Market Commentary

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MACRO RECAP:

- The government passed another round of small business funding, but funding to the states may be limited as bailing out cash-strapped states with a history of poor fiscal management shows political divide
- The 10YR Treasury is hanging around 60bps
- Oil saw the May contract fall to the -$40 camp, but the June contract rebounded to $16 after falling to $11.5
- Equities are down for the week with the S&P lower by 2.6%

ECONOMIC DATA CALENDAR:

- 04/24 – Durable Goods, U of Michigan Sentiment
- 04/27 – Dallas Fed Manufacturing
- 04/28 – Wholesale Inventories, S&P CoreLogic, Conference Board Consumer Confidence, Richmond Fed manufacturing index
- 04/29 – MBA Mortgage Applications, GDP, Personal Consumption, CORE PCE, Pending Home Sales, FOMC
- 04/30 – Weekly jobs data, Personal Income/Spending, PCE Core Deflator, Chicago PMI
- 05/01 – Markit Manufacturing PMI, Construction Spending, ISM Manufacturing

MUNICIPAL MARKET UPDATE:

The tone of the week was set Monday with the May oil contract falling below zero for the first time in history. The previous couple of weeks felt as if we were getting a little bit of footing in the new issue market; this week felt like we gave it all back. There is thin and limited participation in the new issue market. Bank Qualified deals still have a solid audience, but direct bank placements have slowed because of the "all hands on deck" mode resulting from the demand for SBA loans. Additionally, deals that are AA rated or better, GOs or essential services still have good demand. Moving down the rating scale, credits that are perceived to be potentially more vulnerable to the fallout of the COVID-19 virus have struggled.

PRIMARY MARKET:

- LA USD was the largest deal of the week as the 10YR benchmark priced at 1.69%
- Next week the market looks to price $6.7bln, comprised of $5.7bln negotiated and $1bln competitive
- Despite it being a manageable number when viewed historically, the $6.7bln is the largest week since pre-shutdowns
- On the negotiated side there are four deals above $500mln
    - $1.1bln NY State Power
    - $930mln MTA
    - $715mln Great Lakes Water
    - $700mln taxable Advocate Health
- On the competitive side, Davis Joint USD (CA) is the only deal above $100mln
- The 30 day visible supply is $12.7bln

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GENERAL MUNICIPAL MARKET:

- For the week ended April 22, inflows totaled $74mln
- Municipal yields underperformed on the week
  - 5YR (+10bps) vs. Treasury (+1bps)
  - 10YR (+13bps) vs. Treasury (-4bps)
  - 30YR (+17bps) vs. Treasury (-7bps)
- With the moves, ratios were higher week/week
  - 5YR open ~258% (+22%)
  - 10YR open ~206% (+29%)
  - 30YR open ~177% (+20%)

- The secondary market was weaker towards the latter half of this week as primary levels were strong
- The political rift regarding state funding and comments regarding state bankruptcy put a pause in the market
- Mitch McConnell stated he wants states to have access to Chapter 9, but said he would give more aid if states instituted reform, given the overtaxing and overspending near term that puts further strain on future generations
- Regardless of Chapter 9, the emphasis on credit is important
- The ratio of taxable municipal bond yields to those on corporates has surged to the highest level since 2016, driven by the Federal Reserve's involvement with corporate bonds. The shift is a welcome change from the trend of overly rich taxable munis for much of the past year.
- State and local debt maturing in 10 years now yields 209.302% of Treasuries, compared with 180.096% a week ago.
- 10-year ratio was 365.019% a month earlier
- Yields on benchmark 10-year notes rose 12.9bps in the past week to 1.260%
- The gap between yields on short-term and long-term securities steepened by 11.7bps in the past week to 126bps
- Institutional investors offered $5.34b for sale through bid-wanted lists in the past week, down 7.2% from $5.76b in the previous period, based on data compiled by Bloomberg
- Trading in the municipal market totaled $59.3b in the past week, down 15% from $69.4b in the previous period, according to the Municipal Securities Rulemaking Board
- U.S. state and local governments are set to sell more than $6.23b of bonds next week
- New York Power Authority plans to sell $1.11b of bonds, University of Missouri has scheduled $582.2m, County of Howard, Maryland will offer $242.6m and Washoe County School District/, Nevada will bring $163.8m to the market next week

Rates (all results in % unless noted)	**Last Close**	**Prev Day**	**1 Week**	**1 Month**
2-Year Muni Benchmark	0.900	0.888	0.845	2.802
10-Year Muni Benchmark	1.260	1.223	1.131	2.880
30-Year Muni Benchmark	2.158	2.111	1.986	3.411
Curve slope 2yr-30yr (basis pts)	1.258	1.223	1.141	0.609
Munis as a % of Treasury 10-Yr	209.302	196.940	180.096	365.019
10-Year Muni SIFMA swap rate	N.A.	N.A.	N.A.	N.A.

Supply/Demand (all $ amounts)	Last Close	Prev Day	1 Week	1 Month
MSRB Trade Vol	$14.2b	$13.2b	$15.5b	$31.1b
MBWD Par Amt	$1.08b	$1.04b	$1.19b	$2.67b
Weekly VRDNs T+0 Settle Inventory	$1.07b	$1.02b	$1.03b	$9b
30-day Visible Supply	$17b	$16b	$15.6b	$20.7b
30-day Redemptions	$22.1b	$22.7b	$21.7b	$20.6b

Source: Bloomberg

TAXABLE FIXED INCOME MARKET UPDATE:

As volatility subsides and spreads normalize, we have seen activity slow somewhat, and we've seen investors moving from "buy what the Fed buys" to "even though the Fed is buying, doesn't mean it's cheap." In short, valuations are starting to matter more. Economic data remains weak but the markets have priced that in so there is little to shock investors. Even negative prices on short dated oil futures were shaken off by the markets by the end of the week. Open questions include the duration of economic weakness and timing and trajectory of the recovery. As outcome cannot accurately be predicted, our risk exposure remains light. Negative virus news could feasibly push markets back to March conditions while much of the potential good news is somewhat priced in.

Treasury rates remain low and are likely to stay low until we see some recovery in the global economy. Overseas money is anticipated to continue to flow our way, especially when .60% on 10 year notes is one of the highest yields of the large global economies.

Agencies: Agency spreads continued narrowing but market volumes were light. FNMA priced a 5 year non-callable issue at +30 on Thursday that was trading at +28 in the secondary market afterwards. While tighter than issue, this was somewhat disappointing versus other similar securities that narrowed 3 to 5bp in weeks previous. Callable issuance remains driven by FFCB and FHLB auctions. FHLMC has increased issuance of large callable issues (300MM+) and tightened funding on smaller issues, reducing volumes. We saw moderate flows from our state and local clients, while banks remain sidelined.

Mortgages: Forbearance remains the dominant topic in the Mortgage market. Governmental authorities have recognized that borrowers need flexibility on paying their mortgages but how this affects servicers and mortgage securities is still being worked out. Spreads remain volatile and with bank participation somewhat sidelined due to PPP loan processing. Flows have been more money-manager dominant.

Corporate Bonds: Corporate bonds remain active. New issues remain well received and secondary trading markets have improved but trading conditions are still somewhat thin.

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