



## CABRERA CAPITAL MARKETS LLC

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# MUNICIPAL MARKET WEEKLY UPDATE

Thursday, December 2, 2021

## Primary and Secondary Market Recap

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

### THIS WEEK'S PRIMARY MARKET ACTIVITY

Taxable deals continue to struggle in the 2032 through 2036 range. The largest taxable deal of the week, \$250M Anaheim Public Finance Authority, had to get 20 basis points wider as well as restructure to get the deal done. \$500M Black Belt Energy priced tax-exempt and taxable transactions. The short end of the tax-exempt deal was bumped as much as 7 basis points on strong demand. The mandatory put and taxable levels remained unchanged, but was upsized anywhere from 50-100%. The final deal size was \$1B. The Illinois State Tollway Authority priced \$700M tax -exempt bonds. The 4% coupons were bumped as much as 4 basis points while the 5% coupons were only bumped by 1 basis point. Harris County, Texas priced a \$98M tax-exempt transaction. The deal garnered a lot of interest and serials were bumped as much as 8 basis points and the terms were bumped 7 basis points. Next week's calendar looks to be the largest of the year at \$20B.

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IL ST TOLL HWY AUTH-A-REV	St IL	Tax	FED TAX-EXEMPT/ST TAX...	Type	NEGT	93) Financials	95) Attachments	
Summary		Maturity	Amt(M)	Cpn	P/Y	Sprd	CUSIP	FIGI
Sale Date	11/29/21	1) 01/01/2039	4000.0	4.000	1.800	56		BBG013X0KP07
Amount	700,000,000.00	2) 01/01/2040	20000.0	4.000	1.830	56		BBG013X0KP16
Manager	LOOP CAPITAL MARKETS L...	3) 01/01/2041	97000.0	5.000	1.720	42		BBG013X0KP25
Bond Type	REVS	4) 01/01/2042	99000.0	4.000	1.880	57		BBG013X0KP34
Dated Date	12/16/21	5) 01/01/2043	120000.0	5.000	1.770	42		BBG013X0KP43
1st Coupon	07/01/22	6) 01/01/2046	180000.0	5.000	1.850	42		BBG013X0KP61
Deal number	475394	7) 01/01/2046	180000.0	4.000	2.000	57		BBG013X0KP52
<b>Rating/Enhancement</b>								
Moody's	APPLIED							
S&P	AA-							
Fitch	APPLIED (APPLIED)							
KBRA								
<b>Enhancement</b>								
<b>Schedules</b>								
Prem Call								
Par Call	01/01/32							
<b>Other Info</b>								
1st Settle	12/16/21	WI						
Form/Dep	BOOK-ENTRY,DTC							
Price Status	REPRICED							



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### THIS WEEK'S SECONDARY MARKET ACTIVITY

**Full Reverse:** Before the Thanksgiving break, we discussed the recent rise in yields in the US Treasury market due to inflation fears and Fed tapering. Those U.S. Treasury yield increases over the first half of the month were trending in the opposite direction of municipals. Municipal bond yields were dropping due to cash inflows and the overall improving supply/demand dynamic. The result of municipal outperformance was an overpriced (and therefore unattractive) municipal market for buyers. Ratios had become untenable in several parts of the curve with municipal yields trading at ratios as low as 36% of U.S. Treasuries.

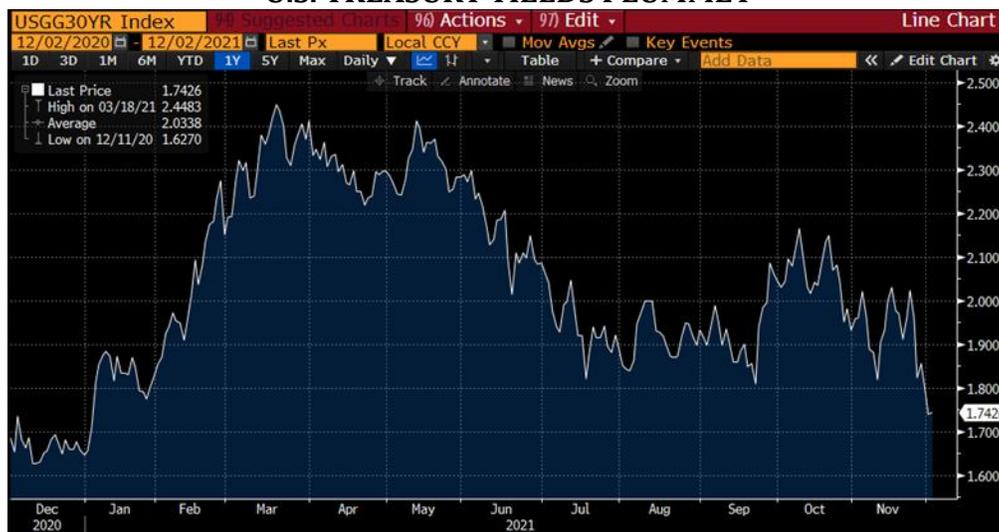
Late last week all of that changed. With the discovery of a new COVID mutation, the fear of a worldwide economic shutdown was swift and there was a massive flight to safety on November 26<sup>th</sup>. Subsequent market follow through continues to favor low rates.

TRSY	11/24/2021	11/26/2021	Change	12/2/21
5-Year	1.34%	1.16%	-18 bps	1.17%
10-Year	1.63%	1.47%	-16 bps	1.42%
30-Year	1.96%	1.82%	-14 bps	1.74%

With most desks lightly staffed, there was no resistance to the momentum and as treasuries rallied, equities suffered in proportion. The Dow Jones Industrial Average plummeted 905 points and the S&P 500 dropped 107 points last Friday. Weakness in equities has continued its downward trend as the market grapples with the economic ramifications of this new COVID variant.

Index	11/24/2021	11/26/2021	Change	12/2/2021
DJIA	35,804	34,899	-905 bps	34,022
S&P 500	4,701	4,594	-107 bps	4,513

### U.S. TREASURY YIELDS PLUMMET





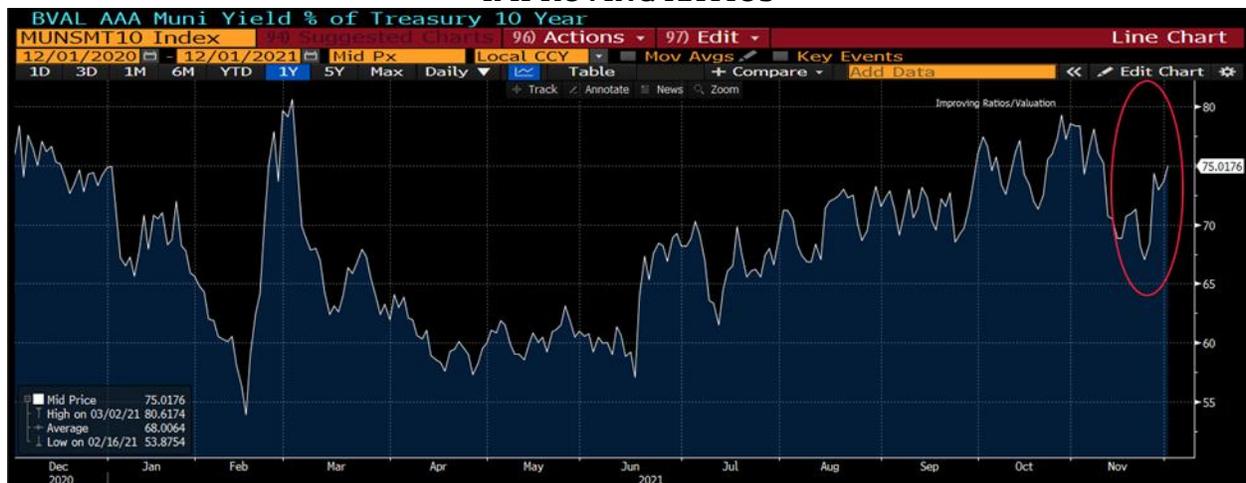
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In the backdrop of the global market upheaval, municipal yields were mostly unchanged. With municipal ratios at or near their all-time lows, it was hard for market participants to make a case to further bid up prices.

MUNI	11/24/2021	11/26/2021	Change	12/2/21
5-Year	0.62%	0.60%	-2 bps	0.60%
10-Year	1.09%	1.06%	-3 bps	1.03%
30-Year	1.54%	1.51%	-3 bps	1.48%

**IMPROVING RATIOS**



The upshot to the municipal market being mostly unchanged is that valuations improved dramatically. The municipal market’s outperformance in early November shielded the market from the same rally we saw in treasuries.

MUNI/TRSY	11/24/2021	11/26/2021	12/2/21
5-Year/5-Year	46.2	50.1	51.7
10-Year/10-Year	66.3	70.2	71.5
30-Year/30-Year	78.1	81.7	83.1

These improved valuations have increased customer interest in the market with the emphasis being in the primary market space. In the secondary market, there appears to be strong competition between dealers trying to stock bonds and customers attempting to fill investment buckets. The result is a thinner secondary market. As bonds trade into dealer bids, customers seem less willing to pay up for the reoffering and don’t seem interested in chasing bonds. Contributing to the thin amount of activity is that dealers seem more than happy to hold onto bonds. Why? Historically, dealers add to their positions this time of year preparing for the drop off in primary market supply. Secondary supply (in the form of bids wanted) is also expected to diminish as liquidity needs aren’t typically robust in late December. In preparation for the smaller float of bonds in the market, traders



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need to add now. Not only is supply expected to be light as we move into late December but primary market issuance is not expected to pick up until the 2<sup>nd</sup> or 3<sup>rd</sup> week of the New Year. In anticipation of having a captive buying audience dealers will add to their books far in advance.