Treasury yields remain volatile. Inflation data improving albeit non-linearly. Munis cheapen relative to Treasuries.

Bottom Line:
- Treasury yields fall in volatile market.
- Moody’s reports on improvements in state fixed debt liabilities improvement in 2022.
- Munis cheapen slightly relative to Treasuries; 10yr AAA GO Ratio at 73.7.

What Happened in the Bond Markets Last Week?
- Yields on-balance fell during the week. Don’t think it was a linear move; it just happens is that the whip ended lower on Friday. The effective moves have been led by the long-end making higher duration positions more volatile. The 2’s-10’s curve fell -16 bps to -44 bps as the long-end retreated. Inflation data (CPI, PPI, Import Prices, Univ. of Michigan Sentiment) were mixed and certainly nor as worrisome as in past. Higher inflation breakevens (on the short-end) were more than compensated for by real-yields falling substantially across the curve. One of the aiding factors in the volatility has been numerous Fed speakers mentioning the work the markets have done aiding the tightening which may affect their propensity to raise Fed Funds Rates in the future. As it stands, there is only an 8% probability of rate hike in November and 35% probability of one hike through January.
- The Bloomberg Barclays Municipal Bond Index yield is 4.26%.
- The 10yr AAA GO Ratio has risen very sharply to 73.7.

<table>
<thead>
<tr>
<th>(Since 9/30/23)</th>
<th>Treasuries</th>
<th>Munis (Bloomberg AAA GO Index)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tenor</td>
<td>Change (bps)</td>
</tr>
<tr>
<td>3 mos.</td>
<td>+4</td>
<td>5.49%</td>
</tr>
<tr>
<td>1 year</td>
<td>-7</td>
<td>5.40%</td>
</tr>
<tr>
<td>2 year</td>
<td>+1</td>
<td>5.06%</td>
</tr>
<tr>
<td>5 year</td>
<td>+3</td>
<td>4.64%</td>
</tr>
<tr>
<td>10 year</td>
<td>+4</td>
<td>4.61%</td>
</tr>
<tr>
<td>30 year</td>
<td>+5</td>
<td>4.75%</td>
</tr>
</tbody>
</table>
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.

The 10-yr AAA GO Ratio is 73.7.

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

Bloomberg 30-Day Visible Supply currently stands at $8.7 billion. The 12-mo average is $8.5 billion.
Articles of Interest

State Pension Serviceability Improves (Moody’s): Moody’s issued a Sector Profile report on the condition of debt serviceability. The highlights of the report include: 1) Total long-term liabilities declined by 9.1% mainly due to State adjusted net pension liabilities (ANPL) declined to 131% of own-source revenues in 2022 from 152% in 2021., 2) median ratio of fixed costs to own-source revenues fell to 4.8%, 3) total net tax-supported debt rose by 0.6% but less than total own-source revenue growth (11.6%), 4) total adjusted net pension liabilities across all states fell 11.4% and OPEB decreased by 13.2%.

Muni Returns (Credit Sights):

Muni Fund Flows: According to ICI, muni funds have experienced increasingly large outflows through 10/4.

ICI reports larger outflows

![ICF report chart]

Source: The Investment Company Institute
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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