THE BOND BUYER

# Muni returns in the black, inflows hit $1.2B to close out 2021

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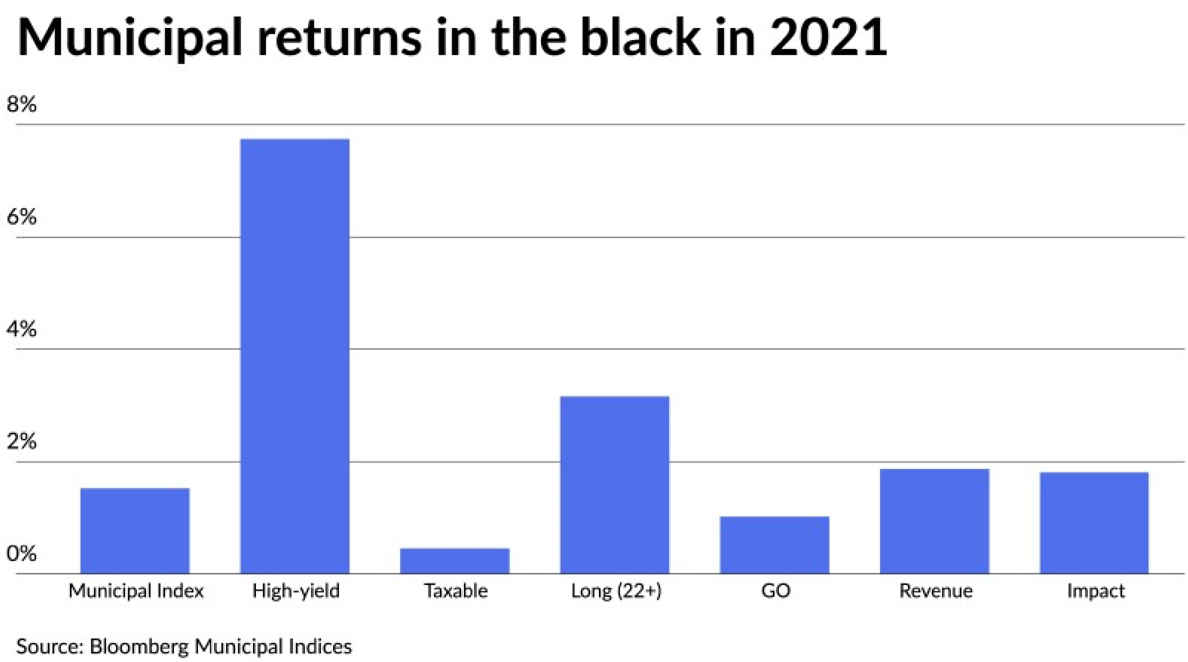



Municipals ended 2021 little changed and lightly traded. U.S. Treasuries pared back losses and equities saw modest gains. Municipal bond mutual fund inflows hit $1.2 billion in the last reporting week of the year.

Refinitiv MMD saw a basis point bump on bonds in 2029 but were largely unchanged otherwise on all triple-A benchmarks. Ratios rose slightly on the moves in UST. The five-year was at 46%, 68% in 10 and 77% in 30, according to Refinitiv MMD's 3 p.m. read. ICE Data Services had the five at 46%, the 10 at 71% and the 30 at 77%.

Municipal volume is estimated at $1.13 billion for the opening week of 2022. There are $906.1 million of negotiated deals and the competitive slate will see $223 million.

Net negative supply is at $11.867 billion, according to Bloomberg data, while The Bond Buyer 30-day visible supply sits at $5.18 billion.

**December, annual returns all positive**

Municipals end 2021 in the black with the Bloomberg Municipal Index at positive 0.17% for the month and plus-1.52% for all of 2021.

High-yield has returned 0.23% in December and 7.74% for the year while taxable munis saw losses of 1.38% in December but were in the black at 0.45% for 2021.

Bloomberg's new Municipal Impact Index has returned 0.24% in December and 1.81% for the year. The Bloomberg green bond index saw 0.25% returns in December and 1.97% for the year. Social saw 0.09% in December and 0.33% for the year. Its sustainable index saw 0.26% for the month and 1.44% for 2021.

The general obligation index returned 1.02% for the year while the revenue bond index saw 1.87% of returns.

In terms of particular issuers, the Virgin Islands led returns with 5.47%, New Hampshire with 5.04%, Illinois with 4.07%, New Jersey with 3.16%. High-yield Guam saw 2.43% returns and Puerto Rico with 2.20%.

**Tax-exempt supply challenges ahead**

December municipal bond issuance was up nearly 10% year-over-year at $38.2 billion, but total volume in 2021 fell just shy of last year's record.

The muni market saw $475.3 billion of debt in 2021, down 1.9% from $484.6 billion in 2020. Despite this, the total issuance for 2021 still bested the previous record of $448.6 billion hit in 2017.

Matt Fabian, partner at Municipal Market Analytics, details an important factor in tax-exempt supply heading into 2022, noting that persistently strong net supply challenges "will bias credit spreads tighter, credit discipline weaker in the next few years."

A hallmark of 2021 was lender capitulation on names, terms, prices and similar, all driven by strong reinvestment challenges amid the tight universe of tax-exempt bonds, he said.

Next year looks very similar, he said, with 8% of all outstanding bonds, about $260 billion, set to mature or be called by Dec. 31, 2022.

And looking out further, he noted, 20% of all outstanding tax-exempts will be defeased within three years and 30% within five.

"With taxable advance refundings permanently removing tax-exempt exposures, the universe of tax-exempt bonds is growing very slowly," Fabian said. "Throughout calendar 2021, the universe of non-defaulted, non-derivative tax-exempt bonds expanded by just $43 billion, while the build of municipal-CUSIP'd taxable bonds grew by nearly twice that at plus-$81 billion, despite taxables accounting for only 24% of the new-issue calendar this year."

Fabian said net supply issues in January and February of 2022 may be a bit harsher than in 2021 if tax-exempt new-money issuance does not grow faster in the new year.

**Secondary trading**
Maryland 5s of 2025 at 0.44%. District of Columbia 5s of 2025 at 0.44%-0.43% versus 0.41% on Tuesday.

New York City TFA 5s of 2027 at 0.81%. New York City TFA 5s of 2029 at 1.02%-1.00%. Georgia 5s of 2029 at 0.89%. Maryland 5s of 2029 at 0.92%. Washington Suburban Sanitation District 5s of 2030 at 1.00%. New York Dorm PIT 5s of 2033 at 1.30%-1.29%.

**Economy**
2022 should be the year COVID has less impact and the world gets to what will be the new normal, said Kevin Philip, managing director at Bel Air Investment Advisors.

“Next year, in my opinion, we are facing less of a COVID-influenced world, and a return toward normalcy,” he said.

“Despite global surges in COVID cases, the markets are reflecting the new reality that COVID is here to stay albeit more on our terms than its,” Philip added. “With vaccines, boosters, treatments, and rising herd immunity, it seems more and more like a manageable virus in line with colds and flus than what it originally was."

The positives are the infrastructure bill passed and tax rates likely to stay where they are. "We also have a friendly Federal Reserve, which the market views is responsibly accelerating its wind-down of quantitative easing."

Supply chain issues should be repaired, but even before they are completely erased, Philip said, "the stress should likely be significantly less in the coming six months." Additionally, anyone who wants a job should be able to find one, he said.

But volatility may be greater in 2022, said Interactive Brokers Chief Strategist Steve Sosnick.

"The primary theme is for investors to expect more volatility than we've seen over the past year-and-a-half," he said. "The changing monetary environment should be the cause."

The reason? Investors have gotten hooked on stimulus. "Even under the care of a skillful clinician — or central banker — patients who are withdrawing from an addictive substance can suffer setbacks en route to a cure."

Also, Sosnick said, "it doesn't appear that the Fed is in any rush to reduce liquidity at the pace they've indicated." Looking at H.4.1 data, he said, "their holdings of bonds has risen by about $129 billion between December 2 and December 23 … far more than the $90 billion implied by the taper."

The only explanation would be "if they are pre-emptively replacing bonds that are set to mature at year-end," Sosnick added. "At least so far, we haven't seen anything close to the full effect of the Fed's taper, which may explain why stocks have largely continued their upward trajectory since the December Federal Open Market Committee meeting. Let's see what happens when and if tapering begins in earnest."

In data released Thursday, initial jobless claims fell to 198,000 seasonally adjusted in the week ended Dec. 25 from 206,000 the week before, while continuing claims dropped to 1.716 million in the week ended Dec. 18 from 1.856 million a week earlier.

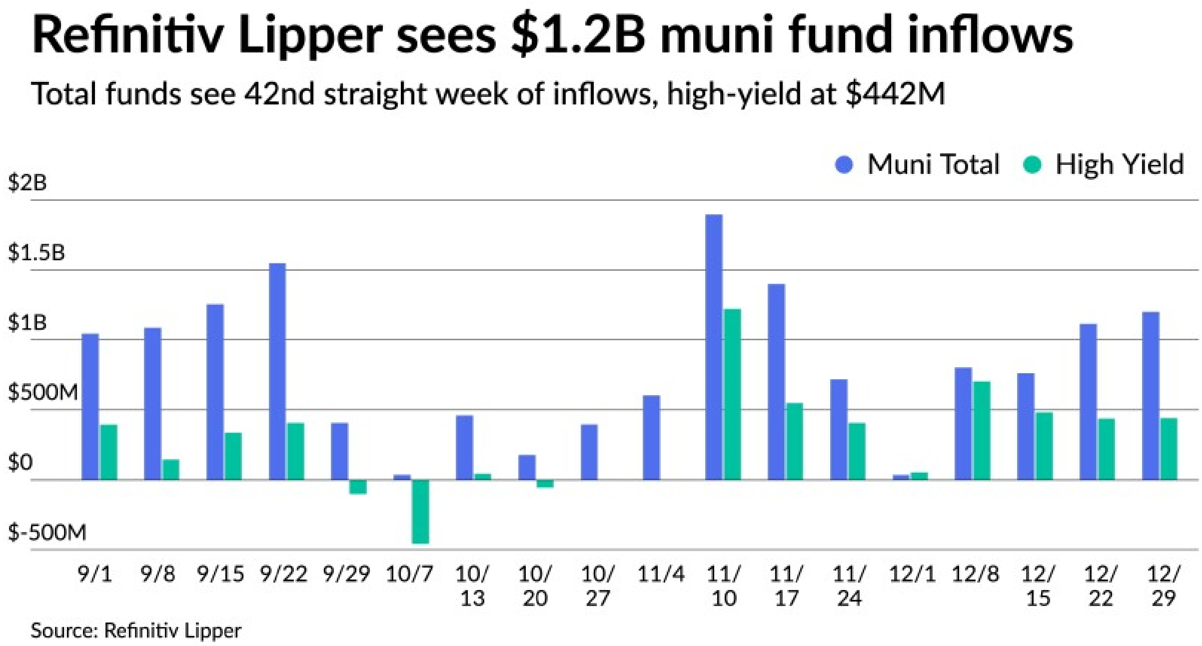
Numbers from holiday weeks may be skewed as a result of the seasonal adjustment, but this week's reading suggest the Omicron variant hasn't resulted in massive layoffs to this point.

Separately, the Chicago Business Barometer climbed to 63.1 in December from 61.8 in November.

"Inventories hit a four-year high as firms created buffers for longer lead times," according to the report. Production and new orders rose in the month, while order backlogs, employment and supplier deliveries slid.

The employment index is at its lowest level since June, and respondents termed finding employees "challenging."

Prices paid hit a seven-month low, but remained above the 12-month average, the report said, "as shortages of certain materials led to inflated costs."



**Refinitiv Lipper reports $1.2B inflow**
In the week ended Dec. 29, weekly reporting tax-exempt mutual funds saw $1.202 billion of inflows, Refinitiv Lipper said Thursday. It followed an inflow of $1.116 billion in the previous week.

Exchange-traded muni funds reported inflows of $474.034 million, after inflows of $547.352 million in the previous week. Ex-ETFs, muni funds saw inflows of $727.921 million after inflows of $569.247 million in the prior week.

The four-week moving average increased to $971.511 million, from $680.020 million in the previous week.

Long-term muni bond funds had inflows of $1.009 billion in the latest week after inflows of $1.215 billion in the previous week. Intermediate-term funds had inflows of $179.553 million after inflows of $112.592 million in the prior week.

National funds had inflows of $1.226 billion after inflows of $1.078 billion while high-yield muni funds reported inflows of $424.034 million in the latest week, after inflows of $438.827 million the previous week.

**AAA scales**
Refinitiv MMD's scale was little changed save for a basis point bump on bonds in 2029: the one-year steady at 0.14% and 0.24% in 2023. The 10-year sat at 1.03% and the 30-year steady at 1.49%.

The ICE municipal yield curve showed yields were little changed: 0.16% in 2022 and 0.28% in 2023. The 10-year steady at 1.04% and the 30-year yield at 1.49%.

The IHS Markit municipal analytics curve was steady: 0.16% in 2022 and to 0.25% in 2023. The 10-year at 1.01% and the 30-year up one basis point to 1.49% as of a 3 p.m. read.

Bloomberg BVAL was little changed: 0.17% in 2022 and 0.22% in 2023. The 10-year was at 1.04% and the 30-year at 1.48%.

Treasuries were slightly better while equities were mixed.

The five-year UST was yielding 1.273%, the 10-year yielding 1.513%, the 20-year at 1.964% and the 30-year Treasury was yielding 1.926% at 3:30 p.m. eastern. The Dow Jones Industrial Average was down 55 points, or 0.09%, the S&P was up 0.03% while the Nasdaq gained 0.28% at 3:30 p.m. eastern.