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MUNICIPAL MARKET WEEKLY UPDATE

Friday May 14, 2021

Primary and Secondary Market Recap

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

PRIMARY MARKET SEES VARIES RESULTS

New issues were mixed this week as the market was weaker on Tuesday and Wednesday. San Antonio Independent School District in Texas priced a \$268 million tax-exempt transaction on Tuesday that was oversubscribed and bumped by as much as 10 basis points. On Wednesday, Fairfax, Virginia priced a \$192 million tax-exempt transaction that was forced to get 10 basis points cheaper to get done. Cabrera priced a \$25 million tax-exempt and taxable deal for the Town of Cicero, Illinois on Wednesday. The deal received good interest from investors and received \$54 million in orders. The 10-year area of the taxable transaction had to get 3-5 basis points cheaper, but out-performed the 10-year treasury which was down 7 basis points. The tax-exempt series was priced as much as 6 basis points higher than a better-rated Franklin Park, Illinois transaction that priced on Tuesday.

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CICERO Twn-A-REF		St IL	Tax FED TAX-EXEMPT/ST TAX...	Type	NEG T	93 Financials
Summary			Maturity	Amt(M)	Cpn	P/Y CUSIP
Sale Date	05/10/21	1)	01/01/2022	1110.0	4.000	0.340 171646SH6
Amount	9,560,000.00	2)	01/01/2023	1040.0	4.000	0.400 171646SJ2
Manager	CABRERA CAPITAL MKTS L...	3)	01/01/2024	1080.0	4.000	0.530 171646SK9
Bond Type	GO ULT	4)	01/01/2025	1125.0	4.000	0.700 171646SL7
Dated Date	05/26/21	5)	01/01/2026	1165.0	4.000	0.870 171646SM5
1st Coupon	01/01/22	6)	01/01/2027	1215.0	4.000	0.980 171646SN3
Deal number	465261	7)	01/01/2028	1265.0	4.000	1.170 171646SP8
Rating/Enhancement		8)	01/01/2029	1315.0	4.000	1.360 171646SQ6
Moody's		9)	01/01/2030	80.0	4.000	1.540 171646SR4
S&P	A	10)	01/01/2031	80.0	4.000	1.650 171646SS2
Fitch		11)	01/01/2032	85.0	4.000	1.720 171646ST0
KBRA						
Enhancement	BAM					



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CICERO TWN-B-REF-TXBL		St IL	Tax FED TAXABLE/ST TAXABLE	Type	NEG	93 Financials
Summary			Maturity	Amt(M)	Cpn	P/Y CUSIP
Sale Date	05/10/21	1)	01/01/2022	410.0	.380	100.000 171646SU7
Amount	15,545,000.00	2)	01/01/2023	270.0	.480	100.000 171646SV5
Manager	CABRERA CAPITAL MKTS L...	3)	01/01/2024	1565.0	.680	100.000 171646SW3
Bond Type	GO ULT	4)	01/01/2025	1570.0	1.090	100.000 171646SX1
Dated Date	05/26/21	5)	01/01/2026	1590.0	1.300	100.000 171646SY9
1st Coupon	01/01/22	6)	01/01/2027	1615.0	1.630	100.000 171646SZ6
Deal number	465264	7)	01/01/2028	1635.0	1.850	100.000 171646TA0
Rating/Enhancement		8)	01/01/2029	1670.0	2.100	100.000 171646TB8
Moody's		9)	01/01/2030	1700.0	2.230	100.000 171646TC6
S&P	A (APPLIED)	10)	01/01/2031	1740.0	2.330	100.000 171646TD4
Fitch		11)	01/01/2032	1780.0	2.450	100.000 171646TE2
KBRA						
Enhancement	BAM					

THE DISCONNECT BETWEEN THE US TREASURY AND MUNICIPAL MARKET

Gravity: The natural phenomenon by which all things are brought toward one another.
 Dark Energy: The name given to the mysterious force that is causing the universe to expand rather than contract.

In muni parlance, one might suggest that the historical relationship between the US Treasury market and the municipal bond market is a lot like gravity. Where treasuries went, municipals would more or less follow. However, much like dark energy, municipal bonds have gone their own route and this split between the two dates back to late 2020. Below, we look at the current state of the relationship between municipals and treasuries and outline some considerations as to why this split may have occurred.

Using Bloomberg BVAL as an example, you can see the compression in the municipal bond space began in late October and picked up steam in November through mid-February. The 10-year AAA municipals were yielding just 54% of the 10-year Treasury during this time period. In addition to being a split from the historical relationship between the two, this was unusual for municipals, given that high net worth investors often have significant incentives to choose munis. In many parts of the yield curve that is no longer is the case.

In mid-February, there was a big move in the Treasury market and the gravitational pull of that sell off momentarily pulled municipals along but the respite was brief. Municipals have since retraced to sub 60% ratios.





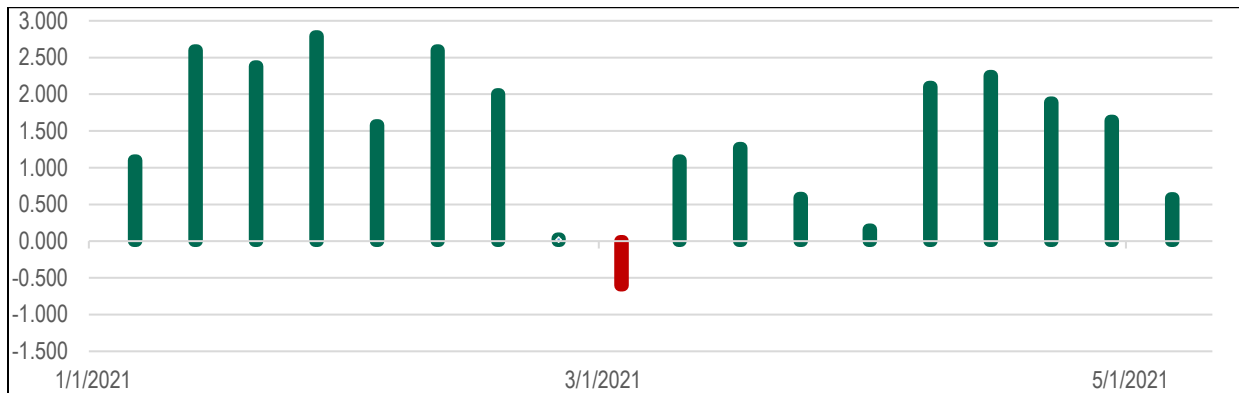
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The causes for this change in the MUNI vs Treasury relationship are plentiful but certain factors stand out:

US Government Bond Issuance: Outstanding Treasury debt is currently \$21 trillion, which constitutes a \$4.3 trillion increase over the past year. The increase alone is more than the entire size of the municipal bond market.

Muni Market Inflows: Thru April, investors have contributed just shy of \$27 billion into the muni market as measured by Lipper. That \$1.5 billion weekly average has kept dealers busy competing for bonds to satisfy demand.



Maturing/Called Bonds: In addition to new money inflows, investors will be faced with a surge in bond redemptions. As much as \$150 billion will flow back to investors over the summer months of June, July and August. In total, there have been over \$330 billion in redemptions in 2021.

Investors Preferences: With the likely increase in taxes to individuals (with incomes above 200k) and households (with incomes above 400k) as proposed by the White House, investors are scrambling to find tax shelters and one of the most obvious is the municipal bond market. Regardless of how unattractive ratios are, investors find paying taxes even more unappealing.

Munis Vs. TRSY	5/13/2021	Trailing 1yr Avg.
3yr/3yr	73.7	88.9
5yr/5yr	60.2	76.9
10yr/10yr	61.4	93.2
20yr/30yr	58.7	80.0
30yr/30yr	66.6	92.1



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NOTABLE AWAY PRINTS

Size (\$m)	Issuer	Coupon	Maturity	Yield	Spread	Call Date	Insurance
Illinois							
250	ILLINOIS ST GO	5.00	03/01/2046	2.25	70	03/01/2031	Insured
California							
710	CA PUB WKS BRD LEASE	5.00	03/01/2035	1.02	-15	03/01/2027	None
3830	LOS ANGELES CA DEPT	5.00	05/15/2048	1.78	21	05/15/2031	None
3115	LOS ANGELES CA DEPT	5.00	05/15/2045	1.77	23	05/15/2031	None
3970	SAN FRANCISCO CA CIT	5.00	11/01/2045	1.53	-1	11/01/2030	None
5000	SAN FRANCISCO CA CIT	5.00	05/01/2049	1.77	19	05/01/2029	None
1360	SAN FRANCISCO CA CIT	5.00	06/15/2030	0.80	-16	06/15/2028	None
725	SAN FRANCISCO CA CIT	5.00	06/15/2031	0.95	-7	06/15/2029	None
1575	SANDIEGO CA CMNTY	5.00	08/01/2028	0.53	-23	08/01/2026	None
1205	SANDIEGO CNTY CA REG	5.00	07/01/2035	1.42	25	07/01/2030	None
3000	SANDIEGO CNTY CA REG	5.00	07/01/2034	1.39	25	07/01/2030	None
3000	SANDIEGO CNTY CA REG	5.00	07/01/2033	1.36	25	07/01/2030	None

*Only includes bonds with call dates greater than or equal to 5 years from today