



## CABRERA CAPITAL MARKETS LLC

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# MUNICIPAL MARKET WEEKLY UPDATE

Thursday, April 21, 2022

## Primary and Secondary Market Recap

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

### THIS WEEK'S PRIMARY MARKET ACTIVITY

The Massachusetts Development Finance Authority for Harvard University priced a \$207MM Tax-Exempt issue. The deal was extremely well-received and was bumped 10 basis points. The State of Texas priced \$265MM of various Tax-Exempt and Taxable issues. The Tax-Exempt deals did well with levels bumped as much as 5 basis points. The short and the long ends of the Taxable deal did well with 5 basis point bumps, while the intermediate area was unchanged. The City of Irving, Texas priced \$80MM in Taxable General Obligation Pension bonds. The deal was 3-10x oversubscribed and tightened as much as 10 basis points. Irving, TX also priced \$82MM in Tax-Exempt bonds, but pricing has not been finalized at this time. Next week's calendar should be much larger than the previous two weeks and will be headlined by a \$1.1B Michigan Finance Authority deal for Beaumont-Spectrum Consolidation.

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| 97) Options ▾            |  | 104) Settings |                         | Negotiated Calendar: Deal Details |       |                |                 |           |              |
|--------------------------|--|---------------|-------------------------|-----------------------------------|-------|----------------|-----------------|-----------|--------------|
| MASSACHUSETTS DEV FIN -B |  | St MA         | Tax FED & ST TAX-EXEMPT | Type                              | NEGT  | 93) Financials | 95) Attachments |           |              |
| Summary                  |  |               | Maturity                | Amt(M)                            | Cpn   | P/Y            | Sprd            | CUSIP     | FIGI         |
| Sale Date                | 04/18/22   | 1)            | 11/15/2032              | 207830.0                          | 5.000 | 2.760          | 12              | 57584Y2Y4 | BBG016XZKXG9 |
| Amount                   | 207,830,000.00   |               |                         |                                   |       |                |                 |           |              |
| Manager                  | GOLDMAN SACHS & COMPA..  |               |                         |                                   |       |                |                 |           |              |
| Bond Type                | REVS   |               |                         |                                   |       |                |                 |           |              |
| Dated Date               | 05/17/22   |               |                         |                                   |       |                |                 |           |              |
| 1st Coupon               | 11/15/22   |               |                         |                                   |       |                |                 |           |              |
| Deal number              | 480771   |               |                         |                                   |       |                |                 |           |              |
| Rating/Enhancement       |  |               |                         |                                   |       |                |                 |           |              |
| Moody's                  | APPLIED  |               |                         |                                   |       |                |                 |           |              |
| S&P                      | APPLIED  |               |                         |                                   |       |                |                 |           |              |
| Fitch                    |  |               |                         |                                   |       |                |                 |           |              |
| KBRA                     |  |               |                         |                                   |       |                |                 |           |              |
| Enhancement              |  |               |                         |                                   |       |                |                 |           |              |
| Schedules                |  |               |                         |                                   |       |                |                 |           |              |
| Prem Call                | NON-CALLABLE   |               |                         |                                   |       |                |                 |           |              |
| Par Call                 |  |               |                         |                                   |       |                |                 |           |              |
| Other Info               |  |               |                         |                                   |       |                |                 |           |              |
| 1st Settle               | 05/17/22   |               |                         |                                   |       |                |                 |           |              |
| Form/Dep                 | BOOK-ENTRY,DTC   |               |                         |                                   |       |                |                 |           |              |
| Price Status             | FINAL  |               |                         |                                   |       |                |                 |           |              |
| Notes                    | DENOMS: \$5,000/\$5,000 AGY -HARVARD UNIV ISSUE -GREEN BONDS Verified by Kestrel verifiers |               |                         |                                   |       |                |                 |           |              |



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### THIS WEEK'S SECONDARY MARKET ACTIVITY

**Bad Moon Rising:** Inflation expectations for the next 10 years currently exceed 2.90%. This sort of projection is the leading reason for expected Fed hikes, Fed tapering of the balance sheet, and the rise of the 10-year treasury to 2.94% from last year's closing yield of 1.51%.

In addition to credit-related sectors like municipals, equities have also suffered. Higher yields on government bonds make future profits less valuable to investors. This negative impact on profits hurts equity valuations and has led the S&P to post a negative 6.4% return this year.

While there are many geopolitical factors to consider, it's worth noting that the rise in interest rates means that the "real" yield - the nominal yield minus inflation - on the 10-year treasury is nearly positive. This doesn't mean we are out of the woods but it does mean there is an argument for the incredibly swift rise in rates to at least slow as they approach 3%.



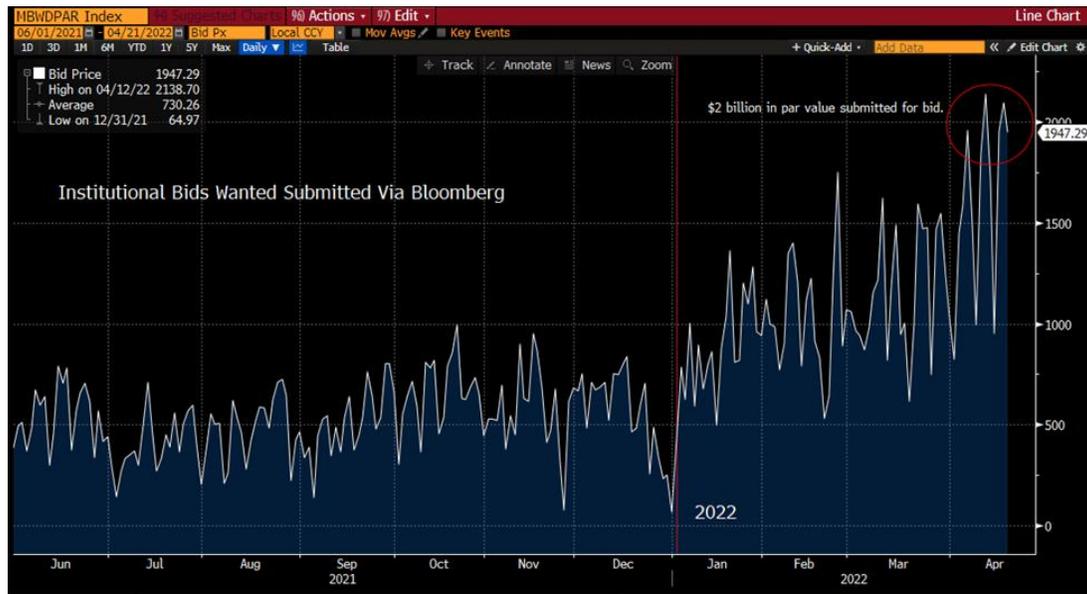
**No really...I've had enough thank you:** Cash outflows from the market continue to put pressure on municipals. Most days there aren't just enough buy-side participants to offset the incoming bond supply. While not a direct measurement of what actually traded, the par value of what is submitted over Bloomberg for the bid is three times the amount it was during the last half of 2021. Just this month, bids wanted exceeded \$2 billion in par value not once, but twice, and we still have six trading sessions left in the month. This hasn't occurred since the pandemic crash in late April 2020.

| Date         | Average Par Value of Bids Wanted |
|--------------|----------------------------------|
| Last ½ 2021  | \$345 Million                    |
| First ½ 2022 | \$746 Million                    |
| April 2022   | \$921 Million                    |



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The Bloomberg bids wanted data illustrates the growing need for liquidity in the market. However, there are many other platforms that facilitate liquidity for institutional and retail investors alike and so the total pressure on the market is much greater.

**Land of Lincoln Rises:** The state of Illinois' credit rating is on the rise. On April 21<sup>st</sup>, Moody's upgraded the state to Baa1 from Baa2. This is the third upgrade for the state in the past 12 months. Moody's upgraded the state last June and S&P upgraded it from BBB- to BBB in July of 2021.

**"Think Happy Thoughts"** – *circa Peter Pan, 1953.* Florida's house will vote Thursday on a bill that would strip Disney of its self-governance privileges. The motion, pushed along by Florida Governor Ron DeSantis, is worth watching closely. If passed, this legislation could lead to the dissolution of the Reedy Creek Improvement District. This district was created in 1967 to give Disney certain authorities typically reserved for municipalities. Currently, Reedy Creek has \$1 billion in outstanding municipal debt.

Reedy Creek has responded to inquiries in a filing posted to the Municipal Securities Rulemaking Board by highlighting that Florida has pledged to honor the terms of any agreement made with bondholders. The district will continue to pay bondholders from ad valorem tax and utilities revenues as it has in the past while exploring options should the legislation pass.