THE BOND BUYER

Large primary prices amid steady secondary

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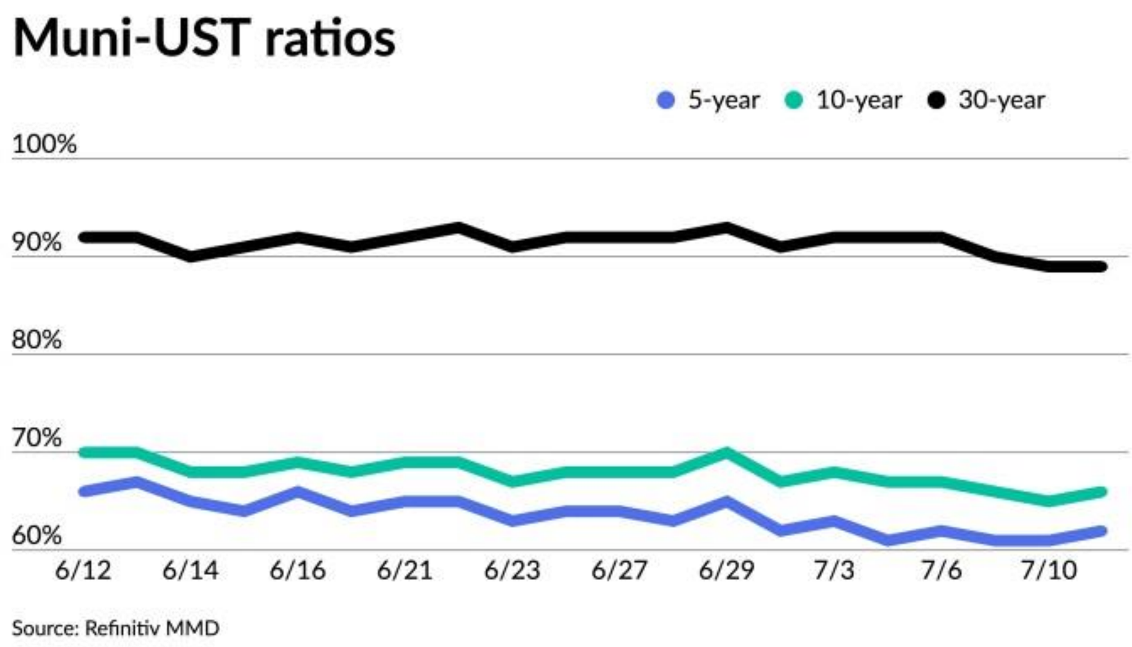
Municipals were steady Tuesday as the new-issue calendar picked up steam, including nearly $1 billion from Texas' Denton Independent School District and an upsized deal from Utah's Intermountain Power Agency. U.S. Treasuries were slightly firmer outside of five years and equities ended the session in the black.
The two-year muni-to-Treasury ratio Tuesday was at 61%, the three-year at 62%, the five-year at 63%, the 10-year at 66% and the 30-year at 89%, according to Refinitiv MMD's 3 p.m. read. ICE Data Services had the two-year at 61%, the three-year at 62%, the five-year at 62%, the 10-year at 66% and the 30-year at 89% at 4 p.m.
With the third quarter officially under way, experts say the tax-exempt market is poised for better performance and will see stronger overall market technicals in the second half.



Tax-exempts "continue to be buoyed by lighter supply expectations, still strong credit/ratings momentum among safe sector borrowers, and no-good reason for accounts to sell," said Matt Fabian, a partner at Municipal Market Analytics, in a weekly outlook report.

So while sharpening sector outperformance "would typically be implying a near-term municipal reversion (to higher yields), the severe breakdown between municipal and UST correlations means that does not need to be the case," he said.

Rather, tax-exempt munis "have been stabilizing for over a month, current nominal yields presenting a fixed point from which good-but-not-great demand is adequate to put away good-but-not-great supply amid thin secondary market liquidity," Fabian said.

So far, timing and the Federal Reserve Board are both chief drivers of activity in the municipal market in the early third quarter, according to Tom Kozlik, managing director and head of public policy and municipal strategy at HilltopSecurities Inc.

The Fed, and the fact that only a low to moderate level of demand seems to be balanced by a low to moderate level of supply, are the market technicals impacting the market the most, according to Kozlik.

"The supply and demand dynamic is almost always a leading driver of the primary municipal bond issuance," he said Tuesday.

"With essentially only two weeks to price in July's municipal primary market because of the Fourth of July holiday, and the Fed meeting, issuers are likely going to try to cram a month's worth of issuance into just two weeks," he said.

The Fed was driving much of investor activity last year and in the first half of the year, and it seems that influence remains similar to begin the third quarter of 2023, according to Kozlik.

"The difference now is that we are likely closer to the end of the Fed action than the start — or this opinion could very well just be wishful thinking," he said.

Investor sentiment, according to Kozlik, has picked up slightly compared to last year at this time, but municipal bond investments are "still not flying off the shelves like they were in 2020 and 2021," he said.

This year's lower overall supply has helped stabilize that "hot and cold or low to moderate" pace of investor demand, Kozlik continued.

At the same time, issuance typically picks up a tad in the summer months of June, July and August, he noted.

"June saw a strong month of primary issuance, but it seems as though July activity may be lower than the 10-year average of just over $30 billion," Kozlik said.

He believes there will still be a great deal of waiting by investors of all sizes during this year's summer reinvestment season as compared to last year.

"Some investors have gradually been putting money to work, but I get the sense there are some also still waiting for more Fed-related direct or indirect guidance," he said.

However, with the volatility and some of the uncertainty from the first half in the rearview mirror, there are many indicators that the second half of the year has the potential to post significantly better returns, according to Roberto Roffo, managing director and portfolio manager at SWBC Investment Company.

He agreed with Kozlik that one of those indicators is that the Fed is nearing the end of its tightening cycle, which removes an upward bias in rates.

In addition, he said municipal bonds are relatively attractive to Treasuries as the ratio of tax-exempt yields versus taxable yields across the entire curve has cheapened.

New issuance this year, Roffo said, will be lower than average and should result in a demand-supply imbalance.

"Yields on many municipal bonds are substantially above equivalent maturity Treasuries, with tax-equivalent yields as high as 300 to 400 basis points above Treasuries and significantly above the current inflation rate," Roffo wrote in a July 3 report.

Munis may be more on target than USTs, "which have seen increasing rate volatility in response to increasingly volatile data," Fabian said.

The issues may be less data-related and "more about taxable traders' and economists' high conviction about what the data mean; numbers being printed now depict the end and resolution of an unprecedented global pandemic that was met with an unprecedented policy response from D.C. and corporate America," he said.

Data releases, including this week's consumer price index report, "should be assumed to carry less importance for current and long-term inflation risk than do those seen in a normal business cycle," Fabian said.

The two economic indicators which should add the most to a positive market will be inflation and employment numbers, Roffo said. "While there may still be some lag from the inflationary pressures we have experienced, inflation has been on a downward slope and as the rate hikes start to take hold, the decline should accelerate," Roffo said.

"The non-farm payroll numbers over the last year have been impressively strong, but they are also a lagging indicator and should soften going forward due to the aggressive Fed actions," he continued.

Going into the second half, credit strength is another strong positive, according to Roffo, as there have been a substantial amount of upgrades and relatively few downgrades over the past year.

"Investment-grade municipal bond credit has typically weathered downturns in the economy well," he wrote.

Given the current strong balance sheets of most investment-grade issuers, the next downturn in the economy should be no different, according to Roffo.

"With all the positive indicators and the higher overall yields, I believe the market has created a favorable entry point for investors looking to increase income with the potential of long-term capital appreciation," Roffo added.

In the primary market Tuesday, Piper Sandler & Co. priced for the Denton Independent School District, Texas (/AAA/AAA/) $949.075 million of PSF-insured unlimited tax school building bonds, with 5s of 8/2024 at 3.17%, 5s of 2028 at 2.84%, 5s of 2033 at 2.97%, 5s of 2038 at 3.42%, 5s of 2043 at 3.80%, 5s of 2048 at 4.02% and 5s of 2053 at 4.08%, callable 8/15/2033.

Goldman Sachs priced for the Intermountain Power Agency, Utah, (Aa3//AA-/), an upsized deal of $769.695 million of tax-exempt power supply revenue bonds, 2023 Series A, with 5s of 7/2026 at 2.98%, 5s of 2028 at 2.87%, 5s of 2033 at 2.99%, 5s of 2038 at 3.45%, 5.25s of 2043 at 3.75% and 5.25s of 2045 at 3.85%, callable 7/1/2032. The deal was initially slated for $502 million.

Wells Fargo Bank priced for the Public Utilities Commission of the City and County of San Francisco (Aa2/AA-//) $414.035 million of San Francisco water revenue bonds. The first tranche, $346.975 million of 2023 Sub-Series A, saw 5s of 11/2028 at 2.52%, 5s of 2033 at 2.59%, 5s of 2038 at 3.14%, 5s of 2043 at 3.52%, 5.25s of 2048 at 3.83% and 5.25s of 2052 at 3.90%, callable 11/1/2033.

The second tranche, $64.540 million of 2023 Sub-Series B, saw 5s of 11/2028 at 2.52%, 5s of 2033 at 2.59%, 5s of 2038 at 3.14%, 5s of 2043 at 3.52%, 5.25s of 2048 at 3.83% and 5.25s of 2052 at 3.90%, callable 11/1/2033.

J.P. Morgan Securities priced for the Louisville/Jefferson County Metro Government, Kentucky, (/A/A+/), $265.005 million of Norton Healthcare health system refunding revenue bonds. The first tranche, $147.090 million of fixed rate bonds, Series 2023A, saw 5s of 10/2024 at 3.46%, 5s of 2028 at 3.26%, 5s of 2033 at 3.42%, 5s of 2038 at 4% and 5s of 2042 at 4.18%, callable 10/1/2033.

The second tranche, $117.915 million of long-term rate bonds, Series 2023B, saw 5s of 10/2047 with a mandatory put date of 10/1/2029 at 3.51%, callable 4/1/2029.

Wells Fargo Bank priced for the Virginia Housing Development Authority (Aa1/AA+//) $110.895 million of non-AMT rental housing bonds, Series 2023D, with all pricing at par: 3.30s of 8/2026, 3.45s of 2028, 3.95s of 2033, 4.2s of 2038, 4.5s of 2043, 4.7s of 2048, 4.75s of 2053, 4.8s of 2056, and 4.875s of 2065, callable 8/1/2032, except 3.35s of 2027 and 3.45s of 2028, which can be called on 8/1/2024.

In the competitive market, Seattle (Aa2/AA//) sold $274.980 million of municipal light and power improvement and refunding revenue bonds, Series 2023A, to Jefferies, with 5s of 3/2024 at 3.15%, 5s of 2028 at 2.75%, 5s of 2033 at 2.76%, 5s of 2038 at 3.37%, 5s of 2043 at 3.65%, 5s of 2048 at 3.85%, and 5s of 2053 at 3.90%, callable 3/1/2033.

Secondary trading
Maryland 5s of 2024 at 3.69%-3.16%. Phoenix 5s of 2025 at 3.00%-2.97%. West Virginia 5s of 2026 at 2.87%.

NYC 5s of 2.88% versus 2.90% Monday. Massachusetts 5s of 2028 at 2.69%-2.65%. Georgia 4s of 2030 at 2.68% versus 2.70% Friday.

Triborough Bridge and Tunnel Authority 5s of 2033 at 2.93%-2.92% versus 2.98%-2.96% Monday and 2.90%-2.92% Friday. Massachusetts 5s of 2034 at 2.84%-2.83% versus 2.80%-2.79% on 7/5. Arlington, Texas, 5s of 2035 at 3.05%.

Garland ISD, Texas, 4s of 2045 at 4.20%. Battery Park City Authority, New York, 5s of 2053 at 3.86% versus 3.81% on 7/5.

AAA scales

Refinitiv MMD's scale was unchanged: The one-year was at 3.09% and 2.97% in two years. The five-year was at 2.67%, the 10-year at 2.64% and the 30-year at 3.56% at 3 p.m.

The ICE AAA yield curve was bumped up to one basis point: 3.07% (flat) in 2024 and 3.00% (flat) in 2025. The five-year was at 2.66% (flat), the 10-year was at 2.62% (-1) and the 30-year was at 3.61% (-1) at 4 p.m.

The IHS Markit municipal curve was unchanged: 3.09% in 2024 and 2.98% in 2025. The five-year was at 2.67%, the 10-year was at 2.64% and the 30-year yield was at 3.56%, according to a 3 p.m. read.

Bloomberg BVAL was unchanged: 3.05% in 2024 and 2.95% in 2025. The five-year at 2.65%, the 10-year at 2.60% and the 30-year at 3.57% at 4 p.m.

Treasuries were slightly firmer five years and out.

The two-year UST was yielding 4.887% (+2), the three-year was at 4.558% (flat), the five-year at 4.238% (-1), the 10-year at 3.981% (-2), the 20-year at 4.222% (-2) and the 30-year Treasury was yielding 4.019% (-2) near the close.

NYC TFA to bring $1B-plus

The New York City Transitional Finance Authority plans to sell $1.08 billion of future tax-secured subordinate bonds next week.

The deals will be composed of $950 million of tax-exempt fixed-rate bonds and $130 million of taxable fixed-rates and proceeds from the sale will be used to fund capital projects.

Book-running lead manager J.P. Morgan Securities is expected to price the tax-exempts on July 19 after a one-day retail order period Tuesday.

BofA Securities, Citigroup, Jefferies, Loop Capital Markets, Ramirez & Co., RBC Capital Markets, Siebert Williams Shank, and Wells Fargo Securities are co-senior managers on the deal.

The TFA expects to sell $130 million of taxable fixed rate bonds in the competitive market July 19.

Primary to come:

The New Caney Independent School District, Texas (Aaa//AAA/), is set to price Wednesday $223.735 million of PSF-insured unlimited tax school building and refunding bonds, Series 2023. Piper Sandler & Co.

The San Diego Unified School District is set to price Wednesday $200 million of 2023-2024 tax and revenue anticipation notes, Series A, serial 2024. BofA Securities.

The Waxahachie Independent School District, Texas (Aaa//AAA/), is set to price Wednesday $200 million of PSF-insured unlimited tax school building bonds, Series 2023. Jefferies.

Grant County Public Utility District, Washington (/AA/AA/), is set to price Thursday $193.395 million of Priest Rapids Hydroelectric Project revenue and refunding bonds, Series 2023A. J.P. Morgan Securities.

Los Angeles (Aa2//AA/) is set to price Thursday $174.740 million of solid waste resources revenue bonds, Series 2023A. J.P. Morgan Securities.

The Michigan State Building Authority(Aa2//AA/) is set to price next week $114.085 million of Facilities Program multi-modal revenue bonds, Series I, term 2058. Barclays.

The Chapel Hill Independent School District, Texas (/AAA//), is set to price Thursday $100 million of PSF-insured unlimited tax school building bonds, Series 2023. Piper Sandler & Co.

The New Mexico Mortgage Finance Authority (Aaa///) is set to price Thursday $100 million of tax-exempt non-AMT single-family mortgage program Class I bonds, Series 2023C, serials 2024-2035, terms 2038, 2043, 2048, 2053, 2054. RBC Capital Markets.

Competitive:
Colorado is set to sell $500 million of Education Loan Program tax and revenue anticipation notes at 11 a.m. eastern Wednesday.

Frisco, Texas, is set to sell $160.835 million of GO refunding and improvement bonds, Series 2023, at 10:30 a.m. Wednesday.

Newport News, Virginia, is set to sell $101.535 million of GO general improvement bonds, Series 2023A, at 10:45 a.m. Wednesday.

Chip Barnett and Christina Baker contributed to this story.