

Monthly Municipal Market Update

Month in review

AAA municipal bond yields declined dramatically over the month, with yields on bonds five years and under falling anywhere from 21–25 basis points (bps), while yields on bonds from beyond six years sank within the 27–31 bps range.¹

Monthly municipal bond issuance in January totaled \$29.6 billion, marking the lowest such figure since May 2019, but the second-largest January issuance of the last decade — surpassed only by the \$36 billion issued in January 2017. A traditionally slower month for new muni bond issuance, January’s increase in supply relative to the beginning of previous years was mostly due to the recent growth of taxable issuance. New money contributed \$19.8 billion to the month’s total issuance, while taxable municipal debt amounted to \$6.6 billion.²

- The Federal Reserve’s rate-setting committee unanimously voted to leave interest rates unchanged for the second straight month at their 29 January meeting. “We’re comfortable with our current policy stance and we think it’s appropriate,” stated Chairman Jerome Powell following the announcement. Against the backdrop of a shaky global economy and difficulty buoying U.S. inflation above its 2% target, the Fed had been expected by some to alter short-term rates, which would have made a cut more likely than a hike.³

- Municipal bond indices boasted a solid month of performance as yields declined across the curve. The Bloomberg Barclays Municipal Bond Index and High Yield Municipal Bond Index returned 1.80% and 2.46% in January, respectively.⁴
- Muni/Treasury ratios declined on the short end of the curve in January, with the one-year ratio ending the month at just 57% (down from 66%), the two-year ratio at 62% (down from 66%), and the five-year ratio at 63% (down from 65%). The 10-year ratio ended the month at 76%.⁵
- January’s primary market issuance of \$29.6 billion — about 22% of which was attributable to taxable municipal issuance — represented a 27.4% decrease from December 2019, but an 18.6% increase compared to January 2019.⁶
- Despite a 10-year high for the month of January with respect to par traded in the secondary market (\$252 billion), the 682,000 total trade quantity marked the fifth-lowest monthly figure since July 2016 — likely a signal that munis traded in relatively large blocks to start the decade.⁷

Figure 1: Market snapshot

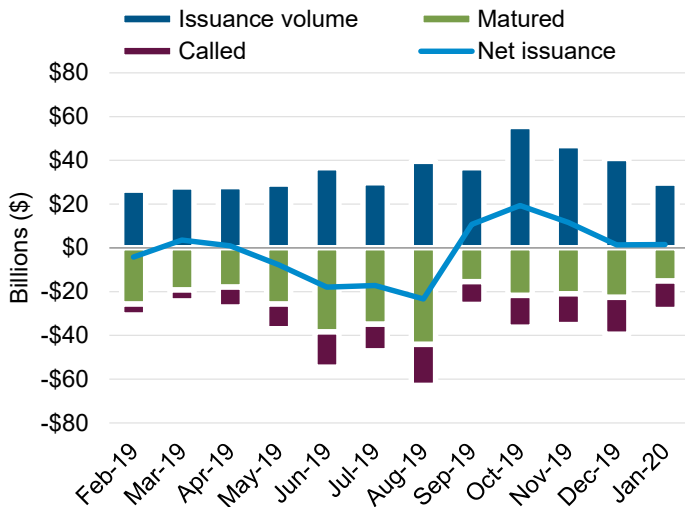
	Muni yields (MMD AAA)			U.S. Treasury yields			Muni taxable equivalent	
	Yield	MTD change	YTD change	Yield	MTD change	YTD change	Yield	Spread
2-year	0.83%	-0.21%	-0.21%	1.33%	-0.23%	-0.23%	1.40%	0.07%
5-year	0.84%	-0.25%	-0.25%	1.33%	-0.35%	-0.35%	1.42%	0.09%
10-year	1.15%	-0.29%	-0.29%	1.52%	-0.39%	-0.39%	1.94%	0.42%
30-year	1.80%	-0.29%	-0.29%	2.01%	-0.37%	-0.37%	3.04%	1.03%

\$29.6B	-\$11.2B	\$12.4B	1.80%	2.46%	-29bps	-39bps
YTD muni issuance	M/M muni issuance	YTD muni fund flows	YTD IG return	YTD HY return	YTD change in 10yr muni yield	YTD change in 10yr Treasury yield

Yields and spreads: Thomson Reuters. Taxable equivalent yield assumes 37% federal income tax and 3.8% Medicare investment tax. Spread refers to spreading the municipal taxable equivalent yield against the U.S. Treasury yield. Monthly new issuance: The Bond Buyer Data. Muni fund flows: Refinitiv Lipper. YTD IG return: Bloomberg Barclays Municipal Bond Index. YTD HY return: Bloomberg Barclays High Yield Municipal Bond Index. All data as of 31 January 2020.

Muni technicals in focus: Supply/Demand imbalance drives strong start for munis

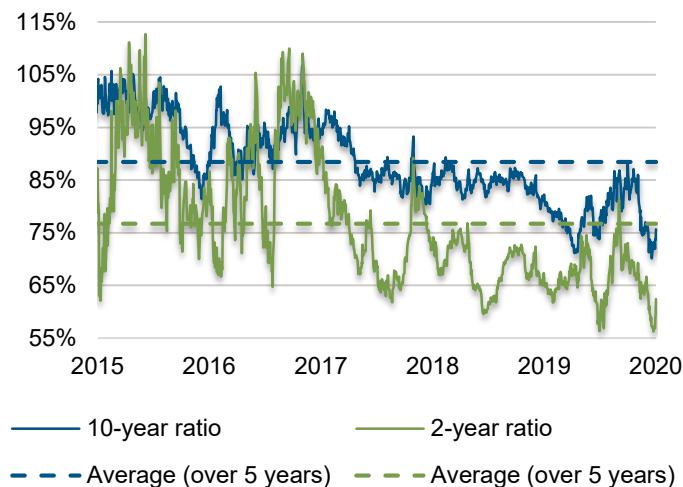
Figure 2: Overall market net supply



Source: Maturity and called data, Bloomberg; issuance data, The Bond Buyer. All data as of 31 January 2020

Fueled by a general flight to safety amid global tension and public health concerns, Treasury yields plunged and the Treasury curve inverted in January for the first time since October.⁸ Given lower yields, the Bloomberg Barclays Municipal Bond Index delivered a gain of 1.80% in January, which represented the largest monthly gain in five years and the fourth-straight month of positive returns for the municipal market.⁹ Historically, January tends to be a strong month for munis due to the seasonal wave of coupon payments and bond maturities coupled with a slowdown in supply. This dynamic, termed the “January effect,” held true this year.

Figure 3: Municipal/Treasury ratio



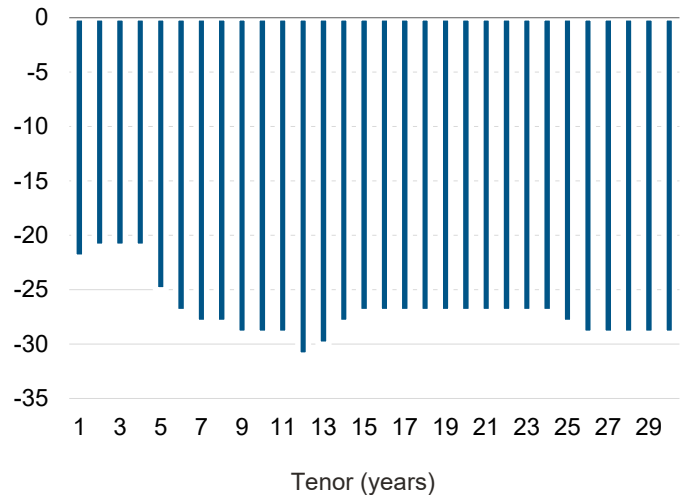
Source: Thomson Reuters TM3 MMD Interactive as of 31 January 2020

Last year’s trend of robust retail demand persisted, with January reporting average weekly inflows of approximately \$2.9 billion — including one robust weekly inflow of \$5.2 billion, the second-largest such figure since 2010.¹⁰ While weekly inflows surpassed December 2019’s average of about \$2.0 billion, supply was roughly in line with the slow start to previous years.¹¹ January recorded only \$29.6 billion of total new issuance, including \$6.6 billion in taxable municipal securities.¹²

Thus far, taxable municipal bonds have continued to contribute to the shortage of new tax-exempt issues. Weak seasonal issuance combined with robust demand has pushed municipal yields toward record lows, with the 30-year municipal yield reaching 1.80%.¹³ On 17 January, the 10-year muni/Treasury ratio declined to 70.11% — its lowest point since 2001.¹⁴

Notably, the Supreme Court elected not to review a ruling from the United States Court of Appeals for the First Circuit — leaving the First Circuit’s March 2019 verdict in effect. In this ruling, the First Circuit had decided that the Puerto Rico Highway Transportation Authority was not required to pay certain revenues to bondholders during the pendency process of bankruptcy proceedings. Some market participants have suggested this ruling may dissuade purchases of revenue bonds, given the weakened perceived legal strength of special revenues. We believe the impact of the ruling is overstated, as there is a lack of certainty and existing case history for situations of credit distress, such as that which exists in Puerto Rico. As part of our disciplined approach to credit research, we continue to prioritize understanding the parent obligor’s financial health and do not anticipate meaningful spread widening or increased borrowing costs for revenue bonds due to this ruling.¹⁵

Figure 4: Month-over-month change in MMD yields (bps)



Source: Thomson Reuters TM3 MMD Interactive as of 31 January 2020

Figure 5: Market data

Municipal index returns

Muni returns	YTW	MTD return	YTD return
Bloomberg Barclays Muni Index	1.47%	1.80%	1.80%
Bloomberg Barclays 1–10 (1–12)	1.13%	1.29%	1.29%
Bloomberg Barclays Muni Short (1–5)	1.00%	0.67%	0.67%
Bloomberg Barclays High Yield Muni	3.61%	2.46%	2.46%

Source: Bloomberg Barclays as of 31 January 2020

Monthly municipal fund net flows (in millions)

Month	2020/2019	2019/2018	2018/2017
August	\$9,900	\$1,971	\$2,467
September	\$6,651	(\$168)	\$1,443
October	\$5,600	(\$3,800)	\$346
November	\$9,000	(\$5,410)	\$1,640
December	\$9,568	(\$1,972)	\$383
January	\$11,500	\$3,906	\$3,391

Source: Refinitiv Lipper as of 31 January 2020

Average monthly visible supply (in millions)

Month	2020/2019	2019/2018	2018/2017
August	\$11,002	\$10,235	\$9,367
September	\$11,945	\$7,934	\$10,535
October	\$13,950	\$8,888	\$11,250
November	\$15,275	\$7,164	\$11,242
December	\$11,295	\$6,331	\$13,286
January	\$10,115	\$7,452	\$6,832

Source: Bloomberg as of 31 January 2020

Secondary market activity (in millions)

Month	Average par of Bloomberg pick	Average daily bid wanted
Jan-19	\$14,965	\$854
Feb-19	\$14,013	\$848
Mar-19	\$18,886	\$828
Apr-19	\$18,146	\$767
May-19	\$17,071	\$774
Jun-19	\$19,118	\$820
Jul-19	\$16,320	\$474
Aug-19	\$12,712	\$630
Sep-19	\$15,540	\$743
Oct-19	\$15,486	\$562
Nov-19	\$11,851	\$562
Dec-19	\$10,752	\$529
Jan-20	\$11,221	\$597

Source: Bloomberg as of 31 January 2020

10-year municipal vs. 10-year Treasury yields

Day	Municipal	Treasury
12/31/2019	1.44%	1.91%
1/31/2020	1.15%	1.52%

Source: Thomson Reuters as of 31 January 2020

Monthly new issuance (in millions)

Month	2020/2019	2019/2018	2018/2017
August	\$39,506	\$34,042	\$37,541
September	\$36,556	\$25,220	\$29,696
October	\$55,544	\$36,585	\$40,099
November	\$46,680	\$27,846	\$45,430
December	\$40,787	\$21,965	\$69,827
January	\$29,623	\$24,968	\$21,506

Source: The Bond Buyer, including bond and note issuance, as of 31 January 2020

Monthly bond redemptions (in millions)

Month	Amount matured	Amount called
Feb-19	\$25,757	\$4,858
Mar-19	\$19,271	\$4,970
Apr-19	\$17,895	\$9,093
May-19	\$25,753	\$11,146
Jun-19	\$38,419	\$16,118
Jul-19	\$34,915	\$12,114
Aug-19	\$44,123	\$18,747
Sep-19	\$15,521	\$10,275
Oct-19	\$21,783	\$14,425
Nov-19	\$21,026	\$13,991
Dec-19	\$22,607	\$16,803
Jan-20	\$15,207	\$12,947

Source: Bloomberg as of 31 January 2020

Sector returns (in %)

Select sectors	Jan '19	YTD	2019
General obligation	1.77%	1.77%	7.30%
Pre-refunded	0.64%	0.64%	3.55%
Revenue	1.90%	1.90%	7.93%
Education	1.90%	1.90%	8.00%
Healthcare	1.99%	1.99%	8.69%
Industrial development	1.66%	1.66%	8.44%
Lease-backed	2.05%	2.05%	8.46%
Power	1.58%	1.58%	7.04%
Special tax	2.02%	2.02%	7.82%
Transportation	1.93%	1.93%	7.89%
Water & sewer	1.82%	1.82%	7.29%
HY tobacco	2.61%	2.61%	11.60%
HY Puerto Rico	5.61%	5.61%	20.03%

Source: Bloomberg Barclays Index as of 31 January 2020

- ¹ Thomson Reuters TM3 MMD Interactive Data, 31 January 2020
- ² The Bond Buyer: Primary Market Statistics – A Decade of Bond Finance, 31 January 2020
- ³ Nick Timiraos, “Federal Reserve Holds Benchmark Rate Steady,” The Wall Street Journal, 29 January 2020
- ⁴ Bloomberg Barclays, 31 January 2020
- ⁵ Thomson Reuters TM3 MMD Interactive Data, 31 January 2020
- ⁶ The Bond Buyer: Primary Market Statistics – A Decade of Bond Finance, 31 January 2020
- ⁷ SIFMA: US Municipal Trading, 3 February 2020
- ⁸ Thomson Reuters TM3 MMD Interactive Data, 31 January 2020
- ⁹ Bloomberg Barclays, 31 January 2020
- ¹⁰ Refinitiv Lipper, 31 January 2020
- ¹¹ Ibid
- ¹² The Bond Buyer: Primary Market Statistics – A Decade of Bond Finance, 31 January 2020
- ¹³ Thomson Reuters TM3 MMD Interactive Data, 31 January 2020
- ¹⁴ Ibid
- ¹⁵ Brian Tumulty, “Supreme Court leaves Puerto Rico special revenue decision alone,” The Bond Buyer, 13 January 2020

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