Municipal Bond Investor Weekly

High Net Worth Wealth Solutions and Market Strategies // Fixed Income Solutions

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THE WEEK AHEAD

1. Economic numbers include CPI on Wednesday, PPI on Thursday, and Consumer Sentiment on Friday.
2. Significant Treasury auctions across the curve this week will provide additional perspective on investor demand at current levels --- weak demand could push the 10Y Treasury toward 4.50%.
3. The week before Federal Tax Day frequently sees heavier selling of munis to raise cash. With strong new issue calendar ($8.5 billion) yields could temporarily edge higher

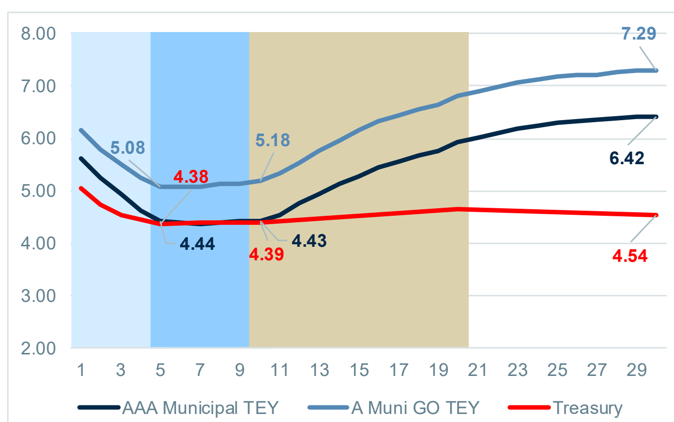
MONDAY'S COMMENTARY

THE NUMBERS THIS WEEK

Treasury yields rose across the curve, with 2 to 30 year rates moving higher by 14 to 20 basis points. Most of the Treasury curve closed Friday at its highest levels of the year with the 2-, 5-, 10-, and 30-year yields posting 2024 highs. Municipal bonds sold off as well. The benchmark AAA municipal curve pushed higher in a fairly parallel fashion, increasing by 12 to 14 basis points from 1 to 30 years.

Year		Treasury	Municipal (AAA)	Municipal (A)	Municipal TEY* (AAA)	Municipal TEY* (A)	Muni (AAA)/Tsy Ratio	Muni TEY* (AAA)/Tsy Ratio
1	2025	5.05	3.33	3.64	5.63	6.15	66%	112%
2	2026	4.73	3.11	3.43	5.26	5.79	66%	111%
5	2029	4.38	2.63	3.01	4.44	5.08	60%	101%
10	2034	4.39	2.62	3.07	4.43	5.18	60%	101%
20	2044	4.65	3.52	4.04	5.94	6.82	76%	128%
30	2054	4.54	3.80	4.32	6.42	7.29	84%	141%

*Taxable equivalent yield @ 40.8% tax rate

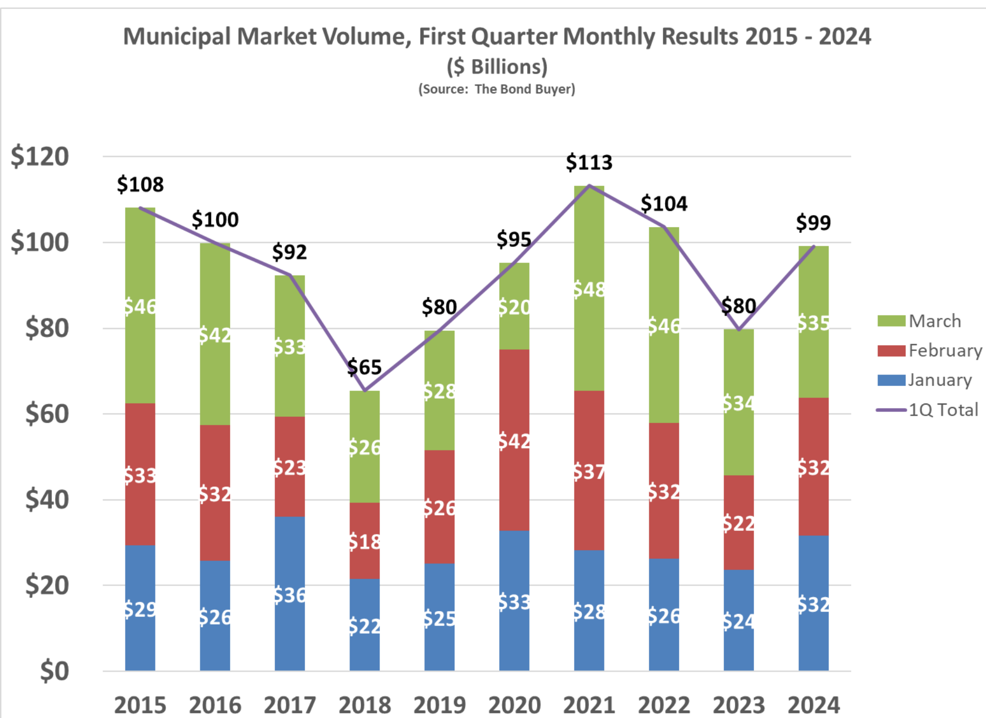


FIRST QUARTER 2024 RECAP – LOOK AHEAD 2Q

In 2023, the first quarter came to a close on the heels of extreme volatility in the regional banking system. Fortunately, there's nothing quite that dramatic for the first quarter of 2024. All eyes remain on the Fed (and the economy) --- being the most watch gamed in town --- possibly next to the NCAA March Madness!! Very strong employment numbers continued, with the recent March report closing out the quarter with a 303,000 increase in non-farm payrolls, well above the expected 205,000; both January and February exceeded expectations as well, and those number were adjusted upward as part of the March payrolls data release. As our colleague Pat O'Brien noted in his commentary, the Fed appears inclined to exercise patience regarding potential rate cuts, noting Chair Powell's comments: *"We do not anticipate lowering our policy rate until we are more confident that inflation is steadily approaching 2%. Given the robustness of the economy and our progress on inflation thus far, we have the luxury of allowing incoming data to inform our policy decisions."* Those comments moved the market last week, with the 10-year Treasury moving up almost 20 basis points to close at 4.41%, taking muni yields higher across the curve about 15 basis points. Since the start of 2024, the 10-year Treasury is up about 50 basis points and the 10-year AAA muni yield is up about 35 basis points. Quite frankly, we thought rates would be moving in the opposite direction, but the strength of the economy has surprised just about everyone.

Where does muni new issuance stand year-to-date and how does that compare to prior years? It's a classic example of how you can use data to tell whatever story you'd like to tell! Relative to 2023, municipal bond new issuance for the first quarter was up almost 25%. Sounds like a blockbuster start to the year, right? Well… 2023 was the second slowest start to any year over the past decade. Looking at averages to smooth out year-to-year changes, the $99 billion total for the 1Q of 2024 was ~6% higher than the 10 year average ($94 billion). A solid start, but not as robust as either 2022 or 2021. As we frequently, say: "it's all about perspective!" See the chart below for more details over the past decade of muni issuance starting each year. The strong first quarter has led some firms to revise upward their estimates for a full year of new issue volume --- one firm calling for an 15% upward revision to $460 billion. That seems a bit too aggressive for a national election year with the 10-year Treasury still well anchored in the 4.00%+ range. Acknowledging the strong start to the year, we'd expect full year issuance to skew toward the higher end of our estimate ($350 – 400 billion) --- on average, $33 billion / month.

Demand for municipals remains strong with new issues well oversubscribed. And why not? With the tail end of the baby boomers continuing to push into retirement at the rate of over 10,000 / day --- nearly 4 million expected this year --- there's plenty of pent up demand for reliable, tax-efficient income. That demand has kept pressure on muni yields overall and especially relative to Treasuries. So why invest in munis when they are priced at historically "rich" levels (relative to Treasuries)? Because **longer term rates today remain well above levels for the past decade**, as we've highlighted in past MBIWs. We're not back to 5s at par, nor are we likely to get there in this cycle --- that level is almost as rare as an eclipse and lasts about as long!! With the recent moves higher last week, 4s at par (or even a discount) are much more prevalent in the intermediate to long end of the curve. For investors in



the top Federal tax bracket and subject to the net investment income tax, **that 4.00% tax-exempt yield is equivalent to a taxable yield of 6.75%**. And if the investor is in a state with income taxes levied on income, that benefit is even higher. In a few states, that benefit is greater than 2 for 1 --- a 4.00% yield is greater than 8% on a taxable equivalent basis. That's why **demand for munis remains strong and we expect that to continue throughout the second quarter and the remainder of 2024.**

As we look ahead to the second quarter, we expect municipal new issue volume will continue on its robust pace, likely accelerating as it typically does; June is frequently the #1 or #2 month for issuance each year. How will that translate into yields? That likely depends at least as much on the economy and the Fed as it does supply-demand dynamics in the muni market. There are **two Fed meetings this quarter April 30 – May 1, and June 11 – 12**, when they will once again update the summary of economic projections. The futures market is pricing in no change for the upcoming meeting, and it's basically a coin toss for June. Stay tuned.

In the meantime, **don't miss this opportunity with rates moving higher**. We know from experience that these windows of opportunity open for short periods of time, and can close even quicker. Talk with your financial advisor and see what value a customized, longer term municipal bond portfolio might mean for your future.

ILLUSTRATIVE PORTFOLIOS

Our illustrative proposals reflect three opportunities along the yield curve with bonds maturing from 1 to 30 years. Municipal yields followed Treasuries higher, with portfolio yields rising 10 to 15 basis points on the week. Long term investors continue to realize additional yield further out on the curve. Strategically, to lock in long-term, reliable tax-efficient cash flow, our duration focused 10–20-year maturity illustration continues to offer an excellent tax efficient solution. **Looking to maximize yield?** The 20 – 30 year range continues to offer an additional ~70+ basis points (over 10 – 20 years) and may be appropriate for some investors. The yield to worst is ~4.17%, which equates to a **taxable equivalent yield to worst of ~7.00%** for an investor in the top federal tax bracket and subject to the net investment income tax. If the callable bonds are not called, the yield to maturity increases to ~4.35%, which equates to a **taxable equivalent yield to maturity of ~7.30%**. This is a solution with 4-5% coupon bonds with an average coupon of 4.31% and a market price of ~$99.40. The **current yield is ~4.30%**. An investment with $1 million par value (~$1.003 million market value) will generate a federally tax-exempt annual coupon cash flow of ~$43,125.

National Municipal Bond Illustrative Portfolios

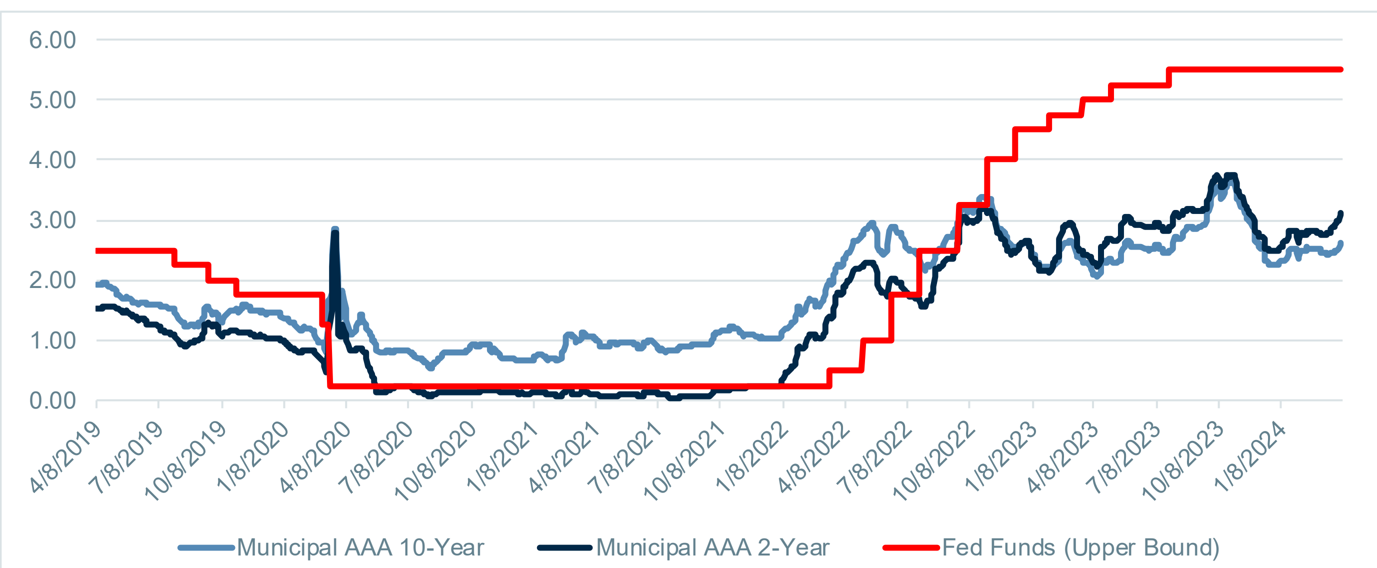
Week of April 8, 2024

Totals & Averages @ Market	1 – 10 Years	10 – 20 Years	20 – 30 Years
Summary Totals			
Original Face	$1,000,000	$1,000,000	$1,000,000
Current Face (Par)	$1,000,000	$1,000,000	$1,000,000
Market Principal	$1,057,648	$1,066,266	$993,789
Accrued Interest	$9,942	$10,733	$9,010
Cash & Cash Alternatives	$0	$0	$0
-	-	-	-
-	-	-	-
Total Portfolio Value	$1,067,589	$1,076,999	$1,002,799
Next 12mo Cpn Cash Flow	$43,000	$45,089	$43,234
Generic Annual Cpn Cash Flow	$43,000	$45,000	$43,125
Weighted Averages			
Coupon*	4.300%	4.500%	4.313%
Maturity**	5.80 yrs	14.64 yrs	24.75 yrs
Duration	4.00	6.33	12.32
Yield to Worst	3.063%	3.440%	4.172%
Yield to Maturity	3.278%	3.836%	4.355%
Market Price*	105.765	106.627	99.379
Tax Lots Holdings Included	20 of 20	20 of 20	20 of 20

NAVIGATING TODAY'S MARKET

According to The Bond Buyer, new issuance is expected to come in around $8.5 billion this week. Some of the larger deals include: the Massachusetts Development Finance Authority (Aaa/AAA) is selling $750 million of Harvard University revenue bonds; Kentucky (A1/-/AA-) is bringing a $632 million Kentucky State Property and Buildings Commission deal to market; the Dormitory Authority of the State of New York (Aa1/AA) is selling $610 million of revenue refunding bonds for Cornell University; and the South Dakota Health and Educational Facilities Authority (-/AA-/AA-) is issuing $334 million of revenue bonds for Avera Health. See table below for additional new issuance.

HISTORICAL YIELDS



Date	Amount	Issuer	ST	Description	Moody's/S&P/Fitch	Maturity
4/9	$8MM	Telfair County School District	GA	General Obligation Bonds, Series 2024	Aa1 / / (A3 / /)	
4/8	$125MM	Delaware State Housing Authority	DE	Senior Single Family Mortgage Revenue	Aa1 /NR /NR	07/01/2025-
4/9	$162MM	Northside Independent School	TX	Unlimited Tax School Building Bonds,	Aaa / /AAA (Aa1 / /AA+)	08/15/2025-54
4/9	$11MM	Minnesota Housing Finance	MN	Residential Housing Finance Bonds 2024	Aa1 /AA+ /	01/01/2025-35, 40
4/9	$27MM	Minnesota Housing Finance	MN	Residential Housing Finance Bonds 2024	Aa1 /AA+ /	01/01/2025-35, 40
4/9	$0MM	Commonwealth of Kentucky	KY	State Property and Buildings Commission,	A1 /NR /AA-	tbd
4/10	$222MM	Commonwealth of Kentucky	KY	State Property and Buildings Commission,	A1 /NR /AA-	11/1/25-44
4/9	$411MM	Commonwealth of Kentucky	KY	State Property and Buildings Commission,	A1 /NR /AA-	11/1/24-30
4/10	$18MM	Washington USD (Yolo County)	CA	2024 General Obligation Refunding Bonds	Aa2 / /	08/01/2024-40
4/10	$24MM	Orange County Housing Finance	FL	Homeowner Revenue Bonds, Series	Aaa / /	03/01/2026-
4/10	$1MM	Lucerne Elementary School District	CA	General Obligation Bonds Election of	/AA / (/A+ /) BAM	8/1/50, 08/01/2030-4
4/10	$25MM	City of Lafayette	LA	Public Improvement Sales Tax Bonds,	Aa2 /AA /	05/01/2025-2049
4/10	$25MM	City of Lafayette	LA	Public Improvement Sales Tax Bonds,	Aa2 /AA /	03/01/2025-49
4/11	$296MM	The School Board of Marion	FL	Certificates of Participation, Series 2024	A1 /AA /	6/1/26-44
4/11	$35MM	Alabama Housing Finance	AL	Collateralized Single Family Mortgage	Aaa / /	2025-

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Sourced from Bloomberg: Treasuries: US Fed H15 CMT Curve - The H15 curve is comprised of the constant maturity treasury rates as published daily by the Federal Reserve in the H15 report. Municipal (AAA): BVAL Municipal AAA Yield Curve (Callable) - The curve is populated with high quality US municipal bonds with an average rating of AAA from Moody's and S&P. The yield curve is built using non-parametric fit of market data obtained from the Municipal Securities Rulemaking Board, new issues, and other proprietary contributed prices. The curve represents 5% couponing. The 3 month to 10 year points are bullet yields, and the 11 year to 30 year points are yields to worst for a 10-year call. Municipal (AA): US General Obligation AA Muni BVAL Yield Curve - The BVAL curve is populated with pricing from uninsured AA General Obligation bonds. Municipal (A): US General Obligation A+ A A- Muni BVAL Yield Curve - The BVAL curve is populated with pricing from uninsured A+, A, and A-rated General Obligation bonds. Fed Funds (Upper Bound): The federal funds rate is the short-term interest rate targeted by the Federal Reserve's Federal Open Market Committee as part of its monetary policy. US Treasury securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance.

The illustrative portfolios are intended as a starting point for a conversation on individual bonds. They are not intended as specific recommendations and bonds are shown for illustration purposes only. The bonds listed in the illustrative portfolios are rated A or better, with average ratings from Moody's and Standard and Poor's of Aa2 / AA. The yields shown in the proposals are based on pricing models, not current market offers. Yields shown are indicative of general market levels but are not a guaranteed result. Prices and yields are not inclusive of any fees or commissions.

US Treasury securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value. The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ. The NASDAQ Composite is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance.

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