THE BOND BUYER

Muni yields fall again as NYC TFA, Maryland DOT price with ease

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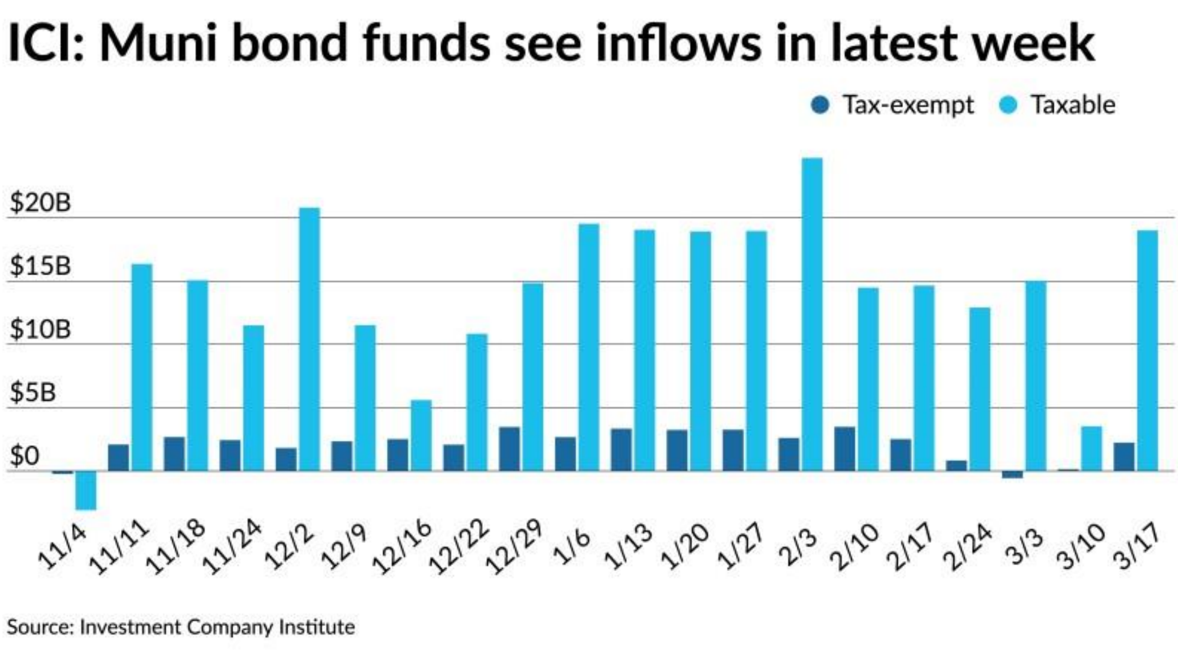
Published

March 24, 2021, 3:52 p.m. EDT

Municipals were firmer across the curve as the New York City Transitional Finance Authority repriced its $1 billion deal to double-digit lower yields and the primary and stronger U.S. Treasuries again helped to direct secondary markets stronger.

The Investment Company Institute Wednesday reported another week of inflows with $2.234 billion coming into long-term municipal bond mutual funds, after $1.405 billion the previous week, adding to the strong fundamentals in munis. ICI also reported $190 million of inflows into exchange-traded funds for the week ending March 17. In the previous week, ETFs saw inflows of $310 million.



A year ago as the municipal market was rampaged by the onslaught of the COVID-19 pandemic, the 10-year traded off 200 basis points (more in some sectors of the market) over a 10-day period and fund outflows marked $45 billion of losses in a two-week period.

"Since that time, there have been only five weeks with negative flows for a holder category that ended 2020 with nearly $900 billion par value (23% of all muni holdings)," noted Kim Olsan, senior vice president at FHN Financial. Flows so far this year reported by ICI total more than $25 billion.

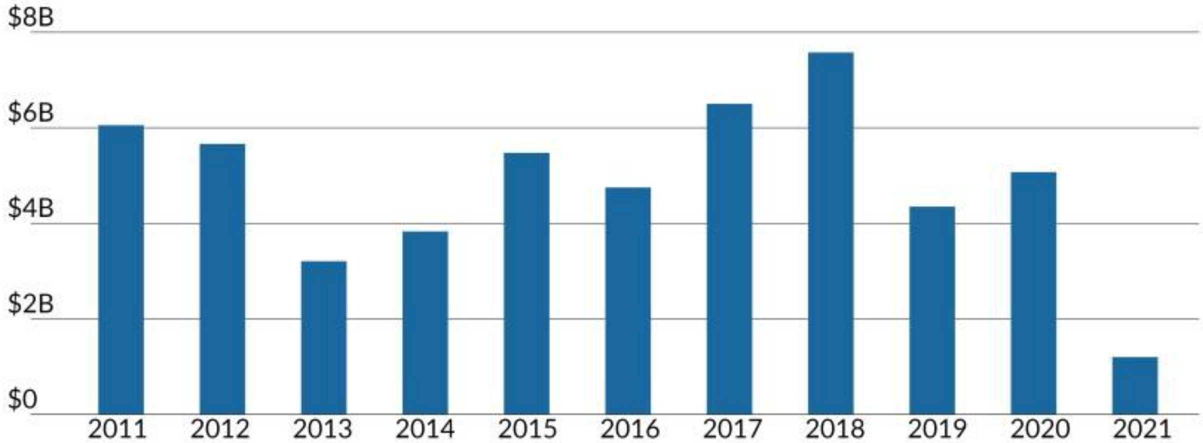
Looking at yields, the 10-year triple-A traded as low as 0.79% on March 9 and by March 23 hit 2.79%, according to Refinitiv and 2.87% on Bloomberg BVAL. The muni/UST ratio surged to almost 350% at that point and prompted daily par volume of over $9 billion or almost twice the current total, Olsan said.

Municipal to UST ratios were at 68% in 10 years and 75% in 30 on Wednesday, according to Refinitiv MMD, while ICE Data Services showed ratios at 67% in 10 years and 77% in 30.

"Dramatic improvements in all these metrics points to a constructive outlook. The 10-year AAA/UST ratio is currently at 68%, near an all-time low and well through its annual average of 116% as buyers remain engaged," she said. "The market tone should be firm (with occasional pullbacks) as more sectors come off negative outlooks and state and local credit profiles improve."

In the primary, Ramirez & Co. priced for institutions $1.01 billion of future tax-secured subordinate bonds for the New York Transitional Finance Authority (Aa1/AAA/AAA/). The first series, $896.2 million of refunding bonds, saw yields bumped by 15 basis points out long, with bumps of seven to nine basis points on bonds 10 years and in; 5s of 2023 yielding 0.25%, 5s of 2026 at 0.74%, 5s of 2031 at 1.51%, 4s of 2036 at 1.94% and 4s of 2038 at 2.02%. The second, $110.5 million of future tax secured bonds, had bonds in 2021 with a 2% coupon yield 0.10%, 4s of 2026 at 0.74%, 5s of 2036 at 1.51% and 5s of 2038 at 1.84%.

NYC TFA issuance over 10-years



Source: Refinitiv

New York City TFA 5s of 2034 traded at 1.63% Wednesday versus 1.68% Tuesday. The same maturity and coupon was priced to yield 1.72% in the final pricing wire. TFAs with a 5% coupon maturing in 2025 traded at 0.51% in blocks versus 0.54% in Wednesday's pricing.

BofA Securities priced $748.6 million of transportation facilities revenue bonds for the Maryland Department of Transportation (Aa2///). Bonds in 2022 with a 5% coupon yield 0.10%, 5s of 2026 at 0.64%, 5s of 2031 at 1.32%, 5s of 2036 at 1.57%, 2.125s of 2036 at 2.19% and 4s of 2037 at 1.74% and 3s of 2037 at 2.03%.

RBC Capital Markets priced $190 million of UPMC revenue bonds for the Pennsylvania Economic Development Financing Authority (A2/A/A/). $110.3 million of series 2021A saw 5s of 2023 yield 0.82%, 5s of 2026 at 1.25%, 5s of 2031 at 2.02%, 4s of 2036 at 2.48%, 4s of 2041 at 2.68%, and 4s of 2042 at 2.70%. The second, $79 million, had 5s of 2034 at 1.61%, 5s of 2036 at 1.69% and 5s of 2044 at 1.94%.

Citigroup Global Markets Inc. priced $140 million of mortgage-backed securities program residential mortgage revenue bonds for the Ohio Housing Finance Agency (Aaa///). All bonds priced at par, except for 5s of 3/2026 at 1.00% and 5s of 9/2026 at 1.15%; 3/2022 at 0.20%, 9/2022 at 0.25%, 3/2031 at 1.80%, 9/2031 at 1.85%, 9/2036 at 2.05%, 9/2036 at 2.05%, 9/2041 at 2.25%, 9/2046 at 2.40%, 9/2051 at 2.45% and 9/2052 at 3.00%.

Goldman Sachs & Co. LLC priced $121.4 million of system revenue bonds for the Arizona Board of Regents of Arizona State University (Aa2/AA//). Bonds in 2022 with a 5% coupon yield 0.12%, 5s of 2026 at 0.65%, 5s of 2031 at 1.35%, 5s of 2036 at 1.61%, 5s of 2041 at 1.79% and 5s of 2042 at 1.83%.

Palo Alto, California, (Aa1/AA+//) sold $100 million of certificates of participation to Citigroup Global Markets Inc. Bonds in 2023 with a 5% coupon yield 0.15%, 5s of 2026 at 0.50%, 4s of 2031 at 1.20%, 2s of 2036 at 1.95%, 2s of 2041 at 2.16% and 2.125s of 2044 at 2.30%.

Knoxville, Tennessee, (Aa2/AA+//) sold $73 million of electric system revenue bonds to Jefferies LLC. Bonds in 2022 with a 5% coupon yield 0.16%, 5s of 2026 at 0.61%, 5s of 2031 at 1.22%, 4s of 2036 at 1.62%, 4s of 2041 at 1.81% and 4s of 2044 at 1.92%.

Secondary markets

North Carolina 4s of 2022 traded at 0.11% then up to 0.09%. California GO 5s of 2025 at 0.46%. Fairfax County, Virginia, 4s of 2026 at 0.57% out of the gates. New York City TFA 5s of 2025 at 0.51%. Florida PECO 5s of 2027 at 0.69%. Prince Georges County, Maryland, 5s of 2027 at 0.71%. Maryland 5s of 2028 at 0.94%. California 5s of 2028 at 0.94%. Georgia GO 5s of 2028 at 0.82%.

California GO 5s of 2030 at 1.18% and 5s of 2033 at 1.32%. Texas water 5s of 2031 at 1.22% versus 1.28% Friday. Ohio water 5s of 2033 at 1.30%. NYC TFA 5s of 2034 at 1.63%. Los Angeles DWP 5s of 2037 at 1.46%. Gwinnett County, Georgia, 4s of 2035 at 1.33%-1.32% versus 1.37% Tuesday.

Princeton 3s of 2035 at 1.56%-1.52% versus 1.55% original and Princeton 2s of 2041 at 2.02%-1.99% versus 2.00% original.

Washington GO 5s of 2042 at 1.71%. New York City TFA 4s of 2042 at 2.22%.

High-grade municipals were bumped two basis points across the curve on Refinitiv MMD's scale. Short yields were at 0.09% in 2022 and to 0.12% in 2023. The 10-year fell to 1.11% and the 30-year at 1.76%.

The ICE AAA municipal yield curve showed short maturities fall one basis point to 0.10% in 2022 and two basis points to 0.15% in 2023. The 10-year fell two to 1.09% and the 30-year yield fell two to 1.76%.

The IHS Markit municipal analytics' AAA curve showed yields two basis points lower at 0.09% in 2022 and fell two bps to 0.14% in 2023, the 10-year fell two to 1.05%, and the 30-year also fell two to 1.73%.

The Bloomberg BVAL AAA curve showed yields fall one basis point to 0.09% in 2022 and two bps to 0.13% in 2023, while the 10-year fell two basis points to 1.07%, and the 30-year yield fell two to 1.77%.

The 10-year Treasury was at 1.61% and the 30-year Treasury was yielding 2.32% near the close. The Dow gained 132 points, the S&P 500 fell 0.02% and the Nasdaq lost 1.35%.

Powell, Yellen, durable goods

The future unemployment levels in the Federal Reserve's Summary of Economic Projections were not lowered as much as would be suggested by the panel's expectations for economic growth, according to Federal Reserve Board Chair Jerome Powell, because they expect the participation rate to rebound, which would lift the unemployment rate.

Getting people back to the labor force is "highly desirable," he told the Senate Committee on Banking, Housing and Urban Affairs on Wednesday, although it would curb progress in the unemployment rate.

The expanded labor force "is crucial, as we are coming back up from the biggest drop in unemployment since World War II," Powell said.

The chair's testimony and responses were "consistent," noted Bruce Monrad, chairman and portfolio manager of Northeast Investors Trust, and "there wasn't much" for markets to digest.

"He stayed the course on the benefits to the economy of running a little 'hot,' the hedged response on whether there were asset bubbles, etc.," he said.

Treasury Secretary Janet Yellen would not give a timeframe for when guidance for states and localities will be released on the uses of the $350 billion of stimulus funds. The department has 60 days to provide rules. Yellen would not commit to getting the rules out in a shorter time.

While the SEP estimates 6.5% GDP growth this year, Powell noted, "There are risks to the upside and to the downside but we should see a strong year."

And while Powell said the Federal Open Market Committee is "taking inflation seriously," he still believes any increases in the near-term will be short-lived.

"In the near term, there will be some upward pressure on prices and there is also a technical matter, where the low readings from April and March drop out of the 12-month calculation but any upward pressure and higher inflation would be transitory."

It’s “perfectly understandable” to see “jitters” about higher inflation, said Luke Tilley, chief economist at Wilmington Trust, but he doesn’t see runaway inflation.

While inflation will grow “as we move through 2021,” he said, “we don’t expect it to gather steam and snowball inexorably.”

Powell addressed the 10-year Treasury yield’s ascent to levels not seen in a year. “I think what you have seen is the Treasury market responding to vaccine news,” he said. “As vaccine doses go up and confirmed cases go down, you see yields rise, it is only natural.”

“Over the last week the Fed has said nothing that would corral the rise in long-term rates, yet the bond market appears to have settled down,” said Greg McBride, senior vice president and chief financial analyst at Bankrate. “So if Powell wasn't going to, and doesn't have to, say anything to influence action on the long end of the yield curve, he's not going to deviate from the script anywhere else."

Scott Ruesterholz, portfolio manager at Insight Investment said there are "so many moving variables" that allow the economy to “tolerate higher long-term interest rates.

“This is why the timing and nature of rates moves are critical in gauging potential Fed reaction functions, as a faster improvement in the labor market or a more sustained rise in inflation can lead to higher yields or inflation expectations, which the Fed can be comfortable with.”

In data released, durable goods unexpectedly fell 1.1% in February after rising a revised 3.5% in January, first reported as a 3.4% jump, while excluding transportation, orders dropped 0.9% after a 1.6% gain in January.

Economists polled by IFR Markets predicted orders would rise 0.8% and ex-transportation 0.6%.

Durable goods hadn’t declined since April 2020.

Core capital goods, a harbinger of business investment plans, was 0.8% lower in February after a 0.6% climb the month before.

"The durable goods data will likely be a one-off miss that does not disrupt the upbeat outlook for manufacturing the sector," according to Ed Moya, senior market analyst at OANDA. He said investors blamed “the deep freeze that pummeled the South.”

“The headline miss was substantial,” said Steve Sosnick chief strategist at Interactive Brokers. “One might expect that a miss of that magnitude would have a huge effect on bonds and stock futures, but the response was modest.”

Since “one month does not tell a full story,” and orders can be “volatile” and are generally revised the following month, the surprising decline was written off by traders, he suggested.

Plus, the decline can be partly attributed to “supply chain disruptions and weather,” Sosnick said. While both can be classified “temporary,” he added, the supply chain issues have persisted “much longer than a true temporary factor.”

If the supply chain will make it difficult to determine when goods will be delivered he said, “It is not unreasonable to think that managers might delay orders.”

And while the Midwest and Texas suffered storms last month, Sosnick added, “weather is always a convenient excuse,” even if “I don’t know how much of the shortfall we can attribute to the awful weather.”

Although weather was an issue last month, Tim Quinlan and Sarah House, senior economists at Wells Fargo Securities, said, “the manufacturing sector remains plagued by ongoing supply chain bottlenecks, which is restraining new orders.”

The decline could have been larger, they said, had it not been “a rebound in aircraft orders.” While “supply chain problems are getting worse,” especially for manufacturers, Quinlan and House said, “nothing in today's report is enough to derail what we expect to be a strong rebound in business spending this year."

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