

# THE BOND BUYER

## A quiet trading session, but pessimism hangs over

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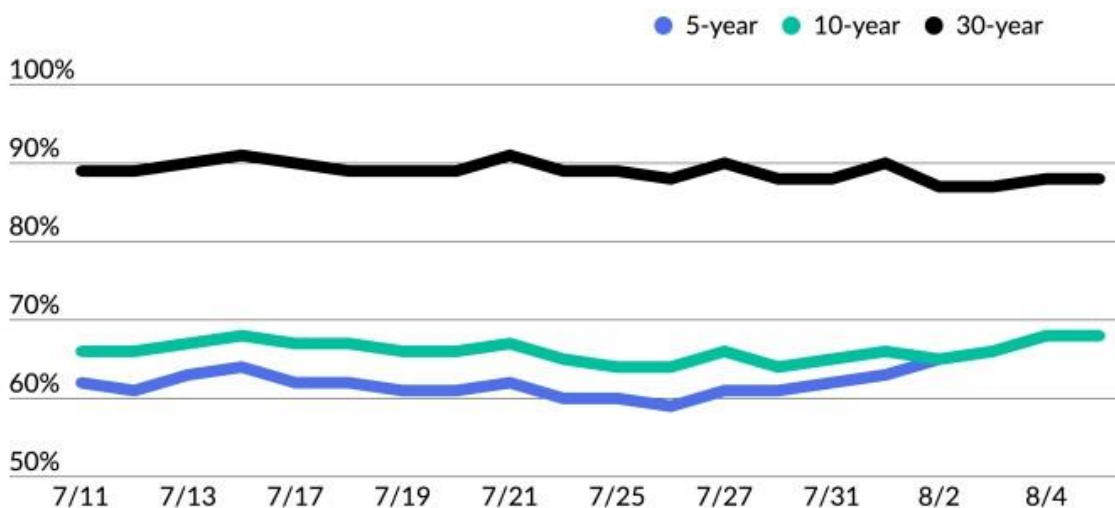
August 07, 2023, 4:44 p.m. EDT

Municipals were lightly traded and little changed for a typical summer Monday while U.S. Treasuries pared back some of Friday's gains and were weaker out long. Equities were in the black to close the session.

While triple-A yield curves were little changed the past two sessions, some damage was done last week, leaving market participants generally less optimistic for the final weeks of August, even with large reinvestment dollars on hand.

The new-issue calendar is lighter than last week's \$10 billion-plus, but some participants expect deals will need to cheapen to entice buyers after the volatility of last week.

### Muni-UST ratios



Source: Refinitiv MMD

After outperforming in July, the Treasury rout finally caught up with munis last week, noted Birch Creek Capital in a weekly report.

High-grade munis "dramatically underperformed Treasuries, especially 10-years and in, where valuations had reached extremely stretched levels," Birch Creek said. "Early in the week, volumes were light and there was a lack of willingness to trade at adjusted levels."

Secondary purchases were up slightly, "but a large chunk of that were investors parking their Aug. 1 maturity and coupon cash flow by hiding out in the front end of the yield curve," Birch Creek said.

Muni to U.S. Treasury ratios have risen slightly as a result of the moves. The two-year muni-to-Treasury ratio Monday was at 66%, the three-year at 67%, the five-year at 68%, the 10-year at 68% and the 30-year at 88%, according to Refinitiv MMD's 3 p.m. read. ICE Data Services had the two-year at 66%, the three-year at 68%, the five-year at 67%, the 10-year at 68% and the 30-year at 89% at 4 p.m.

The sharp rise in rates "has given us some reprieve in relative value as the ratios in the front end continues to be quite expensive as ratios in the front end continue to be in the 65% range when the typical average has been around 85%," noted Jason Wong, vice president of municipals at AmeriVet Securities. "With munis still trying to catch up to Treasuries after their downgrade, we should see ratio move higher to their average levels."

However, Birch Creek Capital said that with valuations "still very tight, the fall technical picture much less favorable, and a choppy rate market, it's hard to see how munis can maintain their recent outperformance from here."

Macroeconomic factors and seasonal forces have combined to create some recent weakness in the municipal market, noted Jeremy Holtz, portfolio manager at Income Research + Management.

Historically, August is a month that benefits from supportive technicals, Holtz said on Friday.

Net supply is typically negative as a result of limited supply plus heavy reinvestment capital, and this August is no different, he said. "As we start the month, muni-Treasury ratios are inside of long-term averages, and we believe this may be a possible catalyst for future market weakness," Holtz said.

Investors have seen buying opportunities in Texas where there is a substantial increase in school district issuance backed by the triple-A Texas Permanent School Fund after the IRS [expanded the program's issuance limit](#) back in May.

On the rate side, there was no real reaction to the Federal Open Market Committee decision the last week of July to raise interest rates another quarter point to a new target range of 5.25% to 5.5% — its 11th increase in 12 meetings. The market had already long been pricing in a July rate hike, according to Holtz. "However, despite the strong technical backdrop, the muni market has been demonstrating weakness for several days," he said.

Holtz attributes the market weakness to rate volatility, Treasury curve steepening, Fitch Ratings' [recent downgrade](#) of U.S. debt, and rich muni/Treasury ratios.

"Strong August technicals would normally prove positive for munis, but an increase in rate volatility coupled with rich ratios have some investors currently on the sidelines," Holtz said.

"Providing broad markets settle down and fund outflows are manageable, favorable technicals should still be a tailwind" going forward, Holtz added.

### **AAA scales**

Refinitiv MMD's scale was unchanged: The one-year was at 3.33% and 3.17% in two years. The five-year was at 2.84%, the 10-year at 2.77% and the 30-year at 3.73% at 3 p.m.

The ICE AAA yield curve was cut up to one basis point: 3.32% (+1) in 2024 and 3.19% (+1) in 2025. The five-year was at 2.82% (+1), the 10-year was at 2.75% (+1) and the 30-year was at 3.74% (+1) at 4 p.m.

The S&P Global Market Intelligence (formerly IHS Markit) municipal curve was unchanged: 3.34% in 2024 and 3.17% in 2025. The five-year was at 2.84%, the 10-year was at 2.78% and the 30-year yield was at 3.72%, according to a 3 p.m. read.

Bloomberg BVAL was little changed: 3.23% (+1) in 2024 and 3.12% (unch) in 2025. The five-year at 2.79% (unch), the 10-year at 2.73% (unch) and the 30-year at 3.73% (unch) at 4 p.m.

Treasuries were mixed.

The two-year UST was yielding 4.779% (-1), the three-year was at 4.465% (-1), the five-year at 4.169% (flat), the 10-year at 4.093% (+3), the 20-year at 4.428% (+5) and the 30-year Treasury was yielding 4.268% (+5) at the close.

### **Primary to come**

New York City (Aa2/AA/AA/AA+) is set to price Wednesday \$1.015 billion of GOs, consisting of \$950 million of Series Fiscal 2024A, serials 2025-2047, term

2053, and \$65.460 million of Series 2012, Subseries G-5, serials 2028-2040. Loop Capital Markets.

The Washington Metropolitan Area Transit Authority (/AA//AA/) is set to price Tuesday \$797.800 million of second lien dedicated revenue sustainability climate transition bonds, Series 2023A, serials 2024-2053. Wells Fargo.

The Sports Authority of the Metropolitan Government of Nashville & Davidson County (A1//AA//AA+/) is set to price Wednesday \$703.860 million of stadium project revenue bonds, consisting of \$344.940 million of senior bonds, Series 2023A; \$84.925 million of subordinate bonds, Series 2023B; \$56.830 million of non-tax revenue pledges, Series 2023C; and \$217.365 million of taxable non-tax revenue pledges, Series 2023D.

The Texas Public Finance Authority (/AAA//AAA/) is set to price Wednesday \$366.300 million of taxable GO and refunding bonds, Series 2023, serials 2024-2038, term 2043. Ramirez & Co.

The Pecos-Barstow-Toyah Independent School District, Texas (/AAA//), is set to price Thursday \$300 million of PSF-insured unlimited tax school building bonds, Series 2023, serials 2024-2043. RBC Capital Markets.

The City and County of Honolulu (/AA+//AA+/) is set to price Wednesday \$265.845 million of GOs, consisting of \$76.410 million of Series 2023A, serials 2024-2048; \$22.890 million of Series 2023B, serials 2024-2032; \$26.085 million of Series 2023C, serials 2024-2048; and \$140.460 million of Series 2023D, serials 2025-2031. BofA Securities.

Harris County, Texas (Aaa///AAA), is set to price Tuesday \$216.295 million of refunding bonds, consisting of \$122.160 million of permanent improvement bonds, Series 2023A, serials 2025-2043, term 2048; and \$94.135 million of unlimited tax road bonds, Series 2023A, serials 2025-2043, term 2048. Siebert Williams Shank & Co.

The Iowa Student Loan Liquidity Corp. (/AA//) is set to price Tuesday \$172.330 million of senior student loan revenue bonds, consisting of \$106.790 million of taxable bonds, Series 2023A, serial 2043, term 2033; and \$65.540 million of AMT bonds, Series 2023B, serials 2026-2033. RBC Capital Markets.

The Chandler Industrial Development Authority, Arizona (A2//A//), is set to price Tuesday \$156.560 million of non-AMT Intel Corp. project industrial development revenue bonds, Series 2005. J.P. Morgan.

The authority is also set to price Tuesday \$125 million of Intel Corp. project AMT industrial development revenue bonds, Series 2007. J.P. Morgan.

The Hutto Independent School District, Texas (Aaa/AAA//), is set to price Tuesday \$146.040 million of \$300 million of PSF-insured unlimited tax school building bonds, Series 2023, serials 2024-2053. Baird.

The Oregon Business Development Commission is set to price \$141.855 million of non-AMT Intel Corp. project recovery zone facility bonds, Series 232.

The Washington State Housing Finance Commission (//A-/) is set to price Wednesday \$118.175 million of Emerald Heights Project nonprofit housing revenue and refunding revenue bonds, consisting of \$88.775 million of Series 2023A, \$7 million Series 2023B-1, and \$22.400 million of Series 2023B-2. Ziegler.

The Aledo Independent School District, Texas (/AAA/AAA/), is set to price Wednesday \$166.255 million of PSF-insured unlimited tax school building bonds, Series 2023. FHN Financial Capital Markets.

The Arkansas Development Finance Authority (/AAA/AAA) is set to price Tuesday \$108.470 million of revolving loan funds revenue bonds, Series 2023, serials 2024-2043. Stephens.

The Florida Housing Finance Corp. (Aaa//) is set to price Tuesday \$106 million of taxable homeowner mortgage revenue bonds, 2023 Series 4. Morgan Stanley.

### **Competitive**

Oyster Bay, New York, is set to sell \$125 million of bond anticipation notes, Series 2023, at 10:45 a.m. Thursday.