM	Colorado Housing and Finance	CO	Single Family Mortgage Class I Bonds	Aaa /AAA /	07/01/2025-
5/16	$256MM	Greenwood Independent School	TX	Unlimited Tax School Building Bonds,	/AAA /AAA (/AA- /AA) PSF	02/15/2025-54
5/16	$64MM	County of Buncombe, North	NC	Limited Obligation Bonds, Series 2024B	Aa1 /AA+ /NR	6/1/25-44
5/16	$39MM	Columbia-Brazoria Independent	TX	Unlimited Tax School Building Bonds	/AAA / (/A+ /) PSF	02/01/2025-54
5/16	$9MM	City of Leander	TX	Combination Tax & Revenue Certificates of	Aa1 /AA /	8/15/2025-44
5/16	$14MM	City of Leander	TX	General Obligation Refunding Bonds	Aa1 /AA /	8/15/2025-35
5/16	$21MM	City of Leander	TX	Combination Tax & Revenue Certificates of	Aa1 /AA /	8/15/2025-44

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Sourced from Bloomberg: Treasuries: US Fed H15 CMT Curve - The H15 curve is comprised of the constant maturity treasury rates as published daily by the Federal Reserve in the H15 report. Municipal (AAA): 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. Municipal (AA): US General Obligation AA Muni BVAL Yield Curve - The BVAL curve is populated with pricing from uninsured AA General Obligation bonds. Municipal (A): US General Obligation A+ A A- Muni BVAL Yield Curve - The BVAL curve is populated with pricing from uninsured A+, A, and A-rated General Obligation bonds. Fed Funds (Upper Bound): The federal funds rate is the short-term interest rate targeted by the Federal Reserve's Federal Open Market Committee as part of its monetary policy. US Treasury securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance.

The illustrative portfolios are intended as a starting point for a conversation on individual bonds. They are not intended as specific recommendations and bonds are shown for illustration purposes only. The bonds listed in the illustrative portfolios are rated A or better, with average ratings from Moody’s and Standard and Poor’s of Aa2 / AA. The yields shown in the proposals are based on pricing models, not current market offers. Yields shown are indicative of general market levels but are not a guaranteed result. Prices and yields are not inclusive of any fees or commissions.

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