



## CABRERA CAPITAL MARKETS LLC

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# MUNICIPAL MARKET WEEKLY UPDATE

Friday March 19, 2021

## Primary and Secondary Market Recap

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

### OVERSUBSCRIPTION LEADS TO SUBSTANTIAL PRICING BUMPS

Investor interest in the \$1.2 billion Illinois general obligation bond transaction allowed the deal's pricing to be accelerated. The demand for the issue pushed levels 5 basis points tighter prior to pricing and 10-20 basis points on the repricing. The final spreads were +120 in the 10-year maturities and +115 in the 25-year maturities. The largest deal of the week, a \$2.3 billion New York Dormitory Authority personal income tax bond transaction, became caught up in the volatility of the market. The retail and institutional pricing occurred on Wednesday and Thursday, respectfully, with the institutional preliminary pricing spreads being 10 basis points cheaper than retail. The spreads widened even further during the repricing. Huntington Beach, California priced \$363 million in taxable pension obligation bonds. The deal was as much as 7x oversubscribed and bumped as much as 10 basis points.

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97) Options ▾		104) Settings		Negotiated Calendar				
ILLINOIS ST -A		St	IL	Tax	FED TAX-EXEMPT/ST TAX...	Type	NEGT	93) Financials
Summary				Maturity	Amt(M)	Cpn	P/Y	93) Sprd CUSIP
Sale Date	03/15/21	1)	03/01/2022	34000.0	5.000	0.690	64	452153AA7
Amount	850,000,000.00	2)	03/01/2023	34000.0	5.000	0.820	73	452153AB5
Manager	MORGAN STANLEY & CO LLC	3)	03/01/2024	34000.0	5.000	1.090	90	452153AC3
Bond Type	GO ULT	4)	03/01/2025	34000.0	5.000	1.300	98	452153AD1
Dated Date	03/24/21	5)	03/01/2026	34000.0	5.000	1.510	108	452153AE9
1st Coupon	09/01/21	6)	03/01/2027	34000.0	5.000	1.700	117	452153AF6
Deal number	462302	7)	03/01/2028	34000.0	5.000	1.870	121	452153AG4
Rating/Enhancement		8)	03/01/2029	34000.0	5.000	2.010	121	452153AH2
Moody's	Baa3	9)	03/01/2030	34000.0	5.000	2.140	122	452153AJ8
S&P	BBB-	10)	03/01/2031	34000.0	5.000	2.220	122	452153AK5
Fitch	BBB- (BBB-)	11)	03/01/2032	34000.0	5.000	2.290	122	452153AL3
KBRA		12)	03/01/2033	34000.0	5.000	2.330	120	452153AM1
Enhancement		13)	03/01/2034	34000.0	5.000	2.380	119	452153AN9
Schedules		14)	03/01/2035	34000.0	5.000	2.430	120	452153AP4
Prem Call		15)	03/01/2036	34000.0	5.000	2.470	120	452153AQ2
Par Call	03/01/31	16)	03/01/2037	34000.0	5.000	2.510	119	452153AR0
		17)	03/01/2038	34000.0	4.000	2.710	135	452153AS8
Other Info		18)	03/01/2039	34000.0	4.000	2.750	135	452153AT6
1st Settle	03/24/21	19)	03/01/2040	34000.0	4.000	2.790	135	452153AU3
Form/Dep	BOOK-ENTRY,DTC	20)	03/01/2041	34000.0	4.000	2.810	133	452153AV1
Price Status	FINAL	21)	03/01/2046	170000.0	5.000	2.750	111	452153AW9
Notes	DENOMS: \$5,000/\$5,000 GEN OBLIG BONDS, SERIES OF MARCH 2021 A							



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### HERE WE GO AGAIN

The last two weeks of February saw a dramatic sell-off in municipal bonds initiated by a quick 10 basis point slip in the 10-year Treasury on February 16<sup>th</sup> (1.20% to 1.30%) that instigated a remarkable underperformance of municipals. At the time, municipals had outperformed Treasuries and were trading at or near all-time high (rich) ratios. This was mostly undone in just a handful of trading session and triggered an overdue correction in the municipal bond space.

Indicator	2/12/2021	Muni Ratio	3/1/2021	Change	Muni Ratio
10yr TRSY	1.20	57.50%	1.45	25bps	82%
10yr AAA Muni	0.69		1.15	46bps	

Once Treasuries found support, municipal bond market participants shrugged off the losses and began to grind municipals yet again. However, a Treasury market shift early this week triggered yet another swift back up in municipals that may not yet be resolved. As of the time of this writing, it was the largest backup in municipal yields in three weeks. Despite the selloff, municipal bonds have still held their ground and are still “rich” on a relative basis.

Indicator	3/11/2021	Muni Ratio	3/18/2021	Change	Muni Ratio
10yr TRSY	1.52	66.80%	1.73	21bps	67%
10yr AAA Muni	1.02		1.16	14bps	

As illustrated by the data and associated chart, the selloff in municipals is still less than the Treasury slide. Therefore, there is still a level of fragility in the markets as dealers try to hold the line on the offered side. However, bids widened when liquidity was provided. The tug-of-war is a natural function of the markets as the bid and ask fight to determine direction.

One item leading the charge for the sell-side (ask) is LIPPER’s report of inflows for the second consecutive week. This week saw inflows of \$1.27 billion following a reported \$1.1 billion inflow last week. This marks inflows for 18 of the last 19 weeks, with March 4<sup>th</sup> being the one outlier with \$605 million of outflows.

The ensuing buy-side sentiment, along with upcoming supply and the Treasury auction, will be the other notable factors determining whether municipals will continue their slide or move into a new range of stability.

