

July 2021

# MUNIWATCH

## FIXED INCOME MARKET UPDATE



Munis were virtually unchanged for the month of June, underperforming U.S. Treasuries.

Flows into Muni Mutual Funds continued but seem to be slowing as we believe the market remains overvalued.

As the summer season begins and issuance slows, Munis may resume outperformance due to a supply/demand imbalance and a thin market.

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**Munis Underperform**

Muni yields were virtually unchanged in June, underperforming U.S. Treasuries, which rallied by up to 25 basis points (bps) on the long end of the curve. The 10-year Muni-to-Treasury yield ratio increased from 60.5% to 69.1% for the month, still well below the average of 87% over the past year (graph, top-right). The Muni market did not participate in the yield curve flattening that occurred in the U.S. Treasury market after June's Federal Reserve statement was more hawkish than anticipated. Despite the month's underperformance, we believe Munis still remain overvalued compared to other fixed income asset classes as Muni yields have increased by 25-30 bps less than the increase in U.S. Treasury yields year-to-date (graph, middle-right).

**Low Supply and High Demand May Spur a Return to Outperformance**

The summer season typically leads to Muni outperformance as issuance is slow and redemptions are elevated. Issuance in July is expected to fall to only \$9 billion, compared to the year-to-date monthly average of \$28 billion. At the same time, the amount matured or called totaled \$43 billion in June and is expected to total \$24 billion in July. Combined with continued fund inflows, our calculations project excess demand in the market of nearly \$25 billion (graph, bottom-right). While issuance may surprise to the upside as it has in previous months, this supply/demand imbalance may lead to continued rich valuations in the near term.

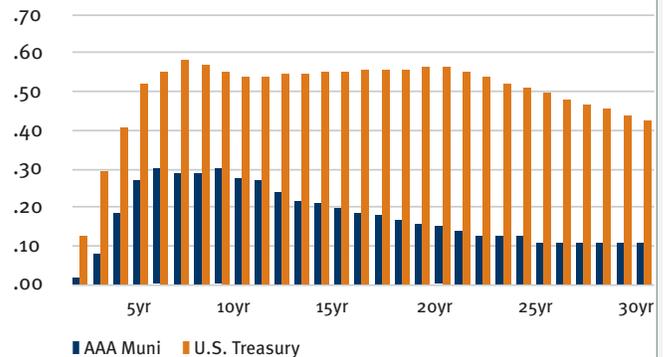
**10-YEAR MATURITY MUNI-TO-TREASURY RATIO**

Source: Bloomberg, Refinitiv TM3. Data as of June 30, 2021.



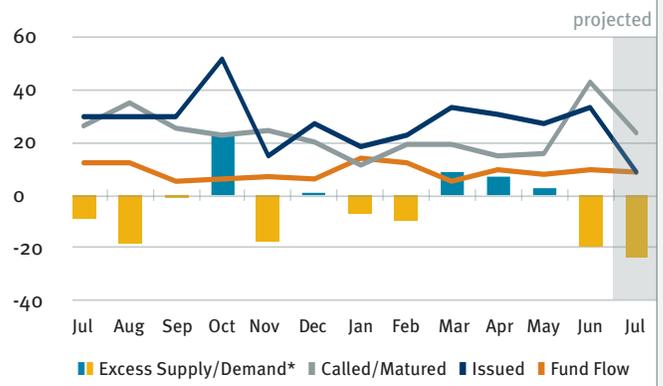
**YTD CHANGE IN YIELD**

Source: Bloomberg, Refinitiv TM3. Data as of June 30, 2021.



**MONTHLY MUNI EXCESS SUPPLY/DEMAND (IN BILLIONS)**

Source: WCA, Bloomberg. Data as of June 30, 2021.



## STATE OF THE STATES



While very light on details, the Bipartisan Infrastructure Framework promises \$1.2 trillion of investments into transportation infrastructure. This focus on infrastructure, combined with the better-than-expected recovery in state and city finances and continued low rates, should lead to continued borrowing in the Muni Market.

\* Proxy Issuer used.

States with insufficient GO debt or lack of Proxy Issuer: MO, AL, IA, 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 June 30, 2021.

State	Yield on 10-Yr Maturity (%)	Current Spread to 10-Yr AAA Muni (bps)	3-Mo Change in Spread (bps)	1-Yr Change in Spread (bps)
CA	1.08	9	-4	-5
NY	1.06	8	+11	-13
NYC MTA	1.37	39	-34	-185
TX	1.02	3	-14	-22
IL	1.57	58	-54	-249
FL	1.08	10	-1	-1
PA	1.13	14	-8	-32
NJ	1.30	31	-21	-37
OH	1.09	10	+2	-9
MA	1.06	7	+3	-15
WA	1.05	6	-5	-9
MI	1.08	9	+1	-14
CO*	1.08	10	+1	-6
VA	1.01	3	-2	+2
GA	1.02	3	+2	-1
MD	1.06	7	-2	-2
WI	1.08	9	0	0
MN	1.03	4	+5	-6
AZ*	1.10	11	-5	-10
CT	1.21	22	-11	-53
NC	1.05	6	-1	+1
OR	1.11	12	+5	-6
IN*	1.14	16	+6	-3
TN	1.02	3	-8	-13
SC	1.08	9	+2	-2
LA	1.14	16	+2	-33
KY*	1.33	34	+5	+3
DC	1.08	9	0	-3
NV	1.15	16	-2	-28
UT	1.07	9	+7	+3
KS*	1.15	17	-7	-14
NE*	1.33	35	+4	-14
OK*	1.08	9	-8	-7
HI	1.19	20	+4	-7
MS	1.23	25	+6	+5
AR*	1.21	22	-15	-2
RI	1.08	9	+6	-19
DE	1.05	6	-3	-6
NH	1.02	3	-2	-4

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