INCOME RESEARCH + MANAGEMENT

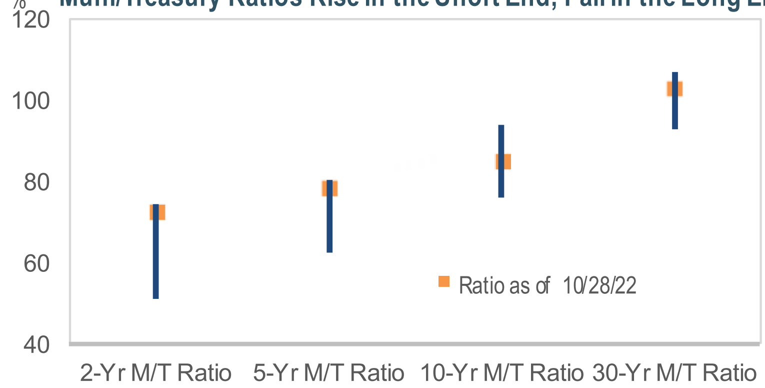
PRIVATE CLIENT MONITOR

OCTOBER 2022

Municipal Market Update

- Year-to-date outflows reached a record $95 billion as 3Q22 continued the year's persistent trend. However, ETF demand remained strong – ETFs comprise just 10% of municipal AUM but have received more than 20% of inflows since 2020.
- Year-to-date municipal supply of $301 billion trailed that of 2021 by 16%; the difference can be attributed to a decline in taxable issuance as rate increases mitigate advanced refunding opportunities.

Muni/Treasury Ratios Rise in the Short End, Fall in the Long End



- In 3Q22, taxable municipals' excess returns underperformed those of corporates, non-corporates, and CMBS.

	Corps	Non-Corps	CMBS	Taxable Munis	Long Taxable Munis
3Q22 Excess Returns	-0.57	-0.35	-0.24	-1.15	-1.34

- Yields steepened notably across the rating spectrum, while credit spreads were unchanged.

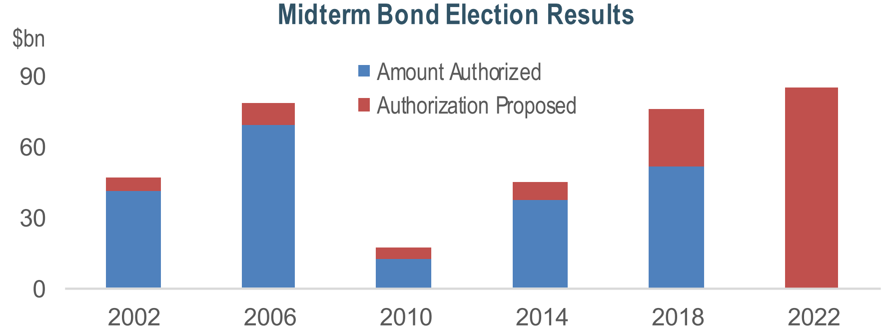
Index Yield Tracker

Avg Yield (%)	1-2 Yrs	3-5 Yrs	5-7 Yrs	7-10 Yrs	10-20 Yrs	20-30 Yrs	30+ Yrs
AAA	3.23	3.33	3.41	3.56	4.24	4.85	4.98
AA	3.28	3.40	3.48	3.63	4.31	4.93	5.14
A	3.62	3.81	3.95	4.15	4.78	5.22	5.39
BBB+	4.08	4.42	4.72	4.84	5.16	5.56	5.62

Economic and Political Environment

- The Federal Reserve (Fed) rekindled a hawkish stance during 3Q22. The tightening cycle intensified, supported by continued high CPI prints and strength in jobs data.
- After raising interest rates by 75bps at three consecutive FOMC meetings through September, investors expect the Fed to increase rates by an additional 75bps at the November meeting.
- Midterm elections will occur on November 8th. Along with the entire US House and 34 seats in the Senate, roughly $85 billion of municipal bonds are on Election Day ballots. Since 2002, voters have approved about 80% of bonds in midterm elections.

Midterm Bond Election Results



ESG and Municipals

- Climate risks came to the forefront during 3Q22, highlighted by the water crisis in Jackson, Mississippi, and Hurricane Ian prompting a "500-year flood event" in Florida. California public power agencies continue to face extreme drought, as well as wildfire risk.
- To note, there has never been a municipal default as a result of a natural disaster.

Issuers in the News

- Fitch upgraded the City of Chicago's general obligation (GO) bonds to BBB from BBB-, outlook positive. The upgrade reflects improvement in Chicago's pension funding practices, reserve levels, and structural budget measures.
- S&P upgraded Denver International Airport to AA- from A+, outlook stable. The upgrade reflects the airport's sustained enplanement recovery and strong pro forma debt service coverage.
- These credits represent the continuing trend of upgrades we see across the GO and airport sectors.

Sources: Bloomberg as of 10/28/22. Index Yield Tracker data from Bloomberg's Municipal Bond Index. Fund flow and supply data from JP Morgan as of 10/5/22 and 10/3/22, respectfully. Midterm election data from Bank of America as of 10/26/22. The issuers listed are those IR+M deems to be most meaningful during October 2022. The views contained in this report are those of IR+M and are based on information obtained by IR+M from sources that are believed to be reliable but IR+M makes no guarantee as to the accuracy or completeness of the underlying third-party data used to form IR+M's views and opinions. This report is for informational purposes only and is not intended to provide specific advice, recommendations, or projected returns for any particular IR+M product. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission from Income Research + Management. "Bloomberg®" and Bloomberg Indices are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited ("BISL"), the administrator of the index (collectively, "Bloomberg") and have been licensed for use for certain purposes by IR+M. Bloomberg is not affiliated with IR+M, and Bloomberg does not approve, endorse, review, or recommend the products described herein. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to any IR+M product.