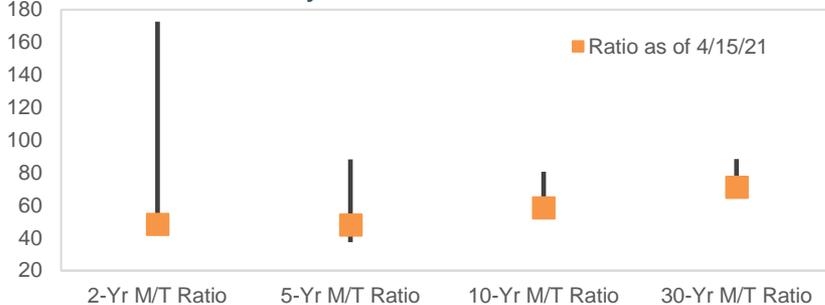


Municipal Market Update

- After 2020's record-setting municipal issuance of \$514 billion, total new issue volume is an estimated \$141 billion year-to-date, versus \$123 billion a year ago – a nearly 15% increase.
- Municipal bond funds reported inflows of \$1.9 billion for the week ending April 21st, bringing year-to-date flows to \$23.9 billion.
- Muni/Treasury ratios have rapidly declined to historical lows due to moderate supply and strong credit fundamentals. Demand for tax-exempt income remains high, driven by the prospect of increased tax rates.

Muni/Treasury Ratios Continue to Decline in 2021...



- In 1Q21, taxable municipals performed well, with excess returns outpacing those of corporates, non-corporates, and CMBS.

	Corps	Non-Corps	CMBS	Taxable Munis	Long Taxable Munis
YTD Excess Returns	0.95	0.82	0.46	3.78	4.26

- Continued yield compression in lower-rated bonds relative to higher-rated ones persisted into April, creating an opportunity to go up in quality.

Index Yield Tracker

Avg Yield	1-2 Yrs	3-5 Yrs	5-7 Yrs	7-10 Yrs	10-20 Yrs	20-30 Yrs	30+ Yrs
AAA	0.09	0.28	0.44	0.62	1.04	1.42	1.51
AA	0.11	0.33	0.51	0.68	1.09	1.57	1.90
A	0.25	0.50	0.57	0.88	1.23	1.74	2.11
BBB+	0.32	0.67	0.89	1.15	1.58	2.05	2.21

Political Environment

- President Biden's \$1.9 trillion relief plan could mitigate the financial strain on numerous states. The \$200 billion of direct state aid would offset much of the pandemic's fiscal impact, easing credit concerns.
- The President's \$2.3 trillion infrastructure proposal may foreshadow the resurrection of the Build America Bonds (BABs) program, which expired in 2010. BABs, which were created under the American Recovery and Reinvestment Act of 2009, enabled states, cities, airports, and others to issue taxable debt with federal subsidies.
- The President's recently announced American Families Plan proposes restoring the top income tax rate to 39.6% from 37%, which was lowered by the previous administration's tax overhaul in 2017. Also, the plan intends to increase the capital gains tax from a maximum of 23.8% to 43.4%.
 - This possible tax change, coupled with a potentially higher corporate tax rate, could increase the value of tax exemption on muni income, as well as demand.

ESG and Municipals

- With an estimated \$3.5 billion in issuance through April 2021, the pace of municipal green bond sales is slightly ahead of where it was a year ago. Given President Biden's infrastructure spending plan, which includes funding for mass transit, green housing development, water systems, and electrical grids, green bond issuance could approach \$35 billion in 2021.
- New York City's \$1.5 billion East Side Coastal Resiliency Project, which will rely on federal and city funding, will rebuild the East River waterfront and protect those parks and communities that sustained flooding during Hurricane Sandy.

Issuers in the News

- Puerto Rico is anticipating a \$15.2 billion cumulative budget surplus through 2035 despite receiving \$123.5 billion in federal disaster and pandemic relief funding. The financial oversight board expects to use the money to alleviate Puerto Rico's debt-related costs. The island could begin repaying its obligations as soon as January 2022.
 - The projected \$15.2 billion surplus is for fiscal 2022 through 2035, and is an improvement upon May 2020's estimated surplus of \$5.8 billion for fiscal 2022 through 2031. Deficits are now expected to resume in 2035, as opposed to 2032.
- California's economic rebound in the second half of 2020 was driven in part by the state's positive tax revenue growth from strong income tax receipts. The state's robust rainy day fund, as well as its \$25.7 billion in federal stimulus, will help offset any prospective budget shortfalls.