THE BOND BUYER

March bond volume decreases 30% year-over-year

By

Jessica Lerner

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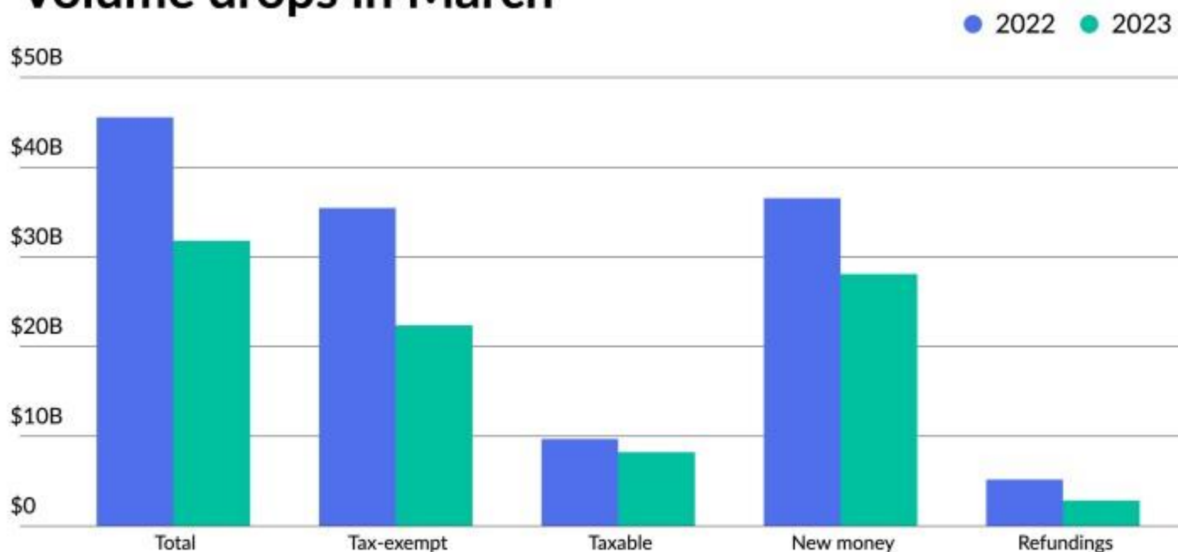
March municipal bond issuance dropped 30% year-over-year, as issuers this month dealt with Silicon Valley Bank collapse-induced volatility in the U.S. Treasury market, rising interest rates and an uncertain outcome for Federal Open Market Committee meeting.

Total volume for the month was $31.795 billion in 515 issues, down from $45.555 billion in 985 issues a year earlier, according to Refinitiv data.

Tax-exempt issuance was down 36.9% to $22.368 billion in 465 issues from $34.443 billion in 823 issues in 2022. Taxable issuance totaled $8.232 billion in 44 issues, down 15.2% from $9.707 billion in 158 issues a year ago. Alternative-minimum tax issuance rose to $1.195 billion, up 195.2% from $404.9 million.



New-money issuance fell 23.1% to $28.091 billion in 473 transactions from $36.546 billion a year prior. Refunding volume decreased 45.1% to $2.849 billion from $5.192 billion in 2022.

Some market participants said the crisis in the banking sector, which started with the collapse of Silicon Valley Bank and the fallout that came after, indirectly affected issuance.

It wasn't the banking crisis itself, which started in mid-March, that affected muni issuance so much as the volatility in the USTs it caused.

Muni issuance for March was indirectly impacted because the SVB collapse and subsequent fallout "ignited volatility in the Treasury market," said Pat Luby, a CreditSights strategist. "The greater volatility makes it more difficult to price and place bonds."

John R. Mousseau, president and chief executive officer and director of fixed income at Cumberland Advisors, said the bond volatility of late March handicapped muni dealers and underwriters.

"With the volatility of Treasuries, it is almost impossible to hedge any position, so there is reluctance on the part of underwriters to price any deal so cheaply that they are guaranteed an oversubscription," he said. "But it works the other way too. Municipal issuers are also afraid to come to market with the volatility present in the Treasury market."

But Tom Kozlik, head of strategy and credit at HilltopSecurities, said banking pressures didn't impact issuance at all.

"In the last several weeks, buyers have had money to put to work," he said. "And if anything, there hasn't really been as much supply as what demand was."

However, he noted, if the banking sector crisis had been worse and munis were hit harder, then issuance could have been more drastically impacted.

"Nothing on the issuer or investor side led me to believe that we're going to come even close to the market freezing, as it did back in 2020," during the start of the COVID-19 pandemic, he said.

What had a bigger impact on issuance, Kozlik said, was the March Federal Open Market Committee meeting, where the Fed decided to hike rates by 25 basis points.

Issuance during weeks when the FOMC meets is usually on the lighter side, and Kozlik said this time was no different.

Luby said issuance the week of the FOMC meeting interrupted the primary market more so than usual due to the ripple effect of the SVB collapse.

Investors, he said, are "more reluctant to want to buy when the market is potentially subject to great volatility, depending upon what the FOMC is going to do in that week."

While several deals priced that week, Luby said, "You've got to be confident that you would have demand for your bonds to come to market."

Overall, Kozlik said, the biggest factor in the drop in issuance in both March and Q1 is higher interest rates.

"Public finance issuers have been experiencing sticker shock since April and May of last year," he said. "There were issuers who were starting to think about either refunding or new money projects at the end of 2021, but at the beginning of 2022 the numbers that their municipal advisor bankers were showing them a couple of weeks or months later were significantly higher."

Some of those projects might not have worked out and there were likely situations where issuers would have to scale back on the size of their projects, he said.

Luby argued it was a confluence of events: "Where we are in the fiscal year of issuers, and the indirect effect of the SVB-induced volatility."

Barclays strategists Mikhail Foux, Clare Pickering and Mayur Patel said, "supply is a bit of an unknown that could put some pressure on the market."

They noted "the tax-exempt 30-day visible pipeline is close to its 2023 highs."

However, the Barclays strategists are "not overly concerned about issuance," believing it will "pick up gradually, but it will likely remain at the low end of the range compared with historical averages."

If the Investing in Our Communities Act is passed, the Barclays strategists said, "there might be an immediate spike in issuance: advance refundings would be allowed right after the bill's passage, and there is pent-up demand for refundings, after taxable refundings became unattractive to issuers more than a year ago." However, they view it "as a bit of a long shot."

With Q1 volume down 27% year-over-year to $75.488 billion, some analysts have revised down their market supply projections, which ranged from $302 billion to $500 billion, for the year.

BofA Global Research was on the high end, initially predicting issuance for 2023 would be around $500 billion — $380 billion new money and $120 billion refunding. BofA strategists have since lowered their predictions to $400 billion, with $320 billion of new money and $80 billion of refundings.

"Both new money and refunding have been below our expectations," they said.

While "refunding volumes are low, they are not very disappointing given the level of market rates and volatilities in 1Q23," the BofA strategists said.

However, the BofA strategists noted, "the low volume of new money issuance is surprising to us," believing "new money issuance's pattern is less likely to increase materially versus our original expectation in 1H23."

They said they may need to "wait deep into 2H23 to see any clear change happening."

BofA strategists predicted refunding volumes "should recover better in 2Q23 and the rest of 2023."

Conversely, Kozlik has not revised his projection of $350 billion for 2023 issuance. His prediction was on the lower end, which would be achieved by an average of $29 billion monthly issuance.

January's bond issuance of $21.913 billion and February's bond issuance of $18.303 billion were below the projected monthly totals, but March's bond issuance of $31.795 billion was in line with predictions.

In the coming months, he expects issuance to tick back up.

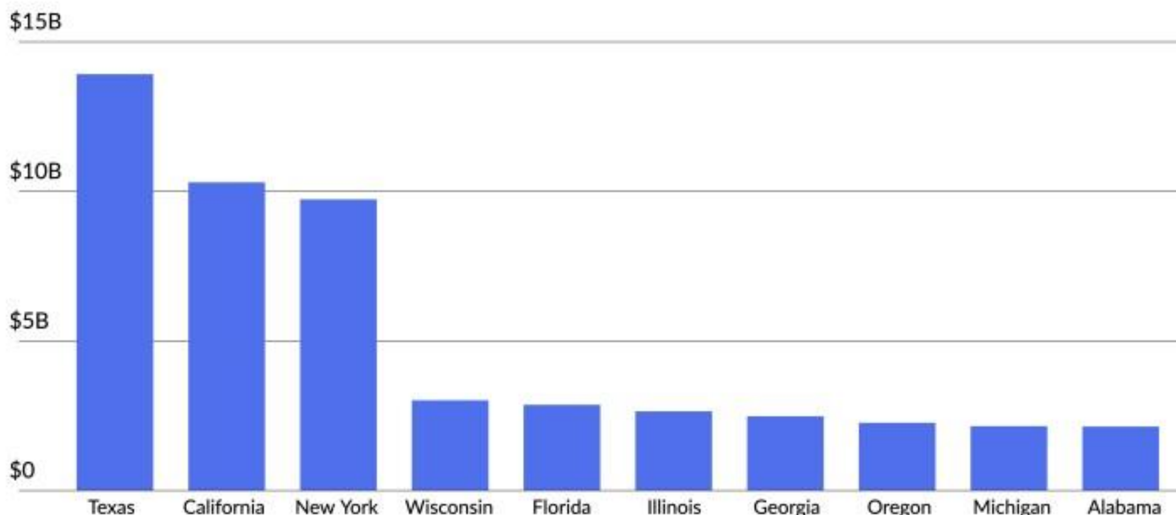
Issuance details

Revenue bond issuance decreased 34.4% to $18.758 billion from $28.593 billion in March 2022, and general obligation bond sale totals dropped 23.1% to $13.039 billion from $16.962 billion in 2022.

Negotiated deal volume was down 22.1% to $26.615 billion from $34.153 billion a year prior. Competitive sales decreased 43.3% to $4.850 billion from $8.560 billion in 2022.

Deals wrapped by bond insurance declined to $1.533 billion in 81 deals from $3.499 billion in 151 deals in 2022, a 56.2% decrease.

Bank-qualified issuance dropped 36.9% to $618 million in 164 deals from $979 billion in 257 deals a year prior.



In the states, Texas claimed the top spot year-to-date.

Issuers in the Lone Star State accounted for $13.924 billion, up 25.7% year-over-year. California was second with $10.306 billion, down 17.6%. New York was third with $9.737 billion, down 25.7%, followed by Wisconsin in fourth with $3.016 billion, up 28.8%, and Florida in fifth with $2.867 billion, a 48.8% decrease from 2022.

Rounding out the top 10: Illinois with $2.649 billion, down 27.3%; Georgia with $2.484 billion, down 9.4%; Oregon with $2.266 billion, up 97.4%; Michigan at $2.154 billion, down 49.3%; and Alabama with $2.139 billion, up 6.7%.