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MUNICIPAL MARKET WEEKLY UPDATE

Thursday, April 7, 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 New York State Environmental Facilities Corporation priced a \$420M Tax-Exempt issue. The deal did very well with retail orders in excess of \$500M. Before the institutional order period, spreads were tightened 2-5 basis points in the intermediate area. After the institutional order period, levels were bumped as much as 6 basis points. The Dallas Fort Worth Airport priced a \$1.1B Taxable deal. The deal did well with the MWC maturity being 15x oversubscribed and the 10-year call maturity being 4x oversubscribed. Both maturities were priced to the tight and there was a 42 basis point spread between the two. The New York Power Authority priced a \$600M Tax-Exempt issue. Bonds through 2038 had good interest and were bumped 2-4 basis points, while the long 4% coupons had to get 2-5 basis points cheaper. The Triborough Bridge and Tunnel Authority priced a \$1B Forward delivery deal with a settlement of 8/18/22. Spreads were bumped 5 basis points from Pre-marketing to the Institutional order period. After the Institutional order period, the short end had to get 3-5 basis points cheaper and there were balances in 2023-2025 and 2041-2042. Forward spreads for this transaction was about 5-6 basis points per month. The New York Transportation Development Corporation priced a \$1.3B AMT deal for JFK Airport Terminal 4. The deal did well and was bumped as much as 8 basis points. Next week's calendar should be on the lighter side because of the shortened holiday week.

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NY ST ENVRNMTL FACS -A	St NY	Tax FED & ST TAX-EXEMPT	Type	NEG	93 Financials
Summary		Maturity	Amt(M)	Cpn	P/Y CUSIP
Sale Date	04/04/22	1) 06/15/2023	28445.0	5.000	1.63064986DLM5
Amount	413,005,000.00	2) 06/15/2024	48220.0	5.000	1.85064986DLN3
Manager	BANK OF AMERICA MERRILL	3) 06/15/2025	50295.0	5.000	2.00064986DLP8
Bond Type	REVS	4) 06/15/2026	46865.0	5.000	2.07064986DLQ6
Dated Date	04/21/22	5) 06/15/2027	32720.0	5.000	2.12064986DLR4
1st Coupon	12/15/22	6) 06/15/2028	14755.0	5.000	2.19064986DLS2
Deal number	480042	7) 06/15/2029	7590.0	5.000	2.25064986DLT0
Rating/Enhancement		8) 06/15/2030	4995.0	5.000	2.32064986DLU7
Moody's	Aaa	9) 06/15/2031	5250.0	5.000	2.39064986DLV5
S&P	AAA	10) 06/15/2032	5505.0	5.000	2.44064986DLW3
Fitch	AAA (AAA)	11) 06/15/2033	5785.0	5.000	2.52064986DLX1
KBRA		12) 06/15/2034	6075.0	5.000	2.57064986DLY9
Enhancement		13) 06/15/2035	6375.0	5.000	2.62064986DLZ6
Schedules		14) 06/15/2036	6695.0	4.000	2.81064986DMA0
Prem Call		15) 06/15/2037	6960.0	5.000	2.68064986DMB8
Par Call	06/15/32	16) 06/15/2038	7310.0	4.000	2.90064986DMC6
		17) 06/15/2039	7605.0	5.000	2.72064986DMD4
Other Info		18) 06/15/2040	7985.0	4.000	2.93064986DME2
1st Settle	04/21/22	19) 06/15/2041	7805.0	5.000	2.74064986DMF9
Form/Dep	BOOK-ENTRY,DTC	20) 06/15/2041	500.0	3.250	3.26064986DMG7
Price Status	FINAL	21) 06/15/2042	8710.0	4.000	2.98064986DMH5
		22) 06/15/2047	49065.0	4.000	3.11064986DMJ1
Notes	DENOMS: \$5,000/\$5,000 -CORP -REF -New York City Municipal Water Finance Authority Pr -Second Resolution Bonds -Subordinated SRF Bonds				



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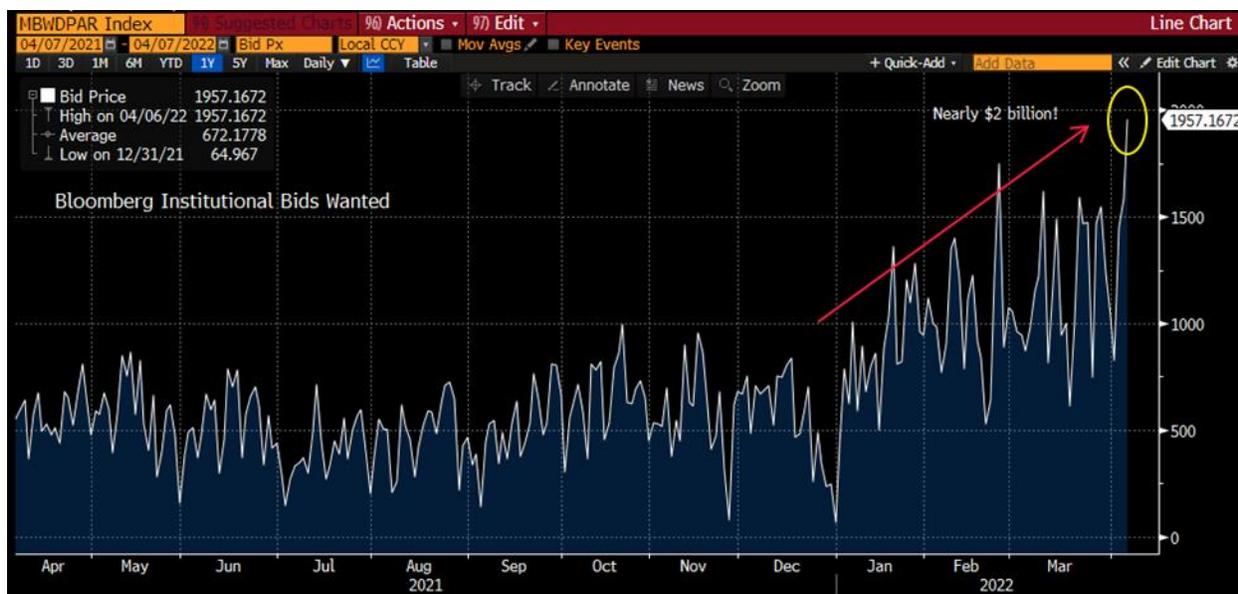
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THIS WEEK'S SECONDARY MARKET ACTIVITY

Tales to Astonish: In what has amounted to an astonishing start to 2022, municipals have reported a year-to-date loss of nearly 7% according to Bloomberg data. Yesterday MMD cut the municipal curve top to bottom by 12 basis points. The selloff was overdue and was consistent with the decline in Treasuries as well as the sell-side pressure the market is experiencing due to outflows.

Catching Up with Old Friends: On 3/31, the 10-year Treasury closed at a 2.32%. Less than one week later on 4/5, the 10-year Treasury was yielding 2.55%, marking a 23 basis point rise in yields. Compare that to municipals, which, incredibly, before yesterday's MMD 12 basis point cut, were off just 2 basis points week over week. With a catalyst from heavy institutional bids wanted (see below), the municipal bond market has since corrected to be more in line with Treasuries. However, despite the significant cut made by MMD, municipals have still outperformed Treasuries and are only off 14 basis points since last week versus the 29 basis point rise in Treasuries. At the time of this writing, MMD is reporting municipals to be unchanged while Treasuries continue to drift higher. As a result, there is some fragility to the municipal market. It wouldn't take much to push municipals higher yet again.

Metric	3/31	4/5	Change	4/6	Total Change
10-Year MMD	2.18	2.20	2 bps	2.32	14 bps
10-Year Treasury	2.32	2.55	23 bps	2.61	29 bps





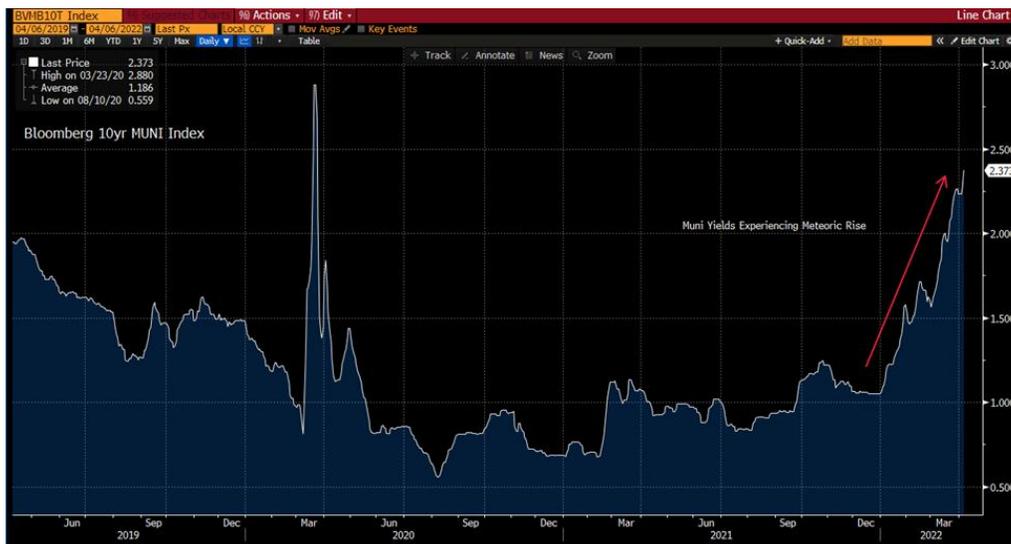
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Investor Interest: Investor interest as measured by retail also seems to be waning. Bloomberg analyst Erik Kazatsky tweeted a chart of the iShares national municipal ETF that is an excellent example of this and is provided below. Outflows, combined with rising interest rates, have sent valuations plummeting. Currently, the ETF is trading at prices not seen since the pandemic crash in early 2020.



Trending: Year-to-date, municipals continue to experience what appears to be a one-directional market. The precipitous back-up in yields has brought yields to levels not seen since the pandemic crash (see chart below). Despite the similarity in yields, today's market is quite different. In 2020, the Fed was motivated to lower interest rate yields to ensure the economy continued to move forward despite businesses being locked down. By contrast, today's market has the Fed on its heels as it looks to aggressively raise rates to combat inflation. Consumer prices for food are up 7.9% from February 2021 to February 2022. Energy prices are up a whopping 25.6% over the same period. Those two categories tend to be the most volatile but even excluding them from the CPI measurement, prices for all other items are up 6.4%.





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Issuers, customers, and dealers alike haven't seen a market like this in years. Despite the challenges faced by all participants, the market is functioning properly with dealers or customers stepping in to absorb supply albeit at higher rates. The price discovery process in the new issue market is expected to lead the secondary and ultimately drive more buyers to look at municipals as the product becomes more attractive.