

# Muni Fortnightly

**Treasury Yields rise sharply on inflation data. Rate expectations fall significantly. Munis remain rich.**

## PWM Fixed Income Research

Dave Violette, CFA, Vice President  
Senior Fixed Income Analyst

April 15, 2024

### Bottom Line:

- Treasury yields move sharply higher on stickier-than-expected inflation data.
- Market-implied rate cut probabilities fall significantly.
- Muni Valuation is remains very rich: 10yr AAA GO Ratio at 59.2
- Not-for-Profit Healthcare Sector credit medians stabilize (Moody's)
- Muni Index IG return -0.97%% so far this year (+6.5% in all of 2023)

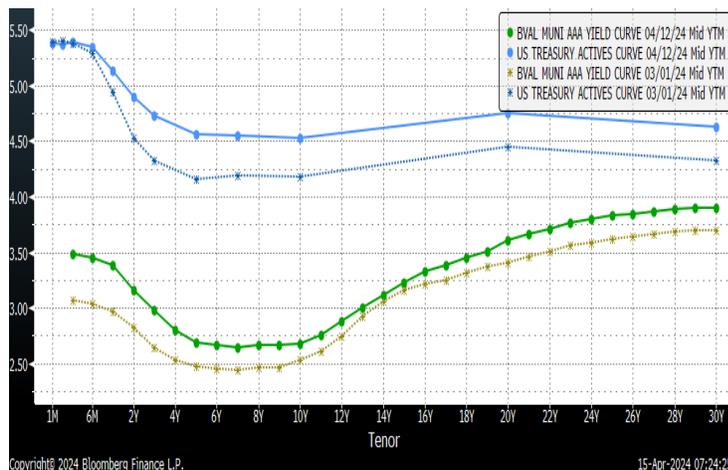
### What Happened in the Bond Markets Last Week?

- Last week was first highlighted by an inarguably sticky, but very slightly higher than expected CPI report having a much greater outsized impact on Treasury yields. On the release Treasury yields rocketed higher by 20+ bps. Subsequent PPI data were better than expected but as expected did not have an equivalent impact on yields. And on Friday, with the expectation of Iranian aggression risk-off trade took hold with the VIX spiking, equities falling sharply and Treasury yields catching the safe haven bid. As it stands, the market has mostly taken out a Fed rate cut in June and there is only a 50/50 shot of one in July and two rate cuts has only about a 50% market implied probability of occurring.
- The Bloomberg Barclays Municipal Bond Index yield is 3.64%.
- The 10yr AAA GO Ratio has risen very sharply to 59.2.

(Since 1/31/23)	Treasuries		Munis (Bloomberg AAA GO Index)		
	Tenor	Change (bps)	Yield (%)	Change (bps)	Yield (%)
	3 mos.	+1	5.40%	+42	3.48%
	1 year	+19	5.14%	+42	3.39%
	2 year	+37	4.90%	+35	3.16%
	5 year	+40	4.56%	+22	2.69%
	10 year	+34	4.52%	+15	2.68%
	30 year	+30	4.63%	+20	3.0%

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 3/01/24)

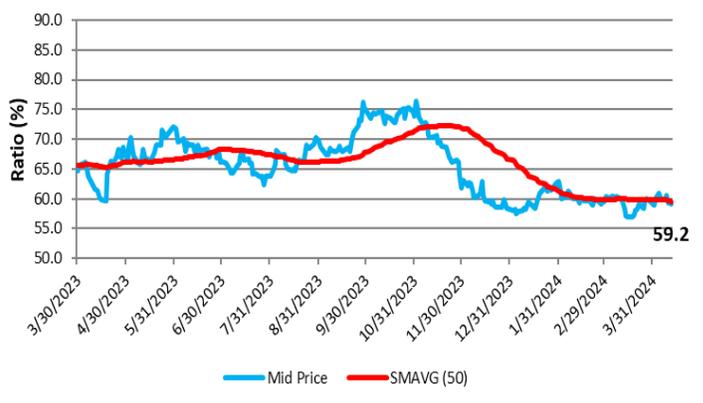


Data Source: Bloomberg

The 10-yr AAA GO ratio is 59.2

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.

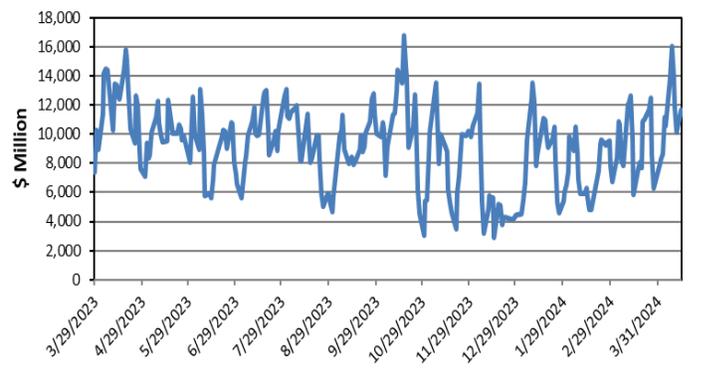
AAA 10-Year G.O. Muni Ratio to Treasury



Data Source: Bloomberg

Bloomberg 30-Day Visible Supply currently stands at \$11.7 billion. The 12-mo average is \$9.3 billion.

Bloomberg 30-Day Visible Supply U.S. Total



Data Source: Bloomberg

**Articles of Interest**

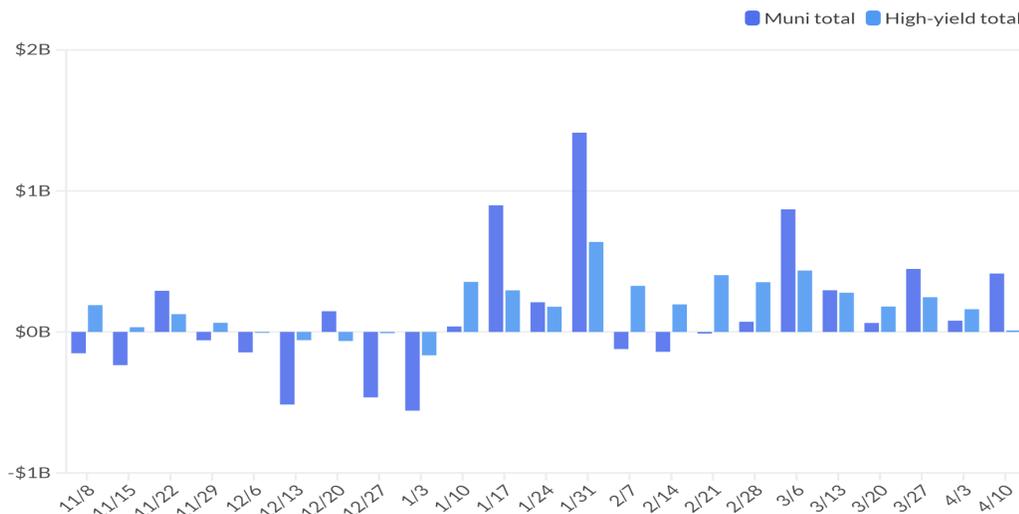
**Not-for-Profit Healthcare Operations Stabilize (Moody’s):** Moody’s issued a Sector Profile report on the not-for-profit healthcare sector. Highlights of the report include: 1) Operating performance has modestly improved with cash flow margin increasing from 5.1% in '22 to 5.3% in '23, but still tight. 2) With reduced reliance on contract labor, median expense growth has improved but is still elevated. 3) Liquidity, as measured by median days-cash -on-hand, fell from 208 days to 188 days. 4) Leverage (debt to cash flow) stabilized at 3.3x but is still high compared to pre-pandemic at 2.0x. 5) Patient volume, in particular outpatient, continues to improve.

**Muni Returns (Credit Sights):**

Comparative Total Returns as of Friday, April 12, 2024										
Index	2023	YTD 2024	Feb	Mar	Apr	Week Ended:			Last Week	
						Fri 3/22	Fri 3/29	Fri 4/5		
Muni	Muni IG	+6.50%	-0.97%	+0.01%	-0.10%	-0.66%	-0.07%	-0.20%	-0.72%	+0.08%
	Muni HY	+6.20%	+2.03%	+0.60%	+1.03%	-0.60%	+0.13%	+0.09%	-0.62%	+0.05%
	Muni NR	+8.90%	+1.53%	+1.03%	+0.69%	-0.75%	+0.04%	+0.06%	-0.70%	-0.03%
	Taxable Muni	+8.35%	-2.44%	-1.36%	+0.84%	-2.06%	+0.61%	+0.29%	-1.47%	-0.58%
	Broad Txble Muni	+8.19%	-1.70%	-1.10%	+0.93%	-1.79%	+0.66%	+0.26%	-1.23%	-0.54%
Bonds	Treasury	+3.87%	-2.61%	-1.35%	+0.60%	-1.69%	+0.69%	+0.14%	-1.03%	-0.64%
	Corp IG	+8.40%	-1.74%	-1.40%	+1.19%	-1.66%	+0.80%	+0.14%	-1.02%	-0.62%
	Corp HY	+13.46%	+0.35%	+0.30%	+1.19%	-1.14%	+0.64%	+0.05%	-0.49%	-0.62%

**Muni Fund Flows:** Fund inflows amounted to \$415 million last week. High yield funds saw inflows for the ninth consecutive week.

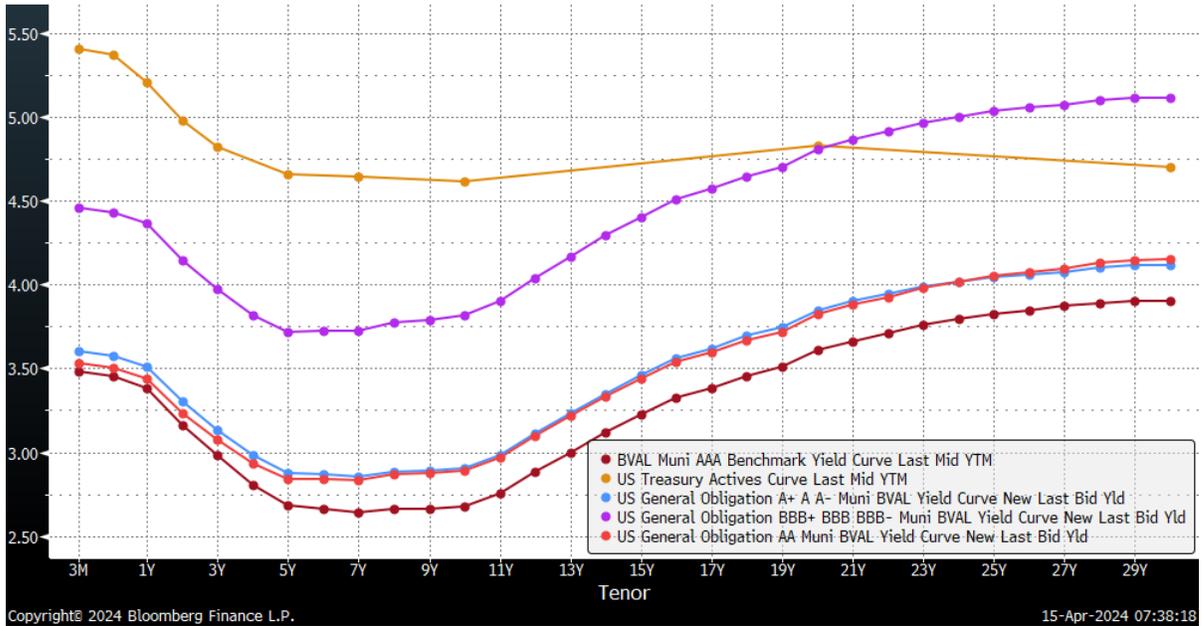
**LSEG Lipper reports more inflows**



Source: LSEG Lipper

**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.

This is not a complete analysis of every material fact regarding any sector, municipality or security. The opinions expressed here reflect our judgment at this date and are subject to change. The information has been obtained from sources we consider to be reliable, but we cannot guarantee the accuracy. Municipal securities investments are not appropriate for all investors, especially those taxed at lower rates. The alternative minimum tax (AMT) may be applicable, even for securities identified as tax-exempt. It is strongly recommended that an investor discuss with their financial professional all materially important information such as risks, ratings and tax implications prior to making an investment. Past performance is not a guarantee of future results.

This report does not provide recipients with information or advice that is sufficient on which to base an investment decision. This report does not take into account the specific investment objectives, financial situation, or need of any particular client and may not be suitable for all types of investors. Recipients should consider the contents of this report as a single factor in making an investment decision. Additional fundamental and other analyses would be required to make an investment decision about any individual security identified in this report.

ADDITIONAL INFORMATION ON SECURITIES MENTIONED HEREIN IS AVAILABLE UPON REQUEST BY CONTACTING YOUR BAIRD INVESTMENT PROFESSIONAL.

Copyright 2024 Robert W. Baird & Co. Incorporated.