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MUNICIPAL MARKET WEEKLY UPDATE

Thursday July 8, 2021

Primary and Secondary Market Recap

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

THIS WEEK'S PRIMARY MARKET ACTIVITY

All eyes were on the California State University transaction that was priced this week. By size, the deal represented 50% of the entire week's new issue calendar of \$4B. The \$120M Tax-Exempt issuance did very well as spreads were tightened in the short end by as much as 9 basis points. However, the \$1.6B Taxable Series had mixed results. For maturities through 2034, spreads were tightened by as much as 10 basis points, but for 2035-2044 maturities, spreads had to be widened by as much as 5 basis points. With respect to call features, the 2052 maturities ended up with a 10-year call feature that was 22 basis points wider than the Make Whole call option. In addition to the California State transaction, Celina ISD, Texas priced a \$76M Tax-Exempt transaction. Serials were oversubscribed and were bumped as much as 8 basis points. Next week, the Metropolitan Pier and Exposition Authority is expected to price a forward settlement transaction.

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CELINA ISD	St TX	Tax FED TAX-EXEMPT	Type	NEG T	93 Financials	95 Attachments
Summary		Maturity Amt(M)	Cpn	P/Y	CUSIP	FIGI
Sale Date	07/05/21	1) 02/15/2023 45.0	5.000	0.200	151145VJ5	BBG011PDL514
Amount	71,540,000.00	2) 02/15/2024 420.0	5.000	0.270	151145VK2	BBG011PDL523
Manager	PIPER SANDLER & CO	3) 02/15/2025 765.0	5.000	0.380	151145VL0	BBG011PDL532
Bond Type	GO ULT	4) 02/15/2026 800.0	5.000	0.530	151145VM8	BBG011PDL541
Dated Date	07/15/21	5) 02/15/2027 845.0	5.000	0.610	151145VN6	BBG011PDL550
1st Coupon	02/15/22	6) 02/15/2028 885.0	5.000	0.780	151145VP1	BBG011PDL569
Deal number	468206	7) 02/15/2029 935.0	5.000	0.870	151145VQ9	BBG011PDL578
Rating/Enhancement		8) 02/15/2030 985.0	5.000	0.990	151145VR7	BBG011PDL587
Moody's	Aaa (Aa3)	9) 02/15/2031 1030.0	5.000	1.060	151145VS5	BBG011PDL596
S&P	AAA (A+)	10) 02/15/2032 1085.0	5.000	1.130	151145VT3	BBG011PDL583
Fitch		11) 02/15/2033 1135.0	4.000	1.210	151145VU0	BBG011PDL501
KBRA		12) 02/15/2034 1180.0	4.000	1.260	151145VV8	BBG011PDL568
Enhancement	PSF-GTD	13) 02/15/2035 1225.0	4.000	1.300	151145VW6	BBG011PDL5H7
Schedules		14) 02/15/2036 1280.0	4.000	1.330	151145VX4	BBG011PDL5J5
Prem Call		15) 02/15/2037 1325.0	3.000	1.540	151145VY2	BBG011PDL5K3
Par Call	08/15/31	16) 02/15/2038 1695.0	3.000	1.570	151145VZ9	BBG011PDL5L2
		17) 02/15/2039 1960.0	3.000	1.600	151145WA3	BBG011PDL5M1
Other Info		18) 02/15/2040 2015.0	3.000	1.630	151145WB1	BBG011PDL5N0
1st Settle	08/10/21	19) 02/15/2041 2080.0	3.000	1.660	151145WC9	BBG011PDL5P8
Form/Dep	BOOK-ENTRY,DTC	20) 02/15/2046 15855.0	2.250	2.340	151145WD7	BBG011PDL5Q7
Price Status	FINAL	21) 02/15/2051 25000.0	3.000	1.940	151145WE5	BBG011PDL5R6
		22) 02/15/2051 8995.0	2.250	2.390	151145WF2	BBG011PDL5S5
Notes	DENOMS: \$5,000/\$5,000					



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SECONDARY MARKET RECAP – SUMMER RALLY

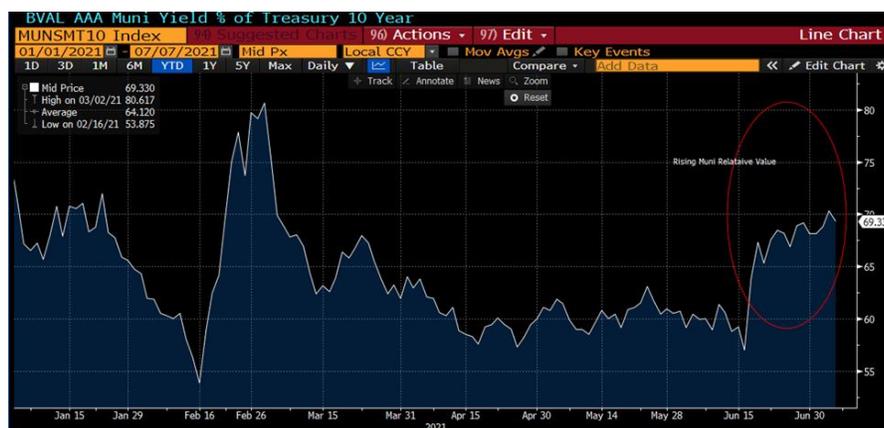
Treasuries have rallied considerably as of late. While inflation has ticked up, the Fed recently took great pains to address market concerns. Fed Chairman Powell made it clear that the Fed would step in and use all of its tools to ensure inflation remains under control and Fed minutes indicated that Federal Reserve officials do not have a timeline to scale back asset purchases. In their view, the cloudy economic picture dictates a cautious approach.



10yr yields have plummeted from 1.47% on 7/1/2021 to today's new low of just 1.29%. The momentum behind this 18 basis point rally has been reflected in the muni space as well.

Muni MMD	7/1/2021	7/8/2021	Change in Muni Rates
10yr	0.98	0.84	-14 bps
20yr	1.31	1.15	-16 bps
30yr	1.49	1.33	-16 bps

While impressive, the muni market rally has lagged that of TRSYs. This has created an uptick in relative value for municipals and has been a key driver of the uptick in activity. The graph below illustrates Bloomberg's AAA 10yr Muni Index as a percent of the 10yr US Govt Index. It is an indicator of relative value and currently, 10yr municipals are yielding approximately 69% of Treasuries. Despite municipals underperforming their treasury counterparts, by historical standards, municipals are still relatively rich and that value is motivating issuers to come to market.





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SECONDARY MARKET RECAP – OTHER NEWS

Higher Education: S&P issued a report expressing some concern about the uncertainty of a full recovery for U.S. colleges and universities. Lower-rated institutions and the private higher education sector in general appear to have a more difficult path ahead of them than their public institution counter-parts. The report considered that the public sector can weather spending cuts better than private institutions and may also benefit from federal stimulus money.

Spending: General fund spending is projected to grow by nearly \$1 trillion in FY2022. A tabulation of U.S. state spending plans indicates a planned 5% increase over FY2021 due to states having greater revenues than anticipated. This was due both to additional federal stimulus money as well as the realization that many states saw better than expected revenues over the past year despite Covid-19 lockdowns.

Investing: Bloomberg reported that muni investors are more open to alternative credits and structures than in the past. Mainstays, like general obligations, are paying such low absolute yields that portfolio managers are on the hunt for yield. Issuers that have a story, a unique structure, or something that allows for incremental yield are in demand. For example, forward deals are on pace for a record year of issuance, with \$7 billion already having come to market. In another example, American Samoa recently came to market with a \$43 million junk bond issue that was oversubscribed 18 times.