

February 2021

MUNIWATCH

FIXED INCOME MARKET UPDATE



Muni yields were virtually unchanged in January, continuing their outperformance of U.S. Treasuries, which sold off by up to 20 basis points (bps) on the long end of the curve, as Muni-to-Treasury ratios fell to all-time lows. Low supply combined with continued inflows into muni mutual funds have caused a renewed imbalance in the market. As a result, credit spreads have continued to narrow, leading to an underpricing of credit risk. We continue to focus on high grade credits as underlying economic risks still exist and rates remain at historic lows, leading to limited upside potential.

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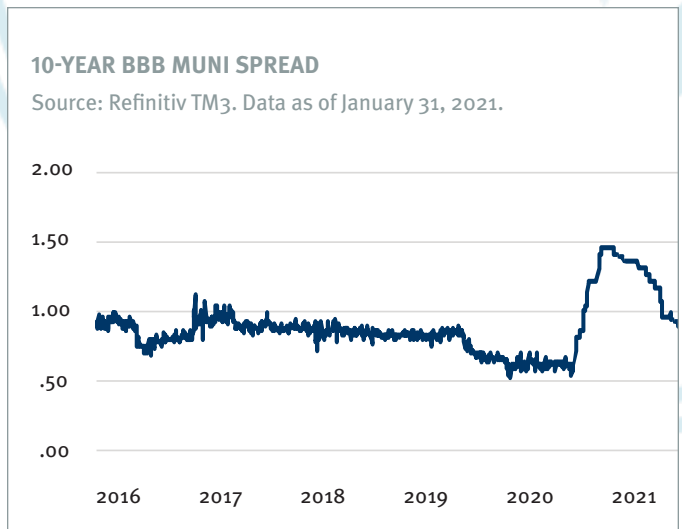
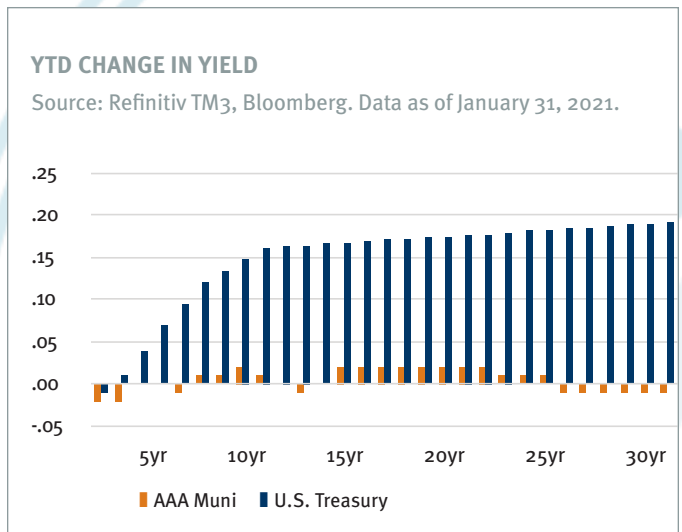
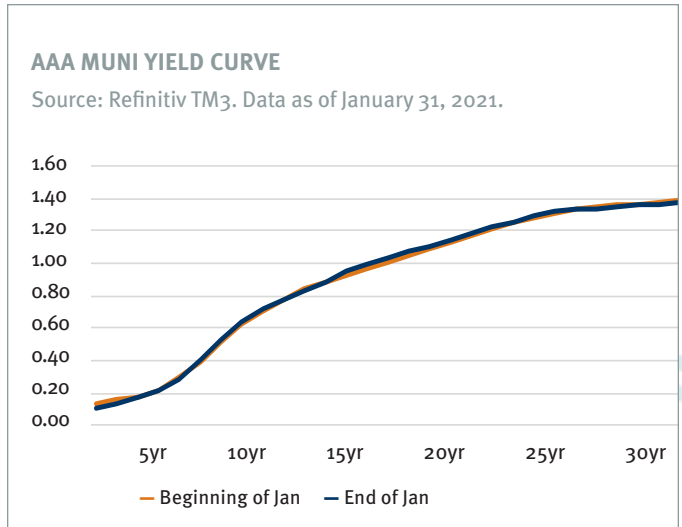


Muni Yields Flat, Treasury Yields Rise

Muni yields were virtually flat in January (graph, top-right). The lack of movement was surprising in comparison to Treasury yields, which increased by nearly 20 bps (graph, middle-right) and caused Muni-to-Treasury ratios to fall to all-time lows in many parts of the curve. We believe these rich levels are the result of a renewed supply/demand imbalance in the market; for the month, muni supply was \$26 billion vs. muni fund inflows of \$14 billion and reinvestment capital of \$27 billion.

Credit Spreads Continue Narrowing

Another consequence of this imbalance and the need to generate yield in the current low rate environment is the continued narrowing of credit spreads (graph, bottom-right), even though significant credit risk still exists. The market seems to be priced as if additional Federal stimulus is a foregone conclusion but each new government proposal includes less funding for municipal issuers. We continue to emphasize careful sector and individual credit selection with this underpricing of risk in the market.



STATE OF THE STATES



Highlights

NYC MTA: Positive technical factors continue to cause spread narrowing. The agency delayed its planned 2021 fare hikes, resulting in a reduction to anticipated revenues. Its Chairman called the 2021 budget “grim” in a January board meeting.

Illinois/New Jersey: Both states have also been recipients of positive technical factors. On a positive note, personal income tax receipts for 2020 vs. 2019 actually increased in both states (1.4% in Illinois 0.1% in New Jersey) after being expected to decrease significantly.

* Proxy Issuer used.

States with insufficient GO debt or lack of Proxy Issuer: MO, AL, IA, AR, NM, WV, AK, ME, ND, ID, SD, MT, VT, WY

STATE GO 10YR YIELD AND SPREAD TO AAA

Spread widening noted as (+), spread narrowing noted as (-)

Source: Bloomberg. Data as of January 31, 2021.

State	Yield on 10yr Maturity (%)	Current Spread to 10yr AAA Muni (bps)	3-Mo Change in Spread (bps)	1-Yr Change in Spread (bps)
CA	0.78	9	-12	-3
NY	0.86	18	+11	+26
NYC MTA	1.67	98	-194	+36
TX	0.75	6	-9	-3
IL	2.01	133	-143	-52
FL	0.75	6	+3	+6
PA	0.91	22	-13	-25
NJ	1.28	59	-31	-8
OH	0.78	9	-1	-1
MA	0.68	-1	-15	-17
WA	0.77	8	-8	-8
MI	0.80	12	-10	-7
CO*	0.84	15	+1	+5
VA	0.72	3	+2	+7
GA	0.73	4	-2	+8
MD	0.77	8	-3	+4
WI	0.79	10	+1	+4
MN	0.72	3	-7	+2
AZ*	0.82	14	-1	+10
CT	1.01	33	-20	-60
NC	0.75	6	+4	+8
OR	0.79	11	+7	+3
IN*	0.75	7	-14	-1
TN	0.67	-1	-14	+2
SC	0.77	9	+1	+7
LA	0.96	27	+2	-2
KY*	0.81	13	-18	-5
DC	0.78	10	-3	-1
NV	1.02	33	-1	+17
UT	0.74	5	-2	+9
KS*	0.81	13	-10	+1
NE*	1.04	35	+4	+23
OK*	0.89	20	+2	+5
HI	0.83	14	-12	+4
MS	0.78	9	-4	-12
AR*	1.00	31	-13	+7
RI	0.84	16	+2	-4
DE	0.74	6	-1	+10
NH	0.75	7	(8)	(1)

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