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MUNICIPAL MARKET WEEKLY UPDATE

Thursday March 25, 2021

Primary and Secondary Market Recap

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

PRIMARY MARKET SEES STRONG RESULTS IN FORWARD DELIVERIES

The New York TFA priced \$1 billion in tax-exempt bonds with a 2-day retail order period resulting in \$593 million in orders. The institutional order period was successful as well, resulting in bumps of as much as 7 basis points. There were several forward delivery issues priced this week. California Public Works priced \$696 million in bonds which will settle on 3/17/22. Although there was no current settlement date deal to compare it to, the forward looks to have a premium of 5-6 basis points per month. Additionally, the University of Pennsylvania Medical Center priced several issues this week that included two forward deals with settlement dates of 7/21/21 and 5/18/22 and two issues with current settlement dates. The issue settling 7/21/21 had a 6 basis point per month premium and the deal settling 5/18/22 had a 5 basis point per month premium. Next week Golden State Tobacco will price \$1 billion taxable issue.

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97) Options ▾		104) Settings		Negotiated Calendar: Deal Details					
PA HGR EDUCNTL FAC AUTH-B	St PA	Tax FED & ST TAX-EXEMPT	Type	NEG T	93) Financials	95) Attachments			
Summary		Maturity	Amt(M)	Cpn	P/Y	Sprd	CUSIP	FIGI	
Sale Date	03/22/21	1) 08/15/2023	8265.0	5.000	0.820	64	70917TCD1	BBG00ZSLVZX7	
Amount	109,735,000.00	2) 08/15/2024	8425.0	5.000	0.970	67	70917TCE9	BBG00ZSLVZY6	
Manager	BANK OF AMERICA MERRILL	3) 08/15/2025	8840.0	5.000	1.100	67	70917TCF6	BBG00ZSLVZZ5	
Bond Type	REVS	4) 08/15/2026	9275.0	5.000	1.250	70	70917TCG4	BBG00ZSLW009	
Dated Date	05/18/22	5) 08/15/2027	2950.0	5.000	1.440	77	70917TCH2	BBG00ZSLW018	
1st Coupon	08/15/22	6) 08/15/2028	3030.0	5.000	1.610	81	70917TCJ8	BBG00ZSLW027	
Deal number	462862	7) 08/15/2029	3100.0	5.000	1.760	82	70917TCK5	BBG00ZSLW036	
Rating/Enhancement		8) 08/15/2030	3185.0	5.000	1.900	86	70917TCL3	BBG00ZSLW045	
Moody's	Aa3 ERP	9) 08/15/2031	3260.0	5.000	2.020	90	70917TCM1	BBG00ZSLW054	
S&P	AA	10) 08/15/2032	3340.0	5.000	2.100	91	70917TCN9	BBG00ZSLW063	
Fitch		11) 08/15/2033	3420.0	5.000	2.160	91	70917TCP4	BBG00ZSLW072	
KBRA		12) 08/15/2034	3495.0	5.000	2.210	91	70917TCQ2	BBG00ZSLW081	
Enhancement		13) 08/15/2035	3580.0	5.000	2.250	91	70917TCR0	BBG00ZSLW090	
Schedules		14) 08/15/2036	3640.0	4.000	2.480	109	70917TCS8	BBG00ZSLW0B7	
Prem Call		15) 08/15/2037	3680.0	4.000	2.520	109	70917TCT6	BBG00ZSLW0C6	
Par Call	08/15/32	16) 08/15/2038	4290.0	4.000	2.560	109	70917TCU3	BBG00ZSLW0D5	
		17) 08/15/2039	3635.0	4.000	2.600	109	70917TCV1	BBG00ZSLW0F3	
Other Info		18) 08/15/2040	3750.0	4.000	2.640	109	70917TCW9	BBG00ZSLW0G2	
1st Settle	05/18/22	19) 08/15/2041	3860.0	4.000	2.680	110	70917TCX7	BBG00ZSLW0H1	
Form/Dep	BOOK-ENTRY,DTC	20) 08/15/2042	22715.0	4.000	2.700	108	70917TCY5	BBG00ZSLW0J9	
Price Status	FINAL								
Notes	DENOMS: \$5,000/\$5,000 -REF Pennsylvania Hgr Educ Facs, Hlth Sys Rev (Fwrđ) Univ of Pennsylvania Hlth Sys Forward delivery								



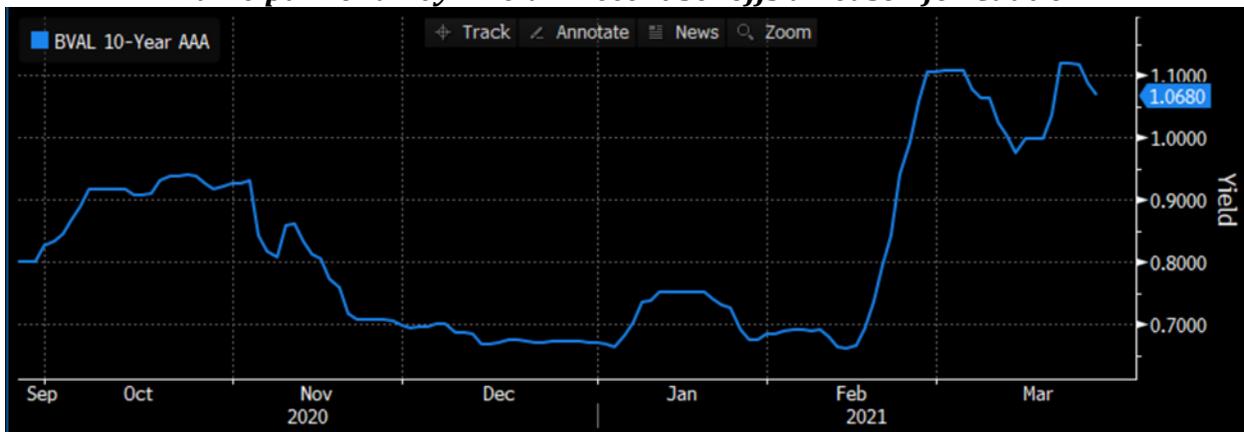
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A LACK OF CONVICTION

Treasuries have rebounded from recent lows providing some semblance of stability in the municipal market, but it hasn't translated into strong volumes. With ratios still holding relatively "rich", there is very little momentum in the secondary market. Prior to February's (and again on March 18th) big selloffs, the buy side community was an active participant despite all time "rich" municipal relative values. During that time, Treasuries were a rock of stability and gave confidence to both the sell and buy-side to stay aggressive and active. Once Treasuries cracked and dropped 20+ basis points in just a few sessions, municipals succumbed to the pressure and followed suit to the tune of a 45+ basis point retreat in Feb with yet another retreat late last week (see chart).

Municipal Bond 10yr Yield – Recent Selloffs a Reason for Caution



Now that 10yr Treasuries have seeming found solid footing at the 1.60 level, why haven't the buyers jumped back in? There seems to be a lack of conviction in the secondary market. Why rush back if ratios really haven't cheapened that much? Is it likely (or even probable) that the municipal market still has some adjusting to do? Or are these new ratios here to stay and if so, where do I deploy my resources? Regardless of the answer, the lack of conviction has put a damper on activity in the secondary market.

Municipal Ratios still "RICH"

