THE BOND BUYER

Bond insurance on pace for best market share since 2008

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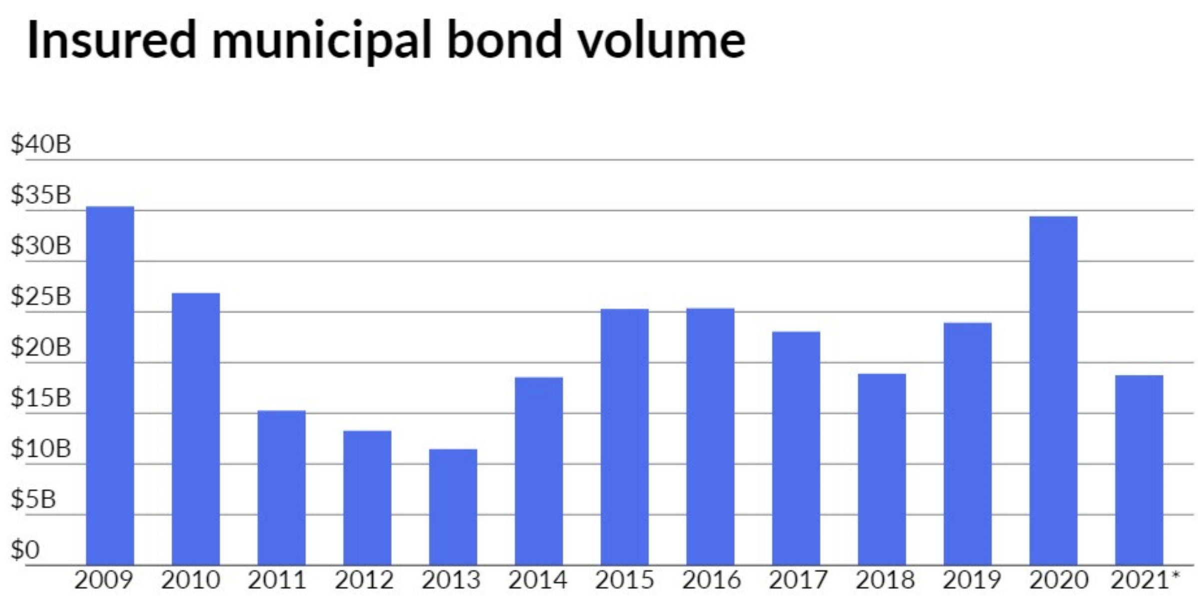
The two active bond insurers combined for a total of $18.75 billion of insured par in the first half of 2021 in 1,164 deals, up from the $14.04 billion in 985 transactions in the first half of last year.

They are on pace for the most insured par since 2008 and best market share since 2009.

Assured Guaranty Municipal Corp. and Build America Mutual insured 8.4% of the market, measured by par, according to Refinitiv data, the highest since it was 8.64% at the end of 2009. Pre-pandemic, the wrap rate was roughly 6%.



Source: Refinitiv (2021 data is through June 30)

The first-half insured par is up 31% year-over-year compared to the overall market volume growth of 15%. The number of insured transactions is up 88%, while the total transaction count in the muni market increased by 19%.

Insurance usage was up 77.5% in the first quarter to $8.71 billion from $4.91 billion in the same time the year before, while the second quarter was up 9.9% to $10.04 billion from $9.14 billion.

Assured Guaranty accounted for a total of $10.74 billion in 543 deals in the first half of 2021, compared to $7.84 billion in 476 deals a year prior. Those figures include Assured's subsidiary, Municipal Assurance Corp, according to Refinitiv data.

“Assured Guaranty’s U.S. municipal bond insurance production was outstanding during the first half of 2021, guaranteeing 58% of new issue insured par sold,” said Robert Tucker, senior managing director and head of investor relations and communications at Assured. “The $11.1 billion (inclusive of a corporate-CUSIP transactions) Assured Guaranty guaranteed in the primary market was 34% higher than the amount of new-issue insured par sold that it guaranteed in the first half of 2020 and, looking back to a comparable period just before the pandemic, 73% more than the amount of new-issue insured par sold that it guaranteed in the first half of 2019.”

Tucker added that the results were achieved in a market where municipal interest rates hovered near historic lows and credit spreads tightened.

“Year over year, the financial guaranty industry’s total first half insured par was up 34%, more than double the 15% rate of increase for total par issued in the U.S. municipal bond market,” Tucker said.

Build America Mutual was credited by Refinitiv with $7.54 billion in 584 deals or 41.2% of the two-insurer market share in the first half of 2021, up from its first half 2020 total of $6.09 billion in 504 transactions.

“Insured bond volume is growing significantly faster than the market overall, and that is likely to be a lasting change: 48 underwriters priced transactions with BAM insurance in the first half, and we find that dealers who have had positive experiences selling BAM-insured bonds are more likely to utilize us again in the future,” according to Scott Richbourg, head of public finance at BAM.

Assured Guaranty reports continued heightened demand for its financial guaranty insurance on larger transactions, where high demand typically signals interest from institutional investors.

In the first half of 2021, Assured Guaranty selectively insured 21 transactions of $100 million or more in insured par, Tucker said.

“Assured Guaranty also continued to add value on double-A credits, insuring $2.3 billion of par on 56 transactions in this category during the first half of 2021,” he said. “Overall par volume of municipal bonds issued has been strong year-to-date as monetary and fiscal policy drive economic recovery. Additionally, to the extent high-net-worth individual investors anticipate higher tax rates, the demand for tax-exempt income tends to increase.”

Tucker noted that taxable issues made up a quarter of the par amount issued in the U.S. municipal bond market year-to-date and that Assured Guaranty believes these issues are attractive to taxable buyers because of the currently high relative value of taxable municipals versus corporate bonds.

“Some buyers of taxable municipal bonds, including international buyers, may prefer insured bonds because they are less familiar with U.S. municipal credit and benefit from the underwriting experience of the financial guarantor,” he said. “Bond insurance penetration of first-half taxable new issue par sold reached 10%, and Assured Guaranty insured $3.9 billion of taxable new-issue par sold, which was about two-thirds of the taxable new-issue insured par sold.”

BAM's Richbourg said the insurer is seeing increased utilization on sales with underlying ratings in the double-A category, which allows the mutual insurer to achieve substantial growth without changing its credit appetite.

Both of the major insurers bring AA financial strength ratings from S&P Global Ratings to the paper they wrap.

“We anticipate that new-money volume will be stronger in the second half and into 2022 as issuers gear up their capital plans post-COVID, and our guaranty will be a helpful tool for them,” he said.

Grant Dewey, head of capital markets at BAM, noted the “uneven” economic recovery from the COVID-19 pandemic.

“Even though municipal bond yields began and ended the first half at about the same level, there were some significant swings in the interim,” he said. “We saw weakness in the first quarter based on inflation concerns, which then reversed when the Delta variant began to spread more widely in Q2.”

He added that institutional investors, in particular, recognize that insured bonds can be more stable during those periods of volatility.

“So their appetite for a BAM wrap has remained elevated as compared to similar pre-COVID market conditions,” he said. “We’re also continuing to see strong interest on taxable transactions from buyers who are relatively new to the municipal market, and value BAM’s deep knowledge of the sector and the liquidity of BAM-insured bonds.”

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