INCOME RESEARCH + MANAGEMENT

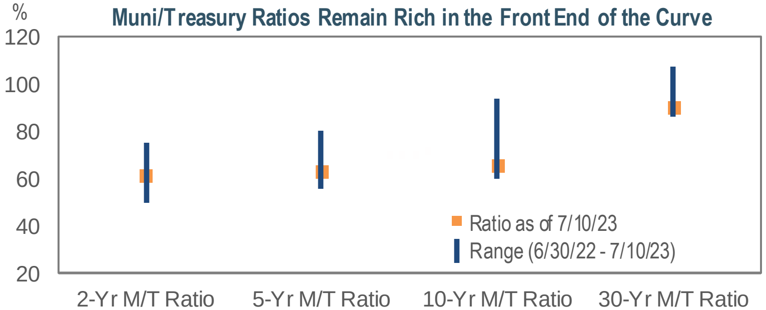
PRIVATE CLIENT MONITOR

July 2023

Municipal Market Update

- On the heels of a strong March and positive first quarter, municipal market performance was flat in the second quarter. Favorable technicals will likely help performance in the third quarter.
- Even with this week's robust new-issue calendar, year-to-date muni issuance ($176 billion) remains 19% below that of 2022. Taxable muni issuance is down 50% y/y and has slowed in response to higher rates.
- Muni/Treasury ratios increased slightly over the quarter, but remain rich versus historical averages, particularly in the front end.

Muni/Treasury Ratios Remain Rich in the Front End of the Curve



- In 2Q23, taxable municipals' excess returns outperformed those of corporates, non-corporates, and CMBS.

	Corps	Non-Corps	CMBS	Taxable Munis	Long Taxable Munis
2Q23 Excess Returns (%)	1.31	0.98	0.78	1.65	1.79

- Amid the market sell-off, yields increased across the rating spectrum.

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	3.07	2.82	2.76	2.80	3.45	4.21	4.31
AA	3.08	2.88	2.81	2.84	3.47	4.15	4.29
A	3.41	3.32	3.30	3.33	3.81	4.33	4.48
BBB+	3.77	3.80	3.78	3.76	4.22	4.69	4.97

Economic Environment

- For the first time since January 2022, the Federal Reserve (Fed) held its benchmark rate steady at a range of 5% to 5.25%. Markets anticipate two more 25bps hikes by year end.
- In June, y/y inflation cooled to 3%, its slowest pace in more than 2 years, which supported the Fed's patient tone.
- The June employment report was mixed, leaving the door open for a 25bps hike after the July meeting. Non-farm payrolls were below consensus for the first time in 15 months, but were still solid from a historical perspective. The unemployment rate declined slightly to 3.6%.

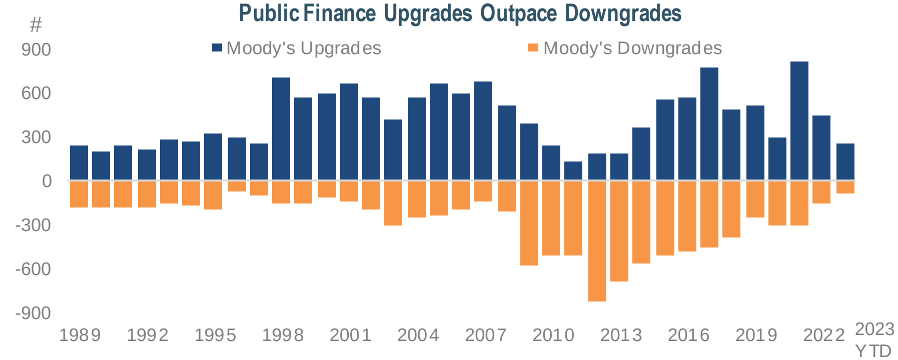
ESG and Municipals

- Year-to-date municipal ESG supply is up 30% y/y to nearly $14 billion across social bonds, sustainability bonds, and green purpose bonds. These bonds account for 11% of total year-to-date muni issuance, an increase from 9% penetration in 2022.

Credit Perspective

- Muni market upgrades continue to outpace downgrades through 1Q23, suggesting sound credit quality ahead of a potential economic downturn. This stands in contrast to US corporate rating activity, which demonstrates signs of a credit cycle emerging. There is some credit disparity by sector, with downgrades concentrated in healthcare as well as transportation systems which rely on ridership.

Public Finance Upgrades Outpace Downgrades



Sources: Bloomberg as of 7/17/23. Index Yield Tracker data from Bloomberg's Municipal Bond Index as of 7/14/23. Municipal issuance data from Citi as of 4/1723. Public finance ratings data from Moody's Investor Services and Hilltop Securities as of 6/29/23. 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 IR+M. "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.