

## Municipal Bond Investor Weekly

May 17, 2021

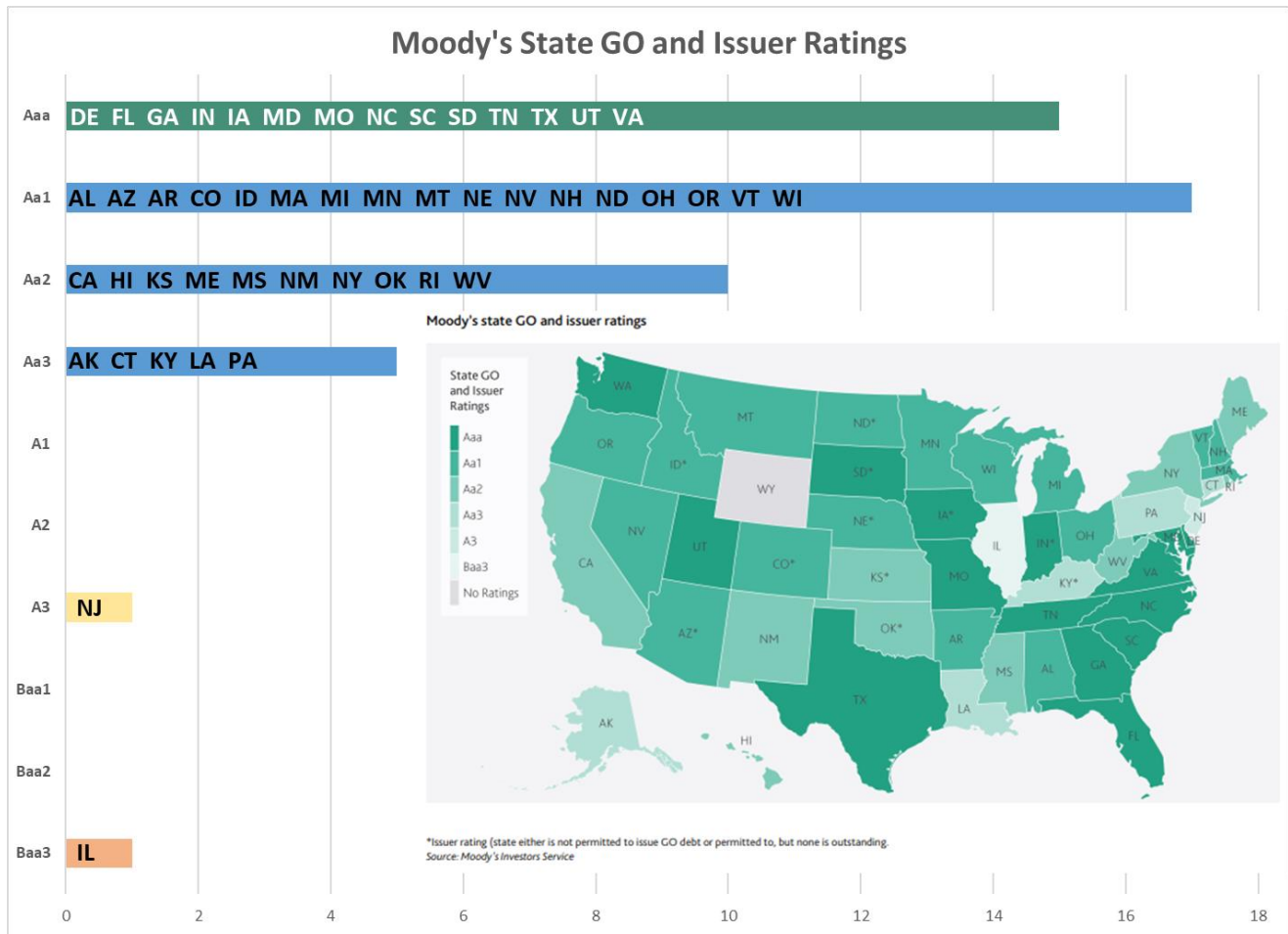
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**Nutmeg Upgrade** It's not easy to find a spicy headline for our commentary on the municipal bond market! This week was no exception, but for the State of Connecticut --- also known as the Nutmeg State --- being in the news. (I know: I'm stretching, but it's Monday!) The state is issuing \$1 billion in general obligation debt this week. The real "spice" for the state is the recent "trifecta" of ratings upgrades it received ahead of this new issue. Standard & Poor's upgraded the state's general obligation rating from A to A+. Last week, Fitch raised its rating from A+ to AA-. Earlier this year Moody's increased its Connecticut GO rating to Aa3 from A+ --- the first upgrade in 20 years. All three agencies maintain a stable outlook --- and the ratings upgrades also impact related state debt, e.g., University of Connecticut, State Special Tax Obligation transportation bonds and other issuers. Moody's cited multiple factors for the upgrade including strong governance, accumulation of significant budget reserves (=15% of General Fund appropriations) and solid financial performance during the pandemic, with a projected June 30, 2021, fiscal year balance of \$250 million. Historically, the state has had a heavy debt and retiree benefits liability, among the highest of all states, which is why the reserves take on greater importance in the overall ratings assessment. S&P noted in its assessment that the state's rating would have been in the AA category, but used its discretion to knock the rating down one notch to A+ due to its high fixed costs. Connecticut continues to rank among the top states in income and wealth indicators, despite a lagging economy and recent population losses. Connecticut ranks 4<sup>th</sup> among the states in GDP per capita at just below \$80,000, behind NY, MA and WA (Source - Bureau of Economic Analysis).

Education funding is one of the hallmarks of the municipal bond market, but it is far from uniform across the states. Connecticut's \$1 billion GO sale this week will contain four series, a blend of new money and refunding dollars. A significant portion of proceeds are focused on school construction and building improvements, and thus the Series B and D tranches are designated as "Social Bonds" for ESG purposes. Some states require local governments to handle all their own school funding, incurring the entire debt service burden for the new facilities. In CT, funding school construction is a partnership between the state and local government school districts. There are approximately 125 school districts throughout the state, closely matching Connecticut's 169 cities and towns. The state uses a funding formula to offset a significant portion of education capital programs. Wealthy districts receive modest support, given the local ability to support education programs. In districts with lower wealth levels, the state may cover up to 70% of construction costs. While Connecticut is noted for having higher fixed costs, one factor contributing to those higher costs is the state's "burden" for education funding. Localities benefit from a lower debt and debt service burden, which is why, in part, most Connecticut towns have ratings in the AA or AAA categories.

As regular readers of the MBIW know, states are among the largest and most resilient issuers in the muni market. With the recent Moody's upgrade to Aa3, Connecticut joins 32 other states in the overall AA category. To highlight, we updated the graph below and include a visual map of state ratings from Moody's. The rating agency rates 49 states (WY is the exception), with 47 being in the AA category or higher; 46 states have a stable outlook, including the two lowest rated states (NJ, A3 and IL Baa3). (Note: in certain states, Moody's has an issuer rating where the state may not be authorized to issue debt or has no debt outstanding.)



**The Week Ahead...** On the new issue front, \$8.5 billion is expected to come to market according to The Bond Buyer. In addition to the State of Connecticut issue detailed above, larger deals expected include: the State of Colorado is selling \$500 million in general obligation bonds; the State of West Virginia is bringing a \$200 million general obligation deal to market; Prince George County, MD (Aaa/AAA/AAA) is issuing \$271 million in general obligation bonds; the Virginia College Building Authority (Aa1/AA+) is selling \$535 million of educational facilities revenue bonds; Seattle, WA (Aa1/AA+) is bringing a \$113 million drainage and wastewater system improvement and refunding revenue deal to market; and the City of Phoenix Civic Improvement Corp (Aa2/AAA) is selling \$635 million of junior lien system revenue bonds split over three series. See table below for additional new issuance.

**For the Numbers...** Benchmark AAA municipal yields moved higher across the board last week. The intermediate and long parts of the curve ended the week higher by 4-5 basis points. Yield increases on the longer parts of the curve slightly outpaced moves on the short end, leading to a steeper curve as the 1 to 30 year slope increased from 149 to 152 basis points. Muni-Treasury ratios increased at 10 years by nearly 2%, although at just under 60%, remain well below historically normal levels.

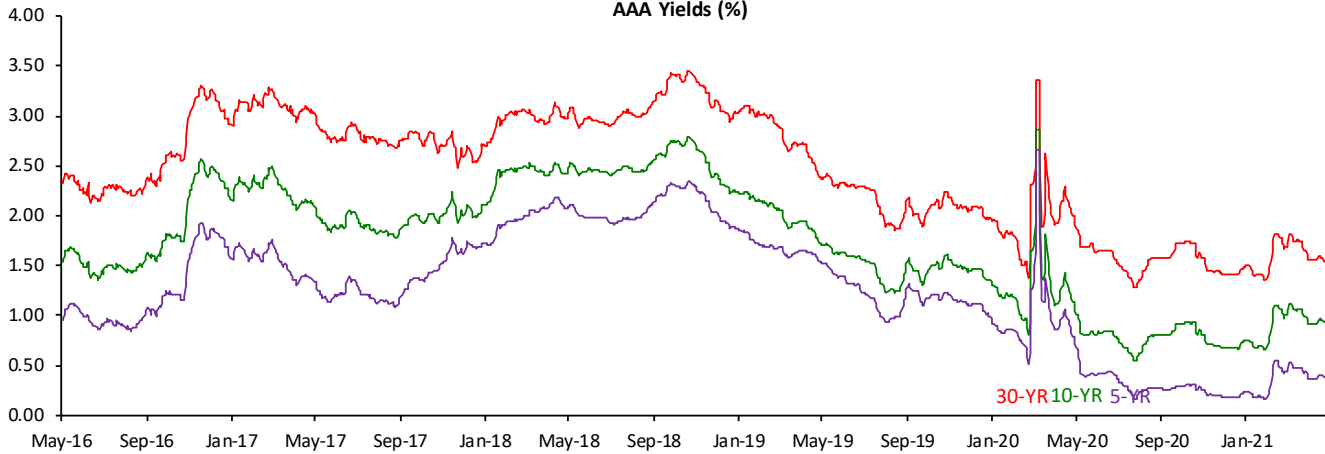
	This Week		Last Week		Change	
	10 Y	30 Y	10 Y	30 Y	10 Y	30 Y
<b>Municipal (AAA)</b>	<b>0.98%</b>	<b>1.59%</b>	0.93%	1.55%	0.05%	0.05%
<b>Treasury</b>	<b>1.63%</b>	<b>2.35%</b>	1.60%	2.28%	0.03%	0.07%
<b>Ratio</b>	<b>59.9</b>	<b>67.8</b>	58.1	67.9	1.8	-0.1
<b>Tax Equivalent Ratio (Fed 37%)</b>	<b>95.0</b>	<b>107.7</b>	92.3	107.8	2.8	-0.2

Bond Yields (%) as of 05/14/21											
	1	2	3	4	5	7	10	15	20	25	30
<b>Muni AAA<sup>1</sup></b>	0.08	0.10	0.18	0.32	0.43	0.66	0.98	1.21	1.40	1.54	1.59
<b>Weekly Change *</b>	▲ 2	▲ 2	▲ 3	▲ 3	▲ 4	▲ 4	▲ 5	▲ 4	▲ 5	▲ 5	▲ 4
<b>Tax Equiv Munis<sup>2</sup></b>	0.12	0.16	0.29	0.51	0.67	1.05	1.55	1.92	2.22	2.45	2.53
<b>Taxable A Muni<sup>3</sup></b>	0.35	0.44	0.60	0.87	1.13	1.61	1.97	2.24	2.56	2.66	2.67
<b>Weekly Change *</b>	▼ -1	▲ 1	▲ 4	▲ 3	▲ 5	▲ 4	▲ 4	▲ 7	▲ 8	▲ 9	▲ 7
<b>Treasuries<sup>3</sup></b>	0.06	0.16	0.33	0.58	0.82	1.29	1.63	1.94	2.25	n/a	2.35
<b>Weekly Change *</b>	▲ 1	▲ 2	▲ 4	▲ 4	▲ 5	▲ 5	▲ 3	▲ 5	▲ 8	n/a	▲ 7
<b>Corporates A<sup>3</sup></b>	0.23	0.32	0.56	0.89	1.21	1.79	2.36	2.92	3.14	3.25	3.26
<b>Weekly Change *</b>	▲ 0	▲ 0	▲ 2	▲ 3	▲ 3	▲ 5	▲ 5	▲ 6	▲ 8	▲ 9	▲ 9

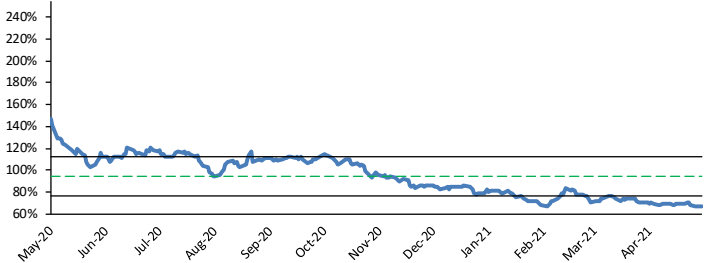
	This Week	1-Week Change	1-Year Change
<b>Dow Jones Industrial</b>	34,382	▼ -1.1%	▲ 45.2%
<b>NASDAQ Composite</b>	13,430	▼ -2.3%	▲ 49.0%
<b>Crude Oil</b>	65.37	▲ 0.7%	▲ 92.2%
<b>U.S. Dollar/Euro</b>	1.214	▼ -0.2%	▲ 11.3%
<b>Gold</b>	1,838	▲ 0.4%	▲ 3.0%

	This Week	Last Week	Last Year
<b>Prime Rate</b>	3.250	3.250	3.250
<b>3-Month LIBOR</b>	0.155	0.160	0.386
<b>Fed Funds</b>	0.250	0.250	0.250
<b>1-Month T-Bill</b>	0.010	0.010	0.090

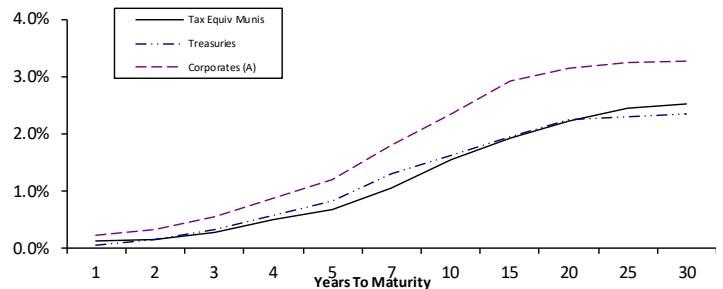
Historical Perspective on the Municipal Market  
AAA Yields (%)



AAA Muni/Treasury Ratio (30-Year Maturity)



Comparative Yield Curves



## New Issue Calendar

Date	Amount	Issuer	ST	Description	Moody's/S&P/Fitch	Maturity
5/17	\$30MM	West Virginia Housing	WV	Housing Finance Bonds 2021 Series A (Non-	Aaa /AAA /	5/1/22-33,36,41,46,5
5/17	\$3MM	Denton County Municipal Utility	TX	Unlimited Tax Refunding Bonds	A2 /AA / (A3 / / ) AGM	9/1/2023-30
5/18	\$175MM	State of Connecticut	CT	General Obligation Refunding Bonds (2021	Aa3 /A /A+	7/15/21,22,24
5/18	\$300MM	State of Connecticut	CT	General Obligation Bonds (2021 Series B)	Aa3 /A /A+	6/1/22-41
5/18	\$63MM	School Board of Volusia County,	FL	Certificates of Participation, Master Lease	Aa3 /NR /NR	8/1/25-31
5/18	\$3MM	Prospect Heights SD 23 (Cook	IL	GO Limited Tax School Bonds	Aa2 / /	12/15/23-31
5/18	\$4MM	Perry Public Facilities Authority	GA	Revenue Bonds (City of Perry Projects)	Aa3 / /	04/01/39 - 43
5/18	\$39MM	Pennsylvania Housing Finance	PA	Single Family Mortgage Revenue Bonds	Aa1 /AA+ /	04/01/2022-30
5/18	\$137MM	Pennsylvania Housing Finance	PA	Single Family Mortgage Revenue Bonds	Aa1 /AA+ /	10/01/2030-51
5/18	\$37MM	Oconee County School District	GA	General Obligation Bonds, Series 2021	Aa1 /AA+ / (Aa2 /AA / )	3/1/24-33
5/18	\$16MM	Mitchell SBC Lawrence County	IN	Ad Valorem Property Tax First Mortgage	/AA+ / ( /A+ / )	07/15/2024-34
5/18	\$14MM	City of Simpsonville	SC	Accommodations Tax & Hospitality Tax Rev	/AA / (A1 /A+ / ) AGM	
5/18	\$3MM	City of Rainsville	AL	General Obligation Warrants Series 2021	/AA / ( /A / ) BAM	1/1/22-50
5/18	\$4MM	City of Portland	TX	Utility System Revenue Refunding Bonds	/AA- /	9/1/2022-32
5/18	\$4MM	Bowie County	TX	Unlimited Tax Refunding Bonds	/A+ /	8/1/21, 28-37
5/18	\$188MM	Alamo Community College District	TX	Limited Tax Bonds	Aaa /AAA /	8/15/2022-46
5/19	\$1MM	USD No. 268 Sedgwick County	KS	General Obligation Refunding Bonds	/A+ /	9/1/2028-29
5/19	\$11MM	USD No. 268 Sedgwick County	KS	Taxable General Obligation Refunding	/A+ /	9/1/2021-28
5/19	\$225MM	State of Connecticut	CT	General Obligation Refunding Bonds (2021	Aa3 /A /A+	7/15/22-28,30,31
5/19	\$12MM	St. Tammany Parish Wide School	LA	Taxable General Obligation School	/AA /	3/1/2022-34
5/19	\$11MM	Simpsonville Municipal Facilities	SC	Installment Purchase Revenue Bonds	Aa2 /AA- /	4/1/23-40,42
5/19	\$8MM	Pinellas County HFA	FL	Single Family Housing Rev Bonds (Multi-	Aaa / /	3/1/23-32,36,41,46,5
5/19	\$9MM	Pinellas County HFA	FL	Single Family Hsg Rev Bonds (Multi-County	Aaa / /	6/1/2051
5/20	\$5MM	City of Santa Rosa High SD	CA	2021 General Obligation Refunding Bonds	Aa2 / /	
5/20	\$43MM	City of Santa Rosa High SD	CA	General Obligation Bonds 2014 Election,	Aa2 / /	08/01/2021-43
5/20	\$2MM	City of Santa Rosa Elementary SD	CA	2021 General Obligation Refunding Bonds	Aa3 / /	08/01/2021-26
5/20	\$5MM	City of Santa Rosa Elementary SD	CA	2021 General Obligation Refunding Bonds,	Aa3 / /	08/01/2021-26
5/20	\$17MM	City of Santa Rosa Elementary SD	CA	General Obligation Bonds 2014 Election,	Aa3 / /	08/01/2021-43

BQ: Bank Qualified, SG: Selling Group, PSF: Permanent School Fund, GO: General Obligation, UT: Unlimited Tax, LT: Limited Tax.

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Sources: (1) BVAL Municipal AAA Yield Curve (Callable) (2) Tax Equivalent Yield calculations on AAA-rated tax exempt yields assume a 37% tax rate (3) Treasury, Corporate, and Taxable Municipal yields from Bloomberg. Short Term Yields are from Bloomberg, Federal Reserve and Securities Industry and Financial Markets Association. \* In Basis Points. 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.

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of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising. Gold is subject to the special risks associated with investing in precious metals, including but not limited to: price may be subject to wide fluctuation; the market is relatively limited; the sources are concentrated in countries that have the potential for instability; and the market is unregulated. 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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**Ref: M20-3057961 until 4/24/2022**