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MUNICIPAL MARKET WEEKLY UPDATE

Thursday, December 10, 2020

Primary and Secondary Market Recap

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

PRIMARY MARKET CONTINUES TO SURGE

The primary market continues to do exceptionally well this week as demand outpaces supply:

- The Los Angeles Department of Water and Power priced a $242 million issue. The deal was 5x oversubscribed and was repriced as much as 6 basis points lower.
- A $279 million University of Connecticut issue was also priced this week. The deal received good interest from both retail and institutional investors. The 10 year yield was lowered by 3 basis points
- The City of Boston was in the market with both taxable and tax-exempt issues. On the taxable issue, the spread on the 10 year maturity was lowered by 17 basis points from the indications period to the launch

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Additionally, the Metropolitan Transit Authority borrowed $2.9 billion from the Federal Reserve. The details are below:

97) Options ▾ | 104) Settings | Negotiated Calendar:

MTA PAYROLL MOBILITY TAX | St NY | Tax FED & ST TAX-EXEMPT | Type NEGT | 93) Financials

	Maturity	Amt(M)	Cpn	P/Y	Sprd	CUSIP
1)	12/15/2023	2907280.0	1.330	100.000	120	59261CAA1

Summary

Sale Date	12/07/20
Amount	2,907,280,000.00
Manager	SEE NOTES
Bond Type	REVS
Dated Date	12/17/20
1st Coupon	12/15/23
Deal number	459104

Rating/Enhancement

Moody's	
S&P	
Fitch	
KBRA	
Enhancement	

Schedules

Prem Call	
Par Call	12/18/20

Other Info

1st Settle	12/17/20 WI
Form/Dep	BOOK-ENTRY,DTC
Price Status	FINAL

Notes: DENOMS: $5,000/$5,000 -BANS -SER A
DIRECT PURCHASER: FEDERAL RESERVE BANK

RATIOS ARE A DRAG ON ACTIVITY

The previous week's activity was muted in the secondary market with AAA muni market yield as defined by Muni Market Data (MMD) seeing just a 1 basis point change in the 10 year maturity.

There are many headwinds facing the municipal market. Nearly all are credit-related and revolved around the pandemic. Even with a vaccine now being introduced to the public, the lagging impacts of the contracted economy have yet to fully surface in credit ratings. We briefly discussed some of the issues facing higher education last week.

12/3/2020	0.72
12/10/2020	0.71

This week we look at one of the chief technical factors that is causing a slowdown in secondary trading. The primary reason investors seek to own municipal income is due to the tax-free status municipals enjoy. Simply put, if you are in a high tax bracket, then owning municpals makes more sense than taxable securities, provided that there are always exceptions (private activity bonds, for example).

The richness of munis versus treasuries at the time of investment will drive which direction an investor chooses. If munis are rich, then on an after-tax basis it may still make sense to own a taxable even if the investor is in the highest tax bracket.

MUNI/TREAS	CURR %	AVG %
1yr/1yr	128.1	126.5
2yr/2yr	92.1	104.7
3yr/3yr	46.1	89.2
5yr/5yr	56.5	769
7yr/7yr	60.7	88.8
10yr/10yr	75.6	106.9

Current ratios have reached their all time "richness". That is, municipals from a pure math perspective are not very attractive at the moment. The chart illustrates current ratios (12/9/2020) versus the previous 3-month average. The 5 year AAA muni curve is yielding just 56.5% of the comparable TRSY, which is 20 basis points tighter than the average. If you are in the highest federal tax bracket (37%), then it would appear the TRSYs would be a better choice. With the 5 year TRSY note yielding 0.35%, back of the napkin math would look something like this to an investor in the 37% federal tax bracket:

.35 x (1-.37) = 0.22 – this is a better after-tax yield than the AAA 5 year curve at 0.18

It is important to note that this is a very rudimentary calculation and doesn't include state tax rates (if applicable). It is also fair to say that nearly all municipals issues do not trade as aggressively as the AAA curve. The point is that the overall richness of municipals in general has slowed down investors in the high-grade space. A significant amount of money dedicated to municipals is controlled by SMA (separately managed accounts) buyers who are forced to participate in the market regardless of ratios (in most cases). Their solution has been to be very patient and selective, which is putting a drage on activity.

SECONDARY MARKET RECAP - NOTABALE AWAY PRINTS

Size ($m)	Issuer	Coupon	Maturity	Yield	Spread	Call Date	Insurance
California							
5000	LOS ANGELES CA DEPT	5.00	07/01/2040	1.21	3	07/01/2030	
5000	CA CMNTY HSG AGY	5.00	02/01/2050	3.50	210	02/01/2030	
5000	SAN FRANCISCO CA CIT	5.00	11/01/2050	1.47	7	11/01/2030	
2400	METROPOLITAN WTR DIS	5.00	07/01/2039	1.05	-9	07/01/2030	
550	SACRAMENTO CNTY	5.00	10/01/2032	1.21	36	10/01/2028	Insured
1785	LAKESIDE CA USD SAND	5.00	08/01/2029	0.48	-14	08/01/2026	
1000	ALTA LOMA CA	5.00	08/01/2041	1.30	8	08/01/2030	
1000	RIVERSIDE CA ELEC	5.00	10/01/2037	1.10	4	04/01/2029	
605	EAST SIDE UNHIGH	5.00	08/01/2030	0.57	-13	08/01/2025	
Transportation							
1000	ILLINOIS ST TOLL HWY	5.00	01/01/2045	1.84	49	01/01/2031	
2670	PA TPK COM TPK	5.00	12/01/2036	1.34	32	12/01/2026	
900	CHICAGO IL O HARE	4.00	01/01/2038	1.90	80	01/01/2030	
3000	ILLINOIS ST TOLL HWY	5.00	01/01/2041	1.63	41	01/01/2031	
2500	CHICAGO IL O HARE	5.00	01/01/2037	1.50	44	01/01/2027	
5000	ILLINOIS ST TOLL HWY	5.00	01/01/2045	1.84	49	01/01/2031	
925	SANDIEGO CNTY CA	5.00	07/01/2023	0.33	17	Non-Callable	
550	DENVER CO CITY	5.00	11/15/2023	0.41	25	Non-Callable	
3500	CHICAGO IL O HARE	4.00	01/01/2035	1.78	80	01/01/2030	

*Only includes bonds with call dates greater than or equal to 5 years from today