THE BOND BUYER

Several large new issues price in a stabilizing muni market

By

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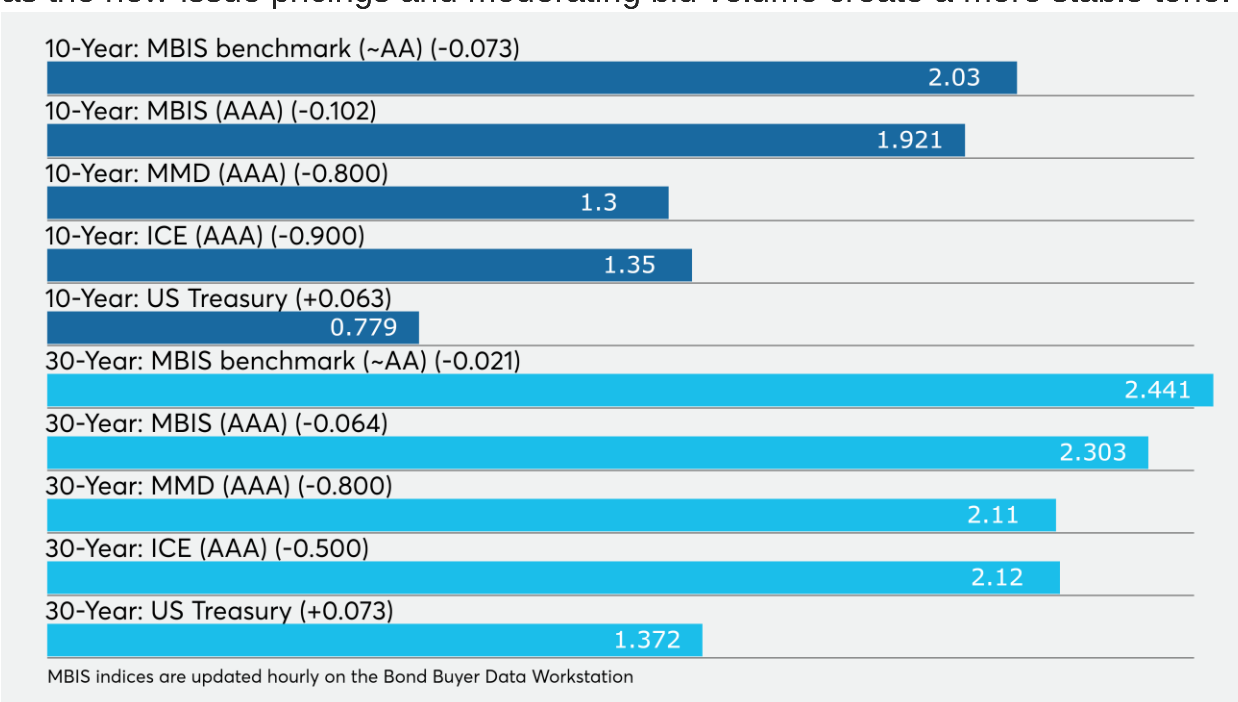
Published

April 8, 2020, 4:22pm EDT

The municipal market rallied by as much as 10 basis points, several large new issues priced and ICI reported $1.5 billion of outflows, down dramatically from the previous week's $20 billion.

The market appears to be moving toward some semblance of normal conditions as the new-issue pricings and moderating bid volume create a more stable tone.



Bon Secours Mercy Health's (A1/A+/AA-/NR) priced $683 million of hospital facilities revenue bonds and Citi received the written award on Texas Public Finance Authority's (Aaa/AAA/ /) $472.470 million of general obligation and refunding taxable bonds.

Other large deals out of Virginia, Texas, and Tennessee were providing direction for the overall market.

“The outflows continue, but as we get more traction on the medical end of the virus, equity markets are driving overall stability,” said one New York trader. “I was saying weeks ago that you needed some positive news on the health front to stop the markets dislocation and now we are slowly getting it, whether its plasma treatment, GE making ventilators, improvement in testing along with a natural curve flattening of the virus.”

He said the municipal primary market is finding its footing, a few deals are getting done and price discovery is occurring.

“Deals doing well, getting bumped, with a decent breadth of buyers, it’s all better news,” he said. “Long tunnel, light getting a little less faint, and away from that there are still some stunningly weak numbers to come and a concise exit strategy out of the pandemic and the resulting economic fallout are lacking.”

He said that while there is no reset button here, for the moment, there is a lull in the pain, an improvement in the virus metrics, and a stabilizing in most markets.

Rather than relying solely on secondary trade prints, the market is developing guidance from new issues in both tax-exempt and taxable sectors, said Kim Olsan, senior vice president at FHN Financial.

“Netting out the mix of active credits that remain more volatile due to uncertain revenue conditions—Illinois GOs, New York agencies, NY MTAs and several larger healthcare systems—the majority of issues are trading more or less along historical spreads,” she said.

Several large block trades of high-grade names once again showed a constructive tone.

University of Virginia 5s of 2021 traded at 1.02%-1.00%. North Carolina GOs, 4s of 2021, traded at 0.95%-0.89%. Washington GOs, 5s of 2024, traded at 1.10%-1.03%. North Carolina GOs, 5s of 2028, traded at 1.14%. On March 31, they traded at 1.21%, on March 24 at 2.75%.

They began the month on March 2 at 0.84%.

Out longer, Forsyth County School District Georgia 5s of 2036 traded at 1.85%, a basis point lower than yesterday.

A taxable New York trader said that while ratios are lower, they are still for all practical purposes useless at this point.

“The reduction in outflows is a positive, but it will be a while before flows and sentiment turn positive again,” he said. “Retail is more likely to stay away for a while. Having said that the market is firmer and calmer.”

He noted that taxables have two different worlds.

“Cheap for index eligible bonds versus corporate investment grade but on a strict muni to muni comparison tax-exempts are still cheaper,” he said. “We are starting to see some cheaper relative value for taxables in the front between five and six years out.”

Bondwave trade insights: muni March madness

Typically, between 14,000 and 16,000 municipal CUSIPs trade daily, only 1.2% of the outstanding municipal universe but this number doubled in March resulting in many more qualifying trades for the Bondwave AA QCurve, according to Madhura Katre, VP of the Information Lab at Bondwave.

“On any given day, anywhere between 2,500- 3,800 trades in 1,300 individual securities typically contribute to the AA QCurve but on March 24th, we saw as many as 13,800 trades in 5,900 individual securities included in the AA QCurve generation process,” she said. “Unsurprisingly, a bulk of this trade count was in the odd lot space and shorter dated securities, even though round lots constitute the lion’s share of volume.”

She added that one thing to remember is that MSRB disseminates true trade sizes for investment grade bond trades that are greater than $5 million, and high-yield bond trades that are greater than $1 million, after a week.

“In the middle of March, over a span of 10 trading days, the 10-year point on the BondWave Municipal AA QCurve increased by 218 bps – from 1.21% on the morning of March 11th to 3.39% on the morning of March 24th,” Katre said. “It was the largest increase seen in that duration since the inception of QCurves in 2016.”

At the end of the day on March 31st, the 10-year yield was 1.88%, more than halfway back to its beginning of month levels, Katre said.

Primary market

JP Morgan received the written award on Bon Secours Mercy Health's (A1/A+/AA-/NR) $683.590 million of hospital facilities revenue bonds. BSMH was the conduit issuer as $242.590 million was for the County of Allen, Ohio, $234.855 million was for the South Carolina Jobs-Economic Development Authority and $206.450 million was for the Virginia Small Business Financing Authority.

Citi received the written award on Texas Public Finance Authority's (Aaa/AAA/ /) $472.470 million of general obligation and refunding taxable bonds.

Wells Fargo priced Virginia Public Building Authority's (Aa1/AA+/AA+/NR) $417.350 million of public facilities revenue and refunding bonds.

Siebert Williams Shank received the written award on Collin County Community College District, Texas' (Aaa/AAA/NR/) $302.665 million of GO bonds.

Memphis, Tennessee (Aa2/AA/ /) sold $223.730 million of general improvement refunding bonds, that were won by Bank of America Securities with a true interest cost of 2.7296%.

The 2030 maturity was priced as 4s to yield 1.51% and the long-bond (2045 maturity) was priced as 4s to yield 2.64%.

Secondary market

One of the notable outliers during the sell-off was California GOs, Olsan said. In the eight-year range bonds traded as wide as +44/AAA BVAL but are now printing at +4/AAA levels, which is consistent with pre-March levels.

"Across secondary lists posted for sale, there is a heavier concentration in stressed names vs. the selloff period where more liquid names were sold—a sign of more stable conditions that cash raises aren't so stressed," she said.

That has created a quandary for the majority of inquiry, though, where bonds available for sale are commanding tighter levels.

Trade data from the MSRB showed an uptick in healthcare volume, surpassing $1 billion across all sectors for a 13% share of the total traded.

The sector trails the broad market this year by nearly 200 basis points, but also offers some of the widest concessions in the investment grade space—indicative 10-year single-A hospital spreads are +124/AAA, Olsan noted.

Munis were stronger on the MBIS benchmark scale Wednesday, with yields falling by seven basis points in the 10-year maturity and by two basis points in the 30-year maturities. High-grades were also stronger, with yields on MBIS' AAA scale decreasing by 10 basis points in the 10-year and by six basis points in the 30-year maturity.

On Refinitiv Municipal Market Data's AAA benchmark scale, the yield on the 10-year muni GO fell eight basis points to 1.30% while 30-year decreased eight basis points to 2.11%.

The MDD muni to taxable ratio was 169.3% on the 10-year and 153.9% on the 30-year.

On the ICE muni yield curve late in the day, the 10-year yield was down nine basis points to 1.35% while the 30-year was down five basis points to 2.12%.

BVAL saw the 10-year fall six basis points to 1.38% and the 30-year dropping seven basis points to 2.18%.

On the IHS Markit AAA scale, the 10-year was at 1.40% and the 30-year was 2.12%.

Stocks were positive as Treasury yields were mostly higher.

The Dow Jones Industrial Average rose about 3.30%, the S&P 500 index increased roughly 3.28% and the Nasdaq gained roughly 2.58%.

The three-month Treasury was yielding 0.209%, the Treasury two-year was yielding 0.268%, the five-year was yielding 0.476%, the 10-year was yielding 0.779% and the 30-year was yielding 1.372%.

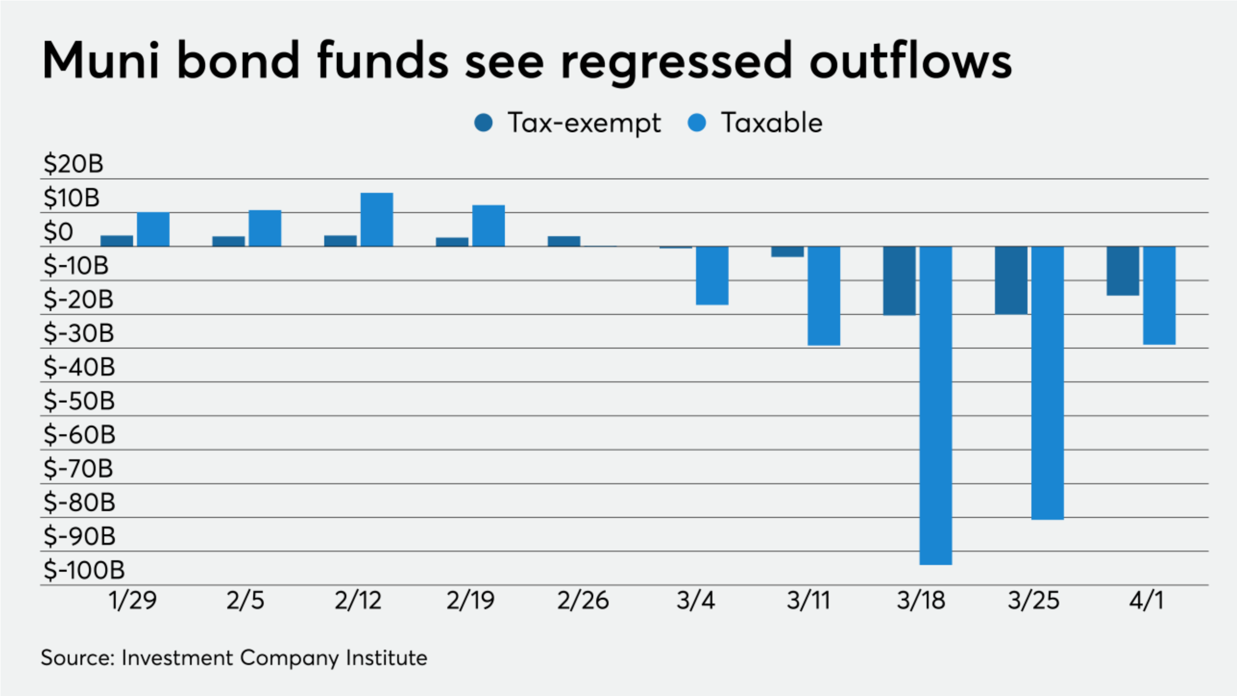
Pandemic could reboot bond insurance demand

Municipal Market Analytics is now bullish on the bond insurers’ credit quality and new business prospects, according to Partner Matt Fabian.

"Assuming sustainably wider municipal credit spreads begin to emerge, both BAM and Assured are likely to pursue new primary business aggressively and could post their best production statistics in years; an annualized 10% penetration or higher is at least theoretically achievable," Fabian said. "The monolines themselves do have exposure to COVID-19-related losses, and both investors and insurance executives should be expecting an elevated rate of policy claims over the next year."

He added that these should not rise to a level that imperils either aggregate claims paying ability or guaranty ratings of Assured Guaranty and BAM.

ICI reports outflows sees much smaller outflows



Long-term municipal bond funds and exchange-traded funds saw a combined outflow of $1.448 billion in the week ended April 1, the Investment Company Institute reported on Wednesday.

It was the fifth week in a row of outflows but this week's numbers were the lowest outflows since the week of March 4, when there were $518 million of outflows. The previous week, ended March 25, saw $20.094 billion of outflows.

Long-term muni funds alone had an outflow of $1.422 billion after an outflow of $19.285 billion in the previous week; ETF muni funds alone saw an outflow of $25 million after an outflow of $809 million in the prior week.

Taxable bond funds saw combined outflows of $28.982 billion in the latest reporting week after revised outflows of $80.717 billion in the previous week.

ICI said the total combined estimated outflows from all long-term mutual funds and ETFs were $10.958 billion after outflows of $156.532 billion in the prior week.

The biggest loser for the fourth week in a row were bond funds, which saw an outflow of $30.430 billion this past week, after an outflow of $100.811 billion the week before.

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