

# Municipal Bond Investor Weekly

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



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## THE WEEK AHEAD

1. Municipal bonds underperformed this past week leading to the Muni/Treas ratios to move higher.
2. Pressure could be on supply as we enter the three largest redemption months of the year.
3. New issue calendar will be robust this week totaling over \$12 billion.



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## MONDAY'S COMMENTARY

Dethroning Cash as King!  
Illustrative Portfolios

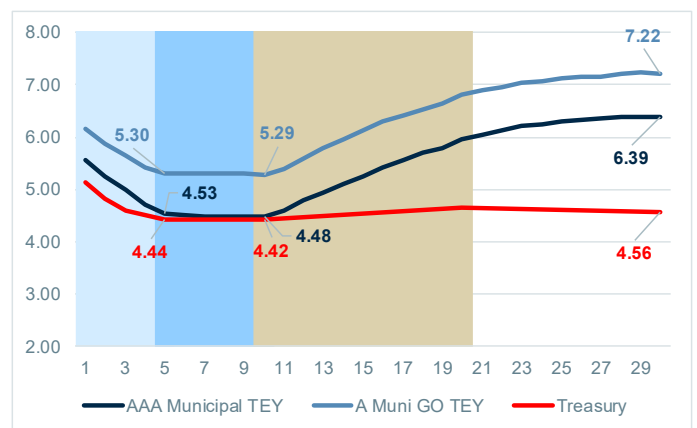
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## THE NUMBERS THIS WEEK

Treasury yields finished lower by 3 to 8 basis points, with larger moves on the intermediate and long part of the curve. Municipal yields were mostly unchanged with most points on the AAA curve finishing the week within a basis point of where they started, although the 5 to 10 year part of the curve moved ~2 basis points higher. Muni-Treasury ratios remain below historical norms at ~60% at 10 years and ~82% at 30-years.

Year		Treasury	Municipal (AAA)	Municipal (A)	Municipal TEY* (AAA)	Municipal TEY* (A)	Muni (AAA)/Tsy Ratio	Muni TEY* (AAA)/Tsy Ratio
1	2025	5.14	3.30	3.64	5.57	6.16	64%	108%
2	2026	4.83	3.11	3.47	5.25	5.87	64%	109%
5	2029	4.44	2.68	3.14	4.53	5.30	60%	102%
10	2034	4.42	2.65	3.13	4.48	5.29	60%	101%
20	2044	4.66	3.53	4.03	5.97	6.81	76%	128%
30	2054	4.56	3.78	4.27	6.39	7.22	83%	140%

\*Taxable equivalent yield @ 40.8% tax rate



## DETHRONING CASH AS KING!

Over the past 7 years, total money market assets have dramatically increased to \$6.05 trillion as of the week ended Wednesday, May 15, the Investment Company Institute reported. For the week, total money market assets increased by \$16.36 billion with taxable government funds increasing by \$17.23 billion and prime funds increasing by \$1.89 billion. Tax-exempt money market funds decreased by \$2.76 billion for the week.



With many current money market rates at 5.00%, Treasury Bills hovering around a 5.30% and the 2-year bond at a 4.82%, you may question why you would lock in longer duration bonds. Short-term yields are at some of the highest levels in the past 20 years, however, how much longer will they remain at these historic levels is unknown. Undeniably these rates are attractive and should be considered for short term liquidity needs. The issue facing many investors when these bonds mature or the money market rates decline rapidly is reinvestment risk. Reinvestment risk is the risk that maturing bond proceeds will have to be reinvested into lower-yielding bonds.

We have witnessed some investor repositioning for the possible shift of monetary policy; however, based on money market balances... cash is still king to many investors! They may feel that the Fed may not be done hiking rates based on another potential inflation spike. However, based on Fed Chairman Jerome Powell's comments last week, that is highly unlikely!

It is important to note that some money market rates are subject to Federal and possible state income taxes. This presents the topic of after-tax-yield (ATY). The ATY on taxable securities needs to be analyzed when comparing them to tax-exempt municipal bond yields. If an investor is in the highest Federal tax-bracket and subject to the Medicare surtax, a 5.00% money market rate would equal an ATY of below 3.00%.

What should investors do to protect themselves from reinvestments risk? Our recommendation is to speak to your financial advisor and discuss the strategy going forward... the Fixed Income Solutions professionals can assist in building a laddered portfolio of bonds. This will allow you the opportunity to roll over redemptions each year based on the maturity structure of the ladder, while owning longer maturity bonds to protect your duration. The municipal curve remains upward sloping after 8 years, highlighting the steepest part of the municipal yield is between 11 and 25 years. Always discuss liquidity needs with your advisor to ensure you have the cash available for those needs; however, it may be prudent to lock in for longer at these attractive municipal rates, do not get too short!

## ILLUSTRATIVE PORTFOLIOS

Our illustrative proposals reflect three opportunities along the yield curve with bonds maturing from 1 to 30 years. Municipal yields underperformed Treasuries, with portfolio yields higher 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 ~61 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 ~7.22%**. This is a solution with 4-5% coupon bonds with an average coupon of 4.31% and a market price of ~\$100.498. The **current yield is ~4.29%**. 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 20, 2024

### 1 – 10 Years

Totals & Averages @ Market	
Summary Totals	
Original Face	\$1,000,000
Current Face (Par)	\$1,000,000
Market Principal	\$1,052,209
Accrued Interest	\$11,958
Cash & Cash Alternatives	\$0
-	-
-	-
Total Portfolio Value	\$1,064,167
Next 12mo Cpn Cash Flow	\$43,000
Generic Annual Cpn Cash Flow	\$43,000
Weighted Averages	
Coupon*	4.300%
Maturity**	5.68 yrs
Duration	3.89
Yield to Worst	3.141%
Yield to Maturity	3.344%
Market Price*	105.221
Tax Lots Holdings Included	20 of 20

\*Par-Wtd, all else Mkt-Wtd.  
\*\*Avg life used for principal paydowns, and perpetual securities are assigned a 40 year maturity.

### 10 – 20 Years

Totals & Averages @ Market	
Summary Totals	
Original Face	\$1,000,000
Current Face (Par)	\$1,000,000
Market Principal	\$1,063,455
Accrued Interest	\$10,733
Cash & Cash Alternatives	\$0
-	-
-	-
Total Portfolio Value	\$1,074,188
Next 12mo Cpn Cash Flow	\$45,089
Generic Annual Cpn Cash Flow	\$45,000
Weighted Averages	
Coupon*	4.500%
Maturity**	14.53 yrs
Duration	6.25
Yield to Worst	3.468%
Yield to Maturity	3.863%
Market Price*	106.346
Tax Lots Holdings Included	20 of 20

\*Par-Wtd, all else Mkt-Wtd.  
\*\*Avg life used for principal paydowns, and perpetual securities are assigned a 40 year maturity.

### 20 – 30 Years

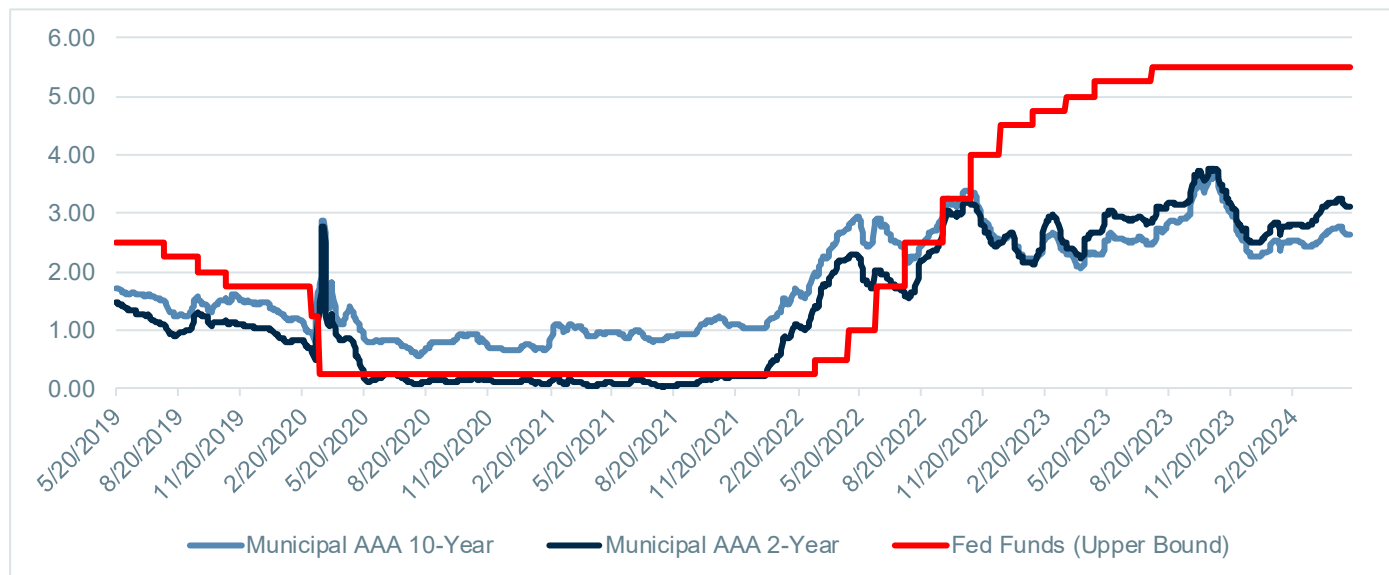
Totals & Averages @ Market	
Summary Totals	
Original Face	\$1,000,000
Current Face (Par)	\$1,000,000
Market Principal	\$1,004,978
Accrued Interest	\$10,792
Cash & Cash Alternatives	\$0
-	-
-	-
Total Portfolio Value	\$1,015,769
Next 12mo Cpn Cash Flow	\$43,234
Generic Annual Cpn Cash Flow	\$43,125
Weighted Averages	
Coupon*	4.313%
Maturity**	24.63 yrs
Duration	11.82
Yield to Worst	4.078%
Yield to Maturity	4.281%
Market Price*	100.498
Tax Lots Holdings Included	20 of 20

\*Par-Wtd, all else Mkt-Wtd.  
\*\*Avg life used for principal paydowns, and perpetual securities are assigned a 40 year maturity.

## NAVIGATING TODAY'S MARKET

According to The Bond Buyer, over \$12 billion in new issuance is expected this week. Some of the larger deals include: Harris County, TX (Aa2/-/AA) is selling \$950 million of toll road first lien revenue and refunding bonds; the Texas State University System Board of Regents (Aa2/-/AA) is bringing a \$608 million Revenue Financing System deal to market; the California Enterprise Development Authority (Aa3/AA-) is issuing \$520 million of Riverside County Mead Valley Wellness Village Project lease revenue bonds; Austin, TX (Aa2/AA/AA-) is selling \$456 million of water and wastewater system revenue bonds; and the Illinois Finance Authority (Aa3/AA-) is issuing \$286 million of Endeavor Health Credit Group revenue refunding bonds. See table below for additional new issuance.

HISTORICAL YIELDS



Date	Amount	Issuer	ST	Description	Moody's/S&P/Fitch	Maturity
5/20	\$75MM	Pennsylvania Housing Finance	PA	Single Family Mortgage Revenue Bonds	Aa1 /AA+ /	10/01/2034-
5/20	\$375MM	Pennsylvania Housing Finance	PA	Single Family Mortgage Revenue Bonds	Aa1 /AA+ /	10/01/2034-
5/20	\$46MM	New Hampshire Housing Finance	NH	Multi-Family Housing Revenue Bonds	Aaa //	01/01/2025-36,39,44
5/20	\$16MM	Arizona IDA	AZ	Single Family Mortgage Revenue Bonds	Aa1 /NR /NR	10/1/2054
5/20	\$49MM	Arizona IDA	AZ	Single Family Mortgage Revenue Bonds	Aa1 /NR /NR	04/01/2025-
5/21	\$63MM	Volusia County Educational	FL	Educational Facilities Revenue Bonds	Baa1 /BBB+ /	6/1/29-54
5/21	\$12MM	South Whittier SD (Los Angeles)	CA	General Obligation Bonds Election of	/A+ /	08/01/2025-27,37-53
5/21	\$23MM	Lampeter-Strasburg School	PA	GO Bonds, Series of 2024	Aa3 //	2025-2044
5/21	\$950MM	Harris County	TX	Toll Road First Lien Revenue & Refunding	Aa2 //AA	08/15/2025-50
5/21	\$100MM	Florida Housing Finance	FL	Homeowner Mortgage Revenue Bonds		
5/21	\$150MM	Florida Housing Finance	FL	Homeowner Mortgage Revenue Bonds		
5/21	\$4MM	City of Clinton	MO	Certificates of Participation, Series 2024	/A/	12/01/2024-34
5/22	\$37MM	Tredyffrin/Easttown School District	PA	General Obligation Bonds, Series of 2024	Aaa //	02/15/25 - 45
5/22	\$75MM	Oklahoma Housing Finance	OK	Single Family Mortgage Revenue Bonds	Aaa //	05/01/2025-
5/22	\$21MM	Housing Finance Authority of	FL	Multifamily Housing Revenue Bonds,	Aaa //	
5/22	\$7MM	Hatboro-Horsham School District	PA	GO, Series of 2024	Aa1 //	2024-2039
5/22	\$7MM	Crawford Au Sable SD	MI	2024 School Building and Site Bonds,	/A+ /	05/01/2026-42
5/22	\$88MM	City of Boise City, Idaho	ID	Airport Customer Facility Charge Revenue	/AA/ (A3 / /BBB+ )	2027-39, 44, 49, 54
5/22	\$6MM	CFD No. 2017-77 (La Ventana) of	CA	2024 Special Tax Bonds	NR /NR /NR	09/01/2024-
5/22	\$90MM	California Enterprise Development	CA	Lease Revenue Bonds (Riverside County-	Aa3 /AA- /NR	11/01/2034-
5/22	\$430MM	California Enterprise Development	CA	Lease Revenue Bonds (Riverside County-	Aa3 /AA- /NR	11/01/2028-
5/23	\$3MM	HEHFB of the City of Memphis, TN	TN	Collateralized Multifamily Housing Bonds	Aaa //	12/1/2024
5/23	\$26MM	HEHFB of the City of Memphis, TN	TN	Collateralized Multifamily Housing Bonds	Aaa //	12/1/2024
5/23	\$20MM	HEHFB of the City of Chattanooga,	TN	Collateralized Multifamily Housing Bonds	/AA+ /	12/1/2029
5/23	\$8MM	City of Carrollton, Texas	TX	Waterworks and Sewer System Revenue	/AAA /AAA	05/01/2025-44
5/23	\$33MM	City of Carrollton, Texas	TX	General Obligation Improvement &	/AAA /AAA	08/15/2025-39

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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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