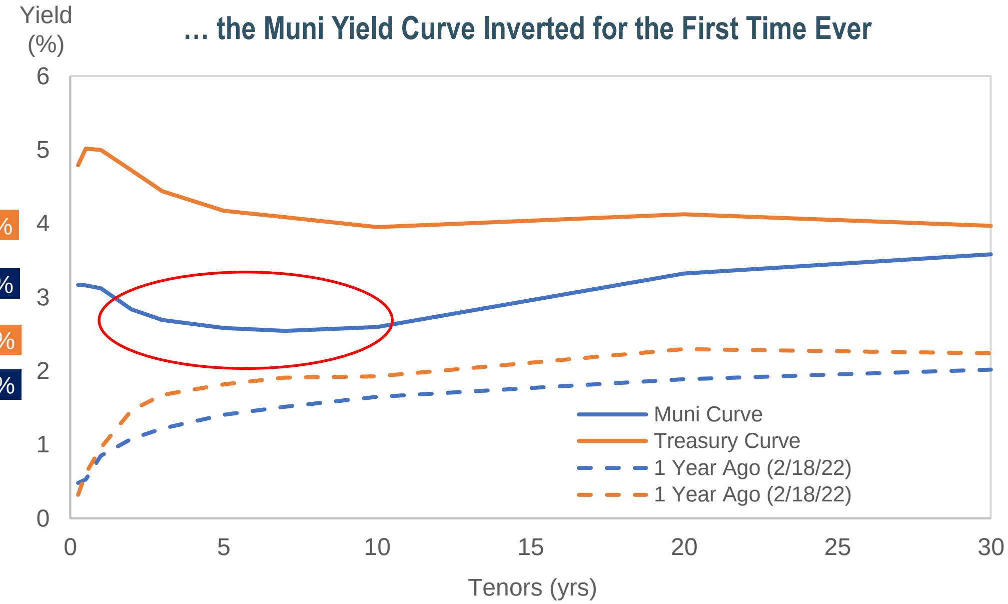
These Are Interesting Days in the Municipal Market

While Muni Ratios Approached Historically Low Levels...

… the Muni Yield Curve Inverted for the First Time Ever



- **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.

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