



CABRERA CAPITAL MARKETS LLC

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MUNICIPAL MARKET WEEKLY UPDATE

Thursday, October 22, 2020

Primary and Secondary Market Recap

By John Kozak, Managing Director and Head of Municipal Sales and Trading

PRIMARY MARKET LED BY MASSIVE NEGOTIATED DEALS

This week, the negotiated calendar contained 25 deals over \$100 million, the largest being a \$1.5 billion Alabama Public School and College Authority issue (priced today). The preliminary scale went out 3 basis points tighter than the pre-marketing scale. Following strong demand in the order period, several maturities were bumped as much as 8 basis points higher. CommonSpirit Health not only priced a \$1.6 billion corporate deal, but also priced a \$577 million tax-exempt issue. For this Baa1/BBB+ credit, the longest maturity was priced using a 4% coupon at 115 basis points over the MMD scale in 29 years. On the competitive calendar, Illinois came with \$850 million in new money across four different deals. Spreads in 10 years were +270 basis points. This spread was dramatically different than the state's issue in May, which came at +452 basis points in 10 years. Next week, the deal to watch will be the \$500 million California Public Works issue that will price a 1-year forward delivery.

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97) Options ▾		104) Settings		Negotiated Calendar: Deal Details					
ALABAMA PUB SCH & CLG-A		✓	STAL	Tax FED & ST	TAX-EXEMPT	Type	NEG	93) Financials	93) Attachments
Summary				Maturity	Amt(M)	Cpn	P/Y	CUSIP	FIGI
Sale Date	10/19/20	1)		11/01/2022	28000.0	5.000	0.260	010609FA8	BBG00XV3CTL6
Amount	1,274,750,000.00	2)		11/01/2023	41890.0	5.000	0.280	010609FB6	BBG00XV3CTM5
Manager	WELLS FARGO BANK NA	3)		11/01/2024	44040.0	5.000	0.370	010609FC4	BBG00XV3CTN4
Bond Type	REVS	4)		11/01/2025	46300.0	5.000	0.420	010609FD2	BBG00XV3CTP2
Dated Date	11/04/20	5)		11/01/2026	48675.0	5.000	0.600	010609FE0	BBG00XV3CTQ1
1st Coupon	05/01/21	6)		11/01/2027	112095.0	5.000	0.780	010609FF7	BBG00XV3CTR0
Deal number	455592	7)		11/01/2028	53795.0	5.000	0.930	010609FG5	BBG00XV3CTS9
Rating/Enhancement		8)		11/01/2029	56550.0	5.000	1.070	010609FH3	BBG00XV3CTT8
Moody's	Aa1	9)		11/01/2030	59450.0	5.000	1.190	010609FJ9	BBG00XV3CTV5
S&P	AA	10)		11/01/2031	62500.0	5.000	1.330	010609FK6	BBG00XV3CTW4
Fitch	AA+ (AA+)	11)		11/01/2032	65705.0	5.000	1.420	010609FL4	BBG00XV3CTX3
KBRA		12)		11/01/2033	69075.0	5.000	1.500	010609FM2	BBG00XV3CTY2
Enhancement		13)		11/01/2034	72620.0	5.000	1.560	010609FN0	BBG00XV3CTZ1
Schedules		14)		11/01/2035	76340.0	5.000	1.630	010609FP5	BBG00XV3CV04
Prem Call		15)		11/01/2036	79850.0	4.000	1.820	010609FQ3	BBG00XV3CV13
Par Call	11/01/30	16)		11/01/2037	83535.0	5.000	1.720	010609FR1	BBG00XV3CV22
Other Info		17)		11/01/2038	87370.0	4.000	1.900	010609FS9	BBG00XV3CV31
1st Settle	11/04/20 WI	18)		11/01/2039	91400.0	5.000	1.800	010609FT7	BBG00XV3CV40
Form/Dep	BOOK-ENTRY,DTC	19)		11/01/2040	95600.0	4.000	1.980	010609FU4	BBG00XV3CV59
Price Status	FINAL								
Notes	DENOMS: \$5,000/\$5,000 -AUTH -REF; SOCIAL BONDS								



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MUNICIPAL SUPPLY CONTINUES TO GROW AT NEAR RECORD PACE

The theme continues to be supply. Depending on what you include in the calculations (taxable, tax-free, notes, corporate CUSIPS), municipal supply this week alone surpassed \$19 billion. That is a staggering amount of municipal bonds to come in that short of a time period. This is on the heels of last week's heavy issuance.

Despite the disconnect between the US Treasury market and municipal bonds (since March), we have been aware of the larger yield picture as those trends have historically flowed into the municipal space. We have seen Treasury yields rise somewhat dramatically this past week. The 10-year Treasury (above) has breached the .80% support level. This level has not been seen since early summer. Rates have backed up as Washington approaches an agreement on a multi-trillion dollar stimulus deal to prop up the US economy.

10-Year Treasury



Even with rising rates and the near record amount of issuance, there is still some silver lining if you prefer a strong municipal bond market. Of the deals being priced, a large portion are coming in the taxable muni bond space. There may be some overlap between buyers of taxable and tax-exempt bonds on the institutional level, but the majority of municipal bond consumers seek tax-free income. Taxable issuance has exceeded 30% of the market. In the chart above, the white line represents taxable issuance as a percentage of the market, while the yellow line represents 10-year Govts.

YTD Taxable Issuance / 10-Year Govts.





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In the face of rising Treasury yields, the amount of tax-free debt coming to market has remained manageable. Inflows seem to have picked up the slack in this net POSTIVE supply market. Should supply continue at this pace combined with outflows, we could see a reversal. But, other than a few minor changes to MMD over the past week (see below), municipal bonds have found some resilience to these factors.

Date	10-yr MMD	30-yr MMD
10/15	0.94	1.72
10/22	0.096	1.74

The upcoming election is also contributing to some muni market strength, with much of the supply being pushed into the market to avoid any post-election volatility. This has many investors and dealers projecting supply to drop in November, leading to some

support. Additionally, with the Democratic Party expected to have successful results in the elections, there is a sense the country could be faced with higher tax rates, thus making tax-exempt municipal bonds even more desirable as an investment.



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SECONDARY MARKET RECAP - NOTABALE AWAY PRINTS

Size (\$m)	Issuer	Coupon	Maturity	Yield	Spread	Insurance
1000	STEPHENSON CNTY IL	4.00	10/01/2037	2.55	115	Insured
5000	ILLINOIS ST GO	5.00	06/01/2024	2.40	218	
3020	ILLINOIS ST GO	4.00	02/01/2023	2.00	182	
1500	COOK CNTY IL GO	5.00	11/15/2026	1.45	101	
1400	PEORIA IL MET ARPT	5.00	12/01/2026	1.32	88	
1000	SANDIEGO CNTY CA REG	5.00	04/01/2022	0.22	4	
5000	PALOMAR HLTH CA REF	5.00	11/01/2039	2.65	117	
2600	CA SCH FIN AUTH CHAR	5.00	06/01/2058	4.15	241	
650	SANDIEGO CNTY CA REG	5.00	04/01/2024	0.25	4	
1800	SAN FRANCISCO CA CIT	5.00	11/01/2027	0.58	-1	
785	SAN FRANCISCO CA CIT	5.00	11/01/2027	0.58	-1	
5000	CA VAR PURP GO REF	5.00	11/01/2027	0.79	20	
680	EAST BAY CA MUN UTIL	5.00	06/01/2029	0.33	-52	
1000	CA HLTH BDS PROVIDEN	5.00	10/01/2024	0.40	18	
2720	LOS ANGELES CA WASTE	5.00	06/01/2024	0.26	4	
1400	PEORIA IL MET ARPT	5.00	12/01/2026	1.32	88	
500	CHICAGO IL O HARE	5.00	01/01/2023	0.53	35	