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INCOME RESEARCH + MANAGEMENT

PRIVATE CLIENT MONITOR

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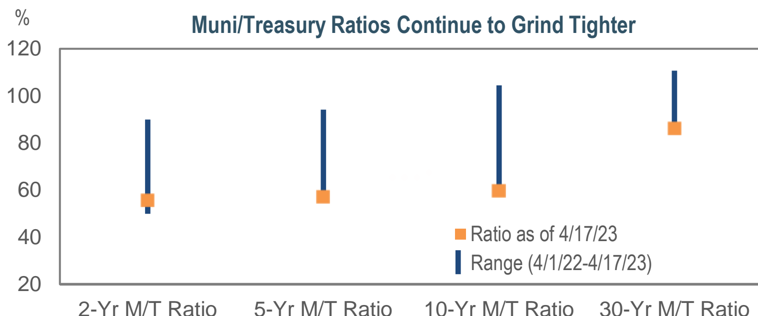
Municipal Market Update

- The municipal market posted its best March performance since March 2008 and positive first quarter results despite the banking sector crisis and Treasury rates volatility.
- Even with this week's robust supply calendar, muni issuance remains 27% below that of 2022. With just $89 billion in total issuance YTD, the muni market is unlikely to reach its 2023 estimate of $450 billion.
- The 10-year muni/Treasury ratio declined to 59.6%, and the 30-year muni/Treasury ratio hit 86%, its lowest level since February 2022.



- In 1Q23, taxable municipals' excess returns outperformed those of corporates, non-corporates, and CMBS.

	Corps	Non-Corps	CMBS	Taxable Munis	Long Taxable Munis
1Q23 Excess Returns (%)	0.20	0.23	-0.83	1.22	1.31

- Amid the market rally, yields decreased across the rating spectrum.

Index Yield Tracker

Avg Yield (%)	1-3 Yrs	3-5 Yrs	5-7 Yrs	7-10 Yrs	10-20 Yrs	20-30 Yrs	30+ Yrs
AAA	2.43	2.32	2.30	2.34	2.88	3.51	3.19
AA	2.50	2.35	2.32	2.38	3.04	3.77	3.81
A	2.94	2.85	2.83	2.88	3.54	4.10	4.22
BBB+	3.51	3.56	3.75	3.58	4.11	4.45	4.31

Economic Environment

- The Federal Open Market Committee released its March meeting minutes, which revealed few surprises. Banking sector concerns were pervasive, and several participants emphasized retaining flexibility and optionality given the highly uncertain economic outlook.
- The Fed's decision to raise the fed funds rate by 25bps to 4.75% to 5%, the highest level since October 2007, was unanimous, although one group considered pausing and another weighed a 50bps hike.
- At the time of the March meeting, the staff's projection included a mild recession starting later this year, with a recovery over the subsequent two years.

ESG and Municipals

- New York City Comptroller and the trustees of the New York City Employees' Retirement System (NYCERS) and the Teachers Retirement System (TRS) – two of the City's five pension systems – announced new plans to reach their goal of net zero emissions in their investment portfolios by 2040.
    - The four prongs of the Net Zero Implementation Plan includes disclosing emissions and setting interim targets; engaging portfolio companies and asset managers to be net zero-aligned; investing in climate change solutions; and divesting to reduce risk.

Credit Perspective

- New York City (NYC) was recently upgraded one notch to AA by Fitch in response to its economic rebound, which has been driven in part by the return of tourists and employees to the office.
    - In recent years, NYC has benefited from strong tax revenue growth and conservative budgeting, resulting in surpluses. These surpluses have bolstered reserve funds, which are at multi-year highs of 13% of yearly expenditures.
- Providence St. Joseph Health was downgraded one notch by all three major rating agencies over the last month and maintained negative outlooks across the board.
    - The hospital has long benefited from positive qualitative attributes such as size, market share, and reputation. However, it has been unable to escape recent non-profit hospital sector headwinds, including labor shortages, elevated labor costs, and inflationary pressures.
    - Neither Providence St. Joseph nor its non-profit hospital peers are expected to return to pre-COVID operating margins in the near-term.

Sources: Bloomberg as of 3/31/23. Index Yield Tracker data from Bloomberg's Municipal Bond Index as of 4/17/23. Municipal issuance data from Citi as of 4/1723. The issuers listed are those IR+M deems to be most meaningful during April 2023. 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.