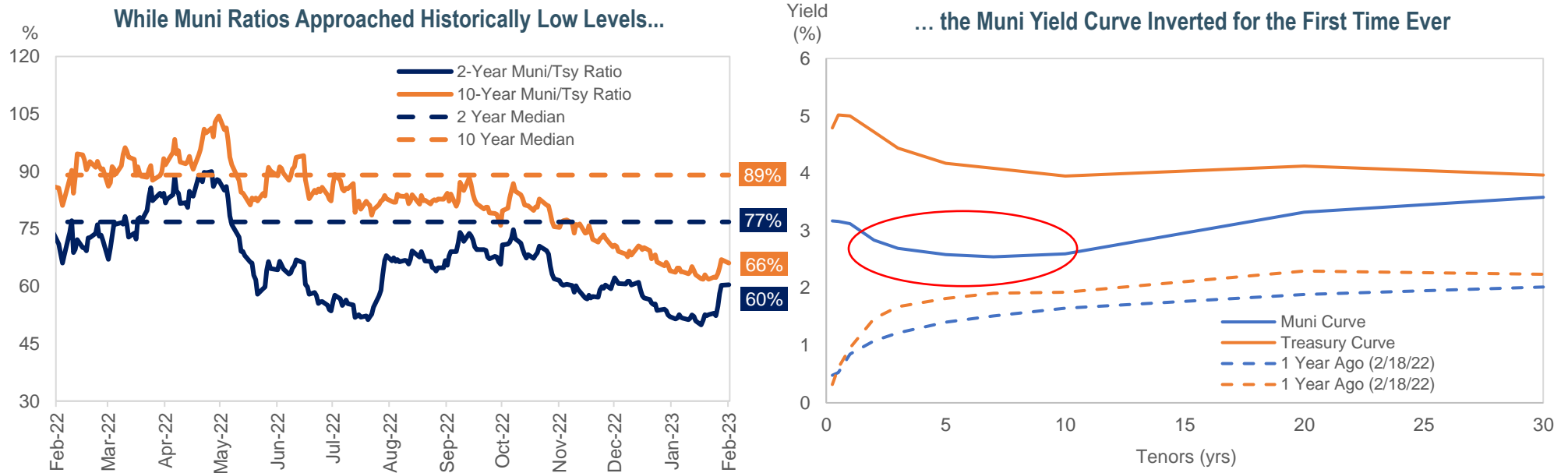


## These Are Interesting Days in the Municipal Market



- **How low can it go?** In 2023, municipal bond valuations have become increasingly rich, as evidenced by some of the lowest muni/Treasury ratios in years – particularly in the short end. In response to elevated inflation and strong retail sales data, municipal yields finally rose in mid-February. Against a backdrop of limited supply and continued investor demand, tight muni/Treasury ratios could persist into March.
- **Never say never.** All eyes have been on the Treasury yield curve, the 2s10s portion of which inverted in 2022, possibly signaling the onset of an economic downturn. With so much focus on this yield curve, investors may be overlooking another – the municipal market one. Until early 2023, the municipal yield curve had never inverted. Currently, the 3-month muni yield is outyielding all tenors through the 15-year.
- **No end in sight.** Given the municipal market’s ongoing supply/demand imbalance, muni/Treasury ratios could remain below their longer-term averages for the foreseeable future – despite March’s expected increase in supply. Ultimately, the Federal Reserve’s policy will determine Treasury rates for most of 2023. The municipal market, which typically outperforms in a rising rate environment, will likely take its trading cues from Treasuries, although with less volatility.

Source: Bloomberg as of 2/21/23. Top left chat uses the 10-year median rather than the 10-year average to limit outliers from volatile market periods in 2020-2021. The Muni Curve is the BVAL Muni AAA Curve (Callable). The views contained in this report are those of Income Research & Management (“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. Investing in securities involves risk of loss that clients should be prepared to bear. More specifically, investing in the bond market is subject to certain risks including but not limited to market, interest rate, credit, call or prepayment, extension, issuer, and inflation risk. It should not be assumed that the yields or any other data presented exist today or will in the future. It should not be assumed that recommendations made will be profitable in the future. Actual results may vary. 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.