

Muni Fortnightly

Treasury Yields bull-flattened. Labor report induced a short-term whipsaw, but yields settled lower. Chair Powell's Congressional testimony was non-eventful. Inflation data on the docket this week.

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Bottom Line:

- Treasury yields seemingly stabilized and moved slightly lower.
- Muni Valuation is remains very rich: 10yr AAA GO Ratio at 60.4
- Moody's upgrades outpace downgrades in 2024.
- Muni Index IG return +0.16%% so far this year (+6.5% in all of 2023)

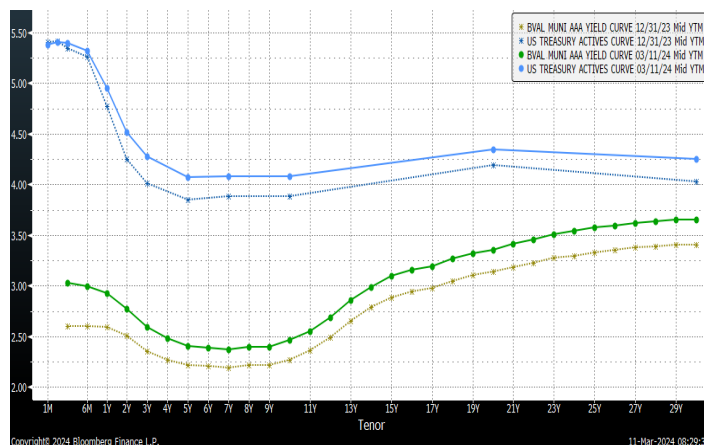
What Happened in the Bond Markets Last Week?

- Last week, Treasury yields were relatively calm. Yields bull-flattened with the 10yr yield finishing at the lowest level in five weeks. The usual Fed speak was tolerated by markets and Chair Powell did hint at the Fed's semiannual testimony to conference that rate cuts would probably be appropriate later this year. The market has already changed drastically with its implied rate cut stance from six cuts down to three to four by the end of the year. Friday's labor report did throw a whipsaw into yields with the higher-than-expected job gains followed by very large revisions but that didn't move the market outside of the small window of time. Despite some rare equity volatility and losses during the week, corporate credit spreads remained behaved and closed tighter for the week near their one-year lows.
- The Bloomberg Barclays Municipal Bond Index yield is 3.35%.
- The 10yr AAA GO Ratio has risen very sharply to 60.4.

| (Since 1/31/23) | Treasury | | | Munis (Bloomberg AAA GO Index) | |
|-----------------|--------------|-----------|--|--------------------------------|-----------|
| Tenor | Change (bps) | Yield (%) | | Change (bps) | Yield (%) |
| 3 mos. | +3 | 5.40% | | +5 | 3.03% |
| 1 year | +24 | 4.95% | | +5 | 2.93% |
| 2 year | +30 | 4.51% | | +4 | 2.78% |
| 5 year | +23 | 4.07% | | +1 | 2.41% |
| 10 year | +17 | 4.08% | | +0 | 2.46% |
| 30 year | +8 | 4.24% | | +4 | 3.65% |

One can observe these changes by looking at how rates have changed along the curve for both the Treasury curve and for the AAA-rated G.O. Index since last week. The top panel shows four yield curves; two for the Treasury curve - one for the most current date and one from last week and two for the AAA-rated G.O. - current and last week. The bottom panel of the graph shows changes in the rates along both curves for the week for both Treasuries and the AAA G.O. Index.

Yield Curve and Muni Curve Changes (since 12/31/23)

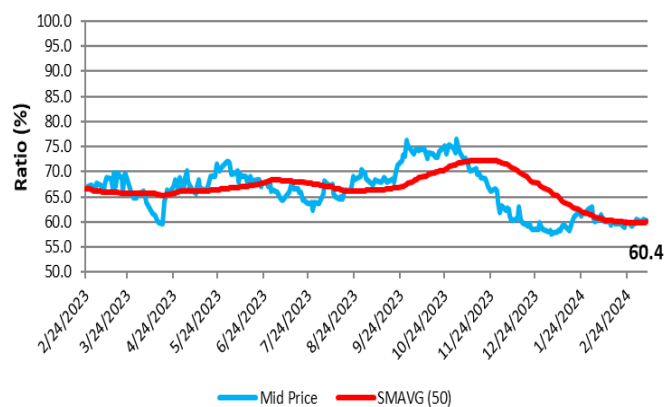


Data Source: Bloomberg

The 10-yr AAA GO Ratio is 60.4.

The line graph to the right shows the ratio of 10-year AAA-rated muni yields to the 10-year yield over the last year.

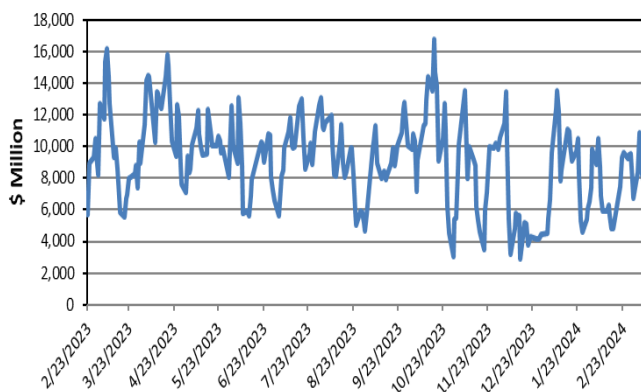
AAA 10-Year G.O. Muni Ratio to Treasury



Data Source: Bloomberg

Bloomberg 30-Day Visible Supply currently stands at \$8.8 billion. The 12-mo average is \$9.2 billion.

Bloomberg 30-Day Visible Supply
U.S. Total



Data Source: Bloomberg

Articles of Interest

2023 Upgrades surpass Downgrades (Moody's): Moody's reports, that for a third consecutive year, municipal credit upgrades outnumbered downgrades. The margin was 716 to 199. Moody's attributes the dynamic to continued economic stability and general financial strengthening, particularly among local governments. However, the not-for-profit healthcare and higher education sectors had more downgrades than upgrades in 2023 both have negative outlooks), both negatively impacted by higher labor costs and capital expenses and limited revenue growth.

EXHIBIT 1

Rating changes summary for full year 2023

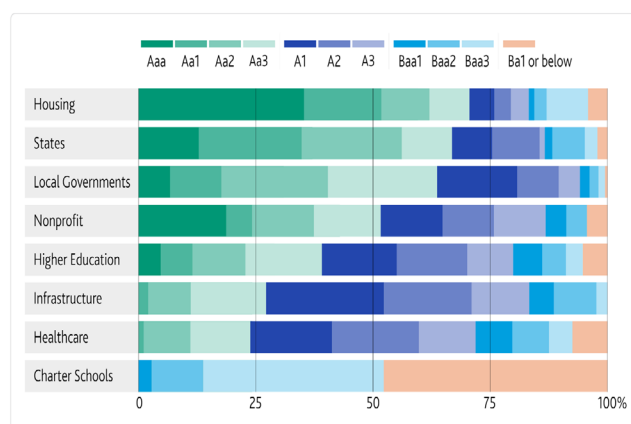
| | | |
|---------------------------------|-------------------------------------|--|
| Publicly rated obligors: 10,564 | | |
| Rating changes | YoY rating changes | Total debt |
| 915 | +51% | \$347.6B |
| ▲ 716 Upgrades | +60% YoY change in upgrades | \$277.6B Total debt for upgraded obligors |
| ▼ 199 Downgrades | +27% YoY change in downgrades | \$69.9B Total debt for downgraded obligors |

The rating changes count includes rating changes for all rated securities per obligor. Total debt refers to the total debt outstanding for all issuers with a rating change.

Source: Moody's Investors Service

EXHIBIT 9

Ratings are predominantly investment grade with the charter school sector accounting for the largest portion of speculative grade obligors



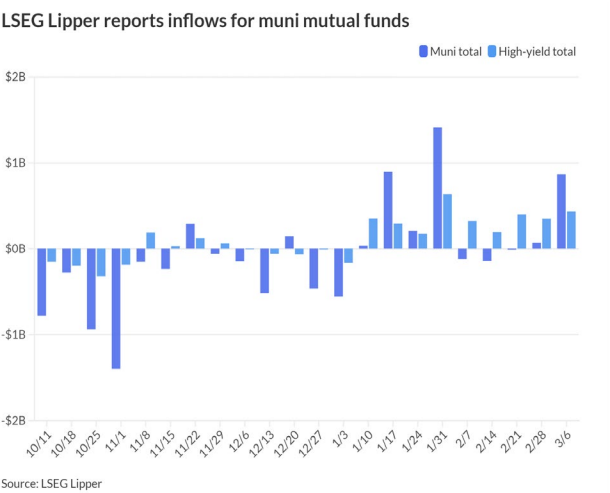
Source: Moody's Investors Service

Muni Returns (Credit Sights):

Comparative Total Returns as of Friday, March 8, 2024

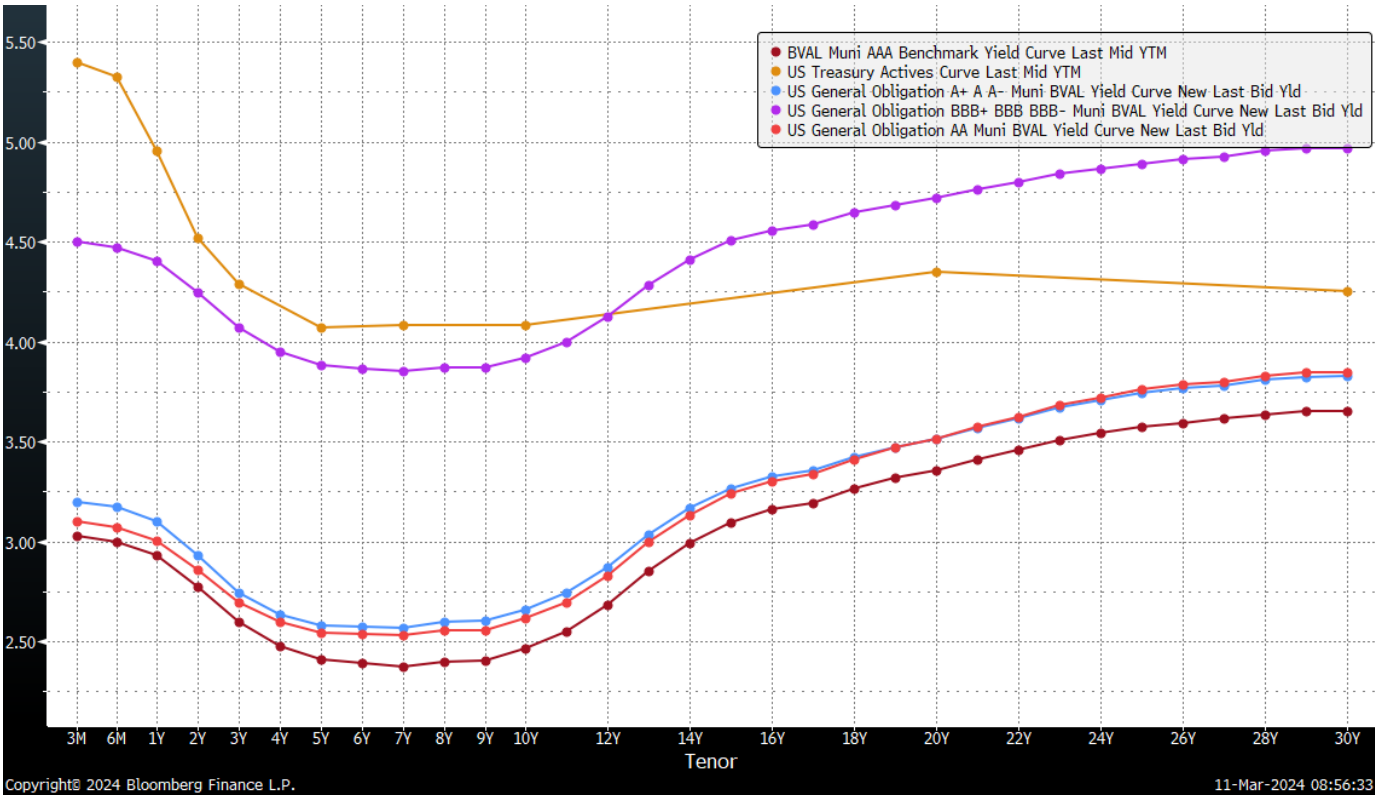
| | Index | 2023 | YTD 2024 | | | | Week Ended: | | | Last Week |
|-------|------------------|---------|----------|--------|--------|--------|-------------|----------|---------|-----------|
| | | | | Jan | Feb | Mar | Fri 2/16 | Fri 2/23 | Fri 3/1 | |
| Muni | Muni IG | +6.50% | +0.16% | -0.22% | +0.01% | +0.38% | -0.06% | +0.15% | +0.14% | +0.34% |
| | Muni HY | +6.20% | +2.35% | +0.98% | +0.60% | +0.74% | +0.17% | +0.29% | +0.38% | +0.63% |
| | Muni NR | +8.90% | +2.25% | +0.56% | +1.03% | +0.64% | +0.21% | +0.55% | +0.44% | +0.56% |
| | Taxable Muni | +8.35% | +0.14% | +0.15% | -1.36% | +1.37% | -0.60% | +0.31% | +0.80% | +0.83% |
| | Broad Txble Muni | +8.19% | +0.45% | +0.28% | -1.10% | +1.29% | -0.51% | +0.32% | +0.79% | +0.76% |
| Bonds | Treasury | +3.87% | -0.49% | -0.18% | -1.35% | +1.06% | -0.61% | +0.30% | +0.56% | +0.67% |
| | Corp IG | +8.40% | -0.07% | +0.15% | -1.40% | +1.20% | -0.45% | +0.44% | +0.18% | +0.86% |
| | Corp HY | +13.46% | +1.06% | +0.02% | +0.30% | +0.74% | -0.38% | +0.47% | +0.21% | +0.57% |

Muni Fund Flows: Fund inflows amounted to \$869 million last week. The four-week moving average is \$241 million. High yield funds saw inflows for the ninth consecutive week.



Relative Value by Rating

Muni Index Yield Curve by Credit Rating – Data Source: Bloomberg



For more information, please contact your Financial Advisor.

Appendix – Important Disclosures

Some of the potential risks associated with fixed income investments include call risk, reinvestment risk, default risk and inflation risk. Additionally, it is important that an investor is familiar with the inverse relationship between a bond's price and its yield. Bond prices will fall as interest rates rise and vice versa.

When considering a potential investment, investors should compare the credit qualities of available bond issues before they invest. The two most recognized rating agencies that assign credit ratings to bond issuers are Moody's Investors Service ("Moody's") and Standard & Poor's Corporation ("S&P"). Moody's lowest investment-grade rating for a bond is Baa3 and S&P's lowest investment-grade rating for a bond is BBB-. Ratings are measured on a scale that ranges from AAA or Aaa (highest) to D or C (lowest).

The Bond Buyer 20-Bond Index consists of 20 general obligation bonds that mature in 20 years. The average rating of the 20 bonds is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp.'s AA. The Bond Buyer 11-Bond Index uses a select group of 11 bonds in the 20-Bond Index. The average rating of the 11 bonds is roughly equivalent to Moody's Aa1 and S&P's AA-plus. The Bond Buyer Revenue Bond Index consists of 25 various revenue bonds that mature in 30 years. The average rating is roughly equivalent to Moody's A1 and S&P's A-plus. The indexes represent theoretical yields rather than actual price or yield quotations. Municipal bond traders are asked to estimate what a current-coupon bond for each issuer in the indexes would yield if the bond was sold at par value. The indexes are simple averages of the average estimated yields of the bonds, are unmanaged and a direct investment cannot be made in them.

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