THE BOND BUYER

High-yield deals are blowouts; ICI reports $2.3B inflows

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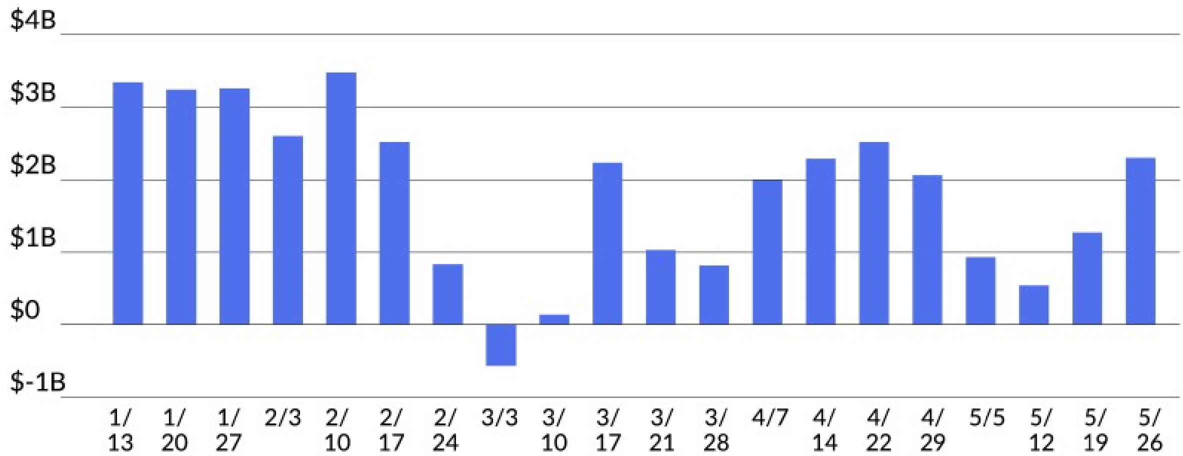
Municipals were firmer in both secondary trading and with primary deals repricing to lower yields as the Investment Company Institute reported more than $2.3 billion of inflows into municipal bond mutual funds, helping to keep muni yields low.

Trading jumped up Wednesday with several high-grade names clearing at lower yields, combined with solid, large new-issues repriced and upsized, easily closing. Metropolitan Washington Airports Authority alternative minimum tax bonds, upsized by $55 million to $896.6 million, saw one to nine basis point bumps in a repricing. Yieldy Chicago Transit Authority saw its $122.5 million deal repriced by as much as 25 basis points lower on the lower-rated of the two tranches. Los Angeles Department of Water and Power (Aa2//AA/AA+) upsized by nearly $30 million and saw its yields fall by two to seven basis points in a repricing with some maturities pricing at or through triple-A scales.

Unrated CSCDA Community Improvement Authority social housing bonds in 2046 came at plus-116 basis points to triple-A benchmarks and traders say the deal was bumped by 20 to 30 basis points.

ICI: Funds see large increase in inflows



Source: Investment Company Institute

Triple-A benchmarks were bumped by as much as two basis points while U.S. Treasuries held steady. Municipal to UST ratios closed at 61% in 10 years and 66% in 30 years, according to Refinitiv MMD. ICE Data Services saw ratios on the 10-year at 61% and the 30-year at 67%.

ICI reported $2.301 billion of inflows into municipal bond mutual funds for the week ending May 26 after $1.272 billion the week prior, marking the 12th straight week of inflows and bringing the total to $40.7 billion for the year. Exchange-traded funds saw $285 million of inflows versus $187 million the week prior.

In the primary, Citigroup Global Markets Inc. repriced an upsized $896.6 million AMT airport system revenue and refunding bonds, Series 2021A, for the Metropolitan Washington Airports Authority (Aa3/A+/AA-/). The deal, callable in 10/1/2031, saw one to nine basis point bumps to scales with 5s of 2021 at 0.16% (-6), 5s of 2022 at 0.18% (-7), 5s of 2026 at 0.77% (-3), 5s of 2031 at 1.41% (-1), 5s of 2036 at 1.57% (-3), 4s of 2041 at 1.83% (-9), 5s of 2046 at 1.85% (-6) and 4s of 2051 at 2.03% (-8).

Goldman Sachs & Co. LLC priced $364.3 million for the CSCDA Community Improvement Authority (////). The first, $110 million of Pasadena Portfolio senior essential social bonds, saw bonds in 12/2046 priced at par at 2.65%. The second, $173.9 million of Pasadena Portfolio senior essential social bonds, mature in 12/2056 with a 3% coupon to yield 3.10%. The third, $94.5 million of mezzanine essential housing revenue refunding bonds, saw 4s of 2056 yield 3.48%.

Citigroup Global Markets Inc. priced and upsized $158.7 million of water system revenue bonds for the Los Angeles Department of Water and Power (Aa2//AA/AA+) with two to seven basis point bumps. Bonds in 2026 yield 0.42% (-7), 5s of 2032 at 0.99% (-5), 5s of 2036 at 1.16% (-4), 5s of 2041 at 1.36% (-3), 5s of 2046 at 1.50% (-4) and 5s of 2051 at 1.57% (-2).

BofA Securities repriced $122.5 million of capital grant receipts revenue bonds in two series for the Chicago Transit Authority with 20 basis point bumps from earlier scales. The first series, $100.6 million of Series 5307 (/A/BBB//), saw 5s of 2022 yield 0.20% (-15), 5s of 2026 at 0.71% (-20) and 5s of 2029 at 1.11% (-25), noncall. The second, $21.9 million of Series 5337 (/A+/BBB/), saw 5s of 2022 yield 0.20% (-12), 5s of 2026 at 0.71% (-17) and 5s of 2028 at 0.99% (-20), noncall.

Wells Fargo Securities priced $109.9 million of limited tax exempt and taxable sales tax revenue refunding bonds for the Contra Costa Transportation Authority (/AA+/AAA/). The $97.3 million of exempts saw 5s of 2030 at 0.87%, 5s of 2031 at 0.92% and 4s of 2034 at 1.12%. The taxables, $12.6 million, priced at par, 2022 at 0.20%, 2026 at 1.05%, 2031 at 2.05% and 2034 at 2.25%.

Secondary trading and scales

Trading increased Wednesday with several high-grade names clearing at lower yields. Montgomery County, Maryland 5s of 2023 at 0.13% versus 0.16% Thursday. California 4s of 2025 at 0.38%.

Forsyth County, NC 4s of 2031 at 1.03%-1.01%. Nassau County NY Interim Finance Authority 5s of 2035 at 1.13%-1.12%. Fairfax County, Virginia 5s of 2035 at 1.16%-1.15%. West Virgiia 5s of 2037 at 1.36%-1.35%. Hawaii 5s of 2039 at 1.39% versus 1.42% original. Washington 5s of 2043 at 1.49%-1.48%.

NYC waters 5s of 2050 at 1.68% versus 1.70% Tuesday. Triborough Bridge and Tunnel 5s of 2054 at 1.80%.

On Refinitiv MMD’s AAA benchmark scale, yields were steady at 0.08% in 2022 and 0.11% in 2023, the 10-year was bumped one basis point to 0.98% and the 30-year also one to 1.51%.

The ICE AAA municipal yield curve showed yields fall one basis point to 0.07% in 2022 and to 0.12% in 2023, the 10-year fell one to 0.98% while the 30 dropped two to 1.53%.

The IHS Markit municipal analytics AAA curve showed yields steady at 0.08% in 2022 and 0.11% in 2023, the 10-year at 0.96% and the 30-year steady at 1.53%.

The Bloomberg BVAL AAA curve showed yields steady at 0.07% in 2022 and 0.09% in 2023, down one basis point to 0.95% in the 10-year and the 30-year fell two to 1.52%.

“We’re getting a continuous bump in the scale[s], and we’re starting to get a calendar, but we’re not seeing the market inflation and spike in interest rates,” a New York underwriting and trading manager said. “Even though we hear ‘inflation, inflation’ we’re not necessarily seeing it.”

“The bond market is saying something completely different,” he added, pointing to Wednesday’s 10-year Treasury benchmark as a sign that investors are signaling they are not as concerned about inflation.

The 10-year Treasury was yielding 1.59% and the 30-year Treasury was yielding 2.28% near the close. Equities were mixed with the Dow gaining 25 points, the S&P 500 rose 0.07% and the Nasdaq lost 0.05% near the close.

Beige book

The U.S. economic recovery accelerated in recent weeks even as a long list of supply chain troubles, hiring difficulties, and rising prices cascaded through the country, Federal Reserve officials said in their latest review of economic conditions Wednesday.

Growth was at a "somewhat faster rate" from early to late May the Fed reported in its Beige Book summary of anecdotal reports about the economy on Wednesday, with officials noting "the positive effects on the economy of increased vaccinationrates and relaxed social distancing measures."

But getting a $20 trillion economy back to speed posed challenges of its own, the Fed reported, noting heavy demand for homebuilders, as delays in manufacturers’ materials also hampered projects, and constraints on hiring new workers compiled the challenges.

Fed officials said it will be months before getting a clearer picture of economic recovery.

The Fed indicated that it could be time to “think about” tapering, but the New York municipal manager said the Fed is being patient and waiting.

“We think if there is inflation, it’s in a transitory phase,” he said.

Instead, he said Friday’s unemployment number will be a key determinant of future economic performance and market activity.

Friday’s May employment is also expected to fall short of the million or more hires Fed policymakers had thought would be created each month by this time.

“Everyone’s looking at non-farm payrolls,” the New York underwriter said.

Issuance and credit trends

Robust issuance to date is likely the result of support from the Rescue Act funds, but could be tempered by the future level of interest rates, Tom Kozlik, head of municipal strategy and credit at HilltopSecurities Inc., wrote in a recent report.

In addition, any healthy issuance this year still might not be enough to satisfy investor demand, Kozlik said.

Through May 2021, the market has seen $169.5 billion of issuance — about $11.5 billion more than the first five months last year and $16.5 billion more than the average dating back to 2012, he noted.

A chief concern or impediment to meeting or beating last year’s record level of issuance would be the level of interest rates, he said. “If concern, or taper talk, or even a taper tantrum like we saw in 2013 develops, then we could be lower in 2021 for the year compared to 2020."

On the credit front, Kozlik said Hilltop recently raised its outlooks on seven of 11 sectors and expects a multiyear, but potentially temporary, upswing of municipal credit.

The sectors include state and local governments, school districts and higher education, airports, housing, and toll facilities.

“We raised credit outlooks mostly as a result of recent meaningful U.S. fiscal policy relief and the path of the U.S. vaccination effort,” he said.

“We are cautioning observers that this upswing could only be temporary for some entities, especially those entities that do not balance revenues and expenditures,” Kozlik continued, adding that it may be necessary to reevaluate the firm’s outlook assignments if a significant fourth wave of new COVID-19 cases, hospitalizations, and deaths develops.

Dallas Fed: Texas service sector stays strong

Service sector activity in Texas “continued to increase in May, though at a slightly reduced pace,” according to a Federal Reserve Bank of Dallas’ survey released Wednesday.

The general business activity index increased to 40.0 in May from 34.9 in April, the Fed said. Economists at IFR Markets had expected the index to rise to 37.0.

"The Dallas Fed general business activity survey confirmed the trend across the other Fed regional surveys: business activity is still strong, pricing pressures are growing, while the labor market recovery is softening," according to Ed Moya, senior market analyst for the Americas at OANDA.

According to business executives responding to the survey, the revenue index slipped to 23.9 in May from 26.1 in April. The index is a key measure of service sector conditions in the state.

“Labor market indicators suggest continued, though somewhat slower, growth in employment and hours worked in May,” the Fed said.

The employment index fell to 13.0 in May from 16.8 in April while the part-time employment index held about steady at 5.9. The hours worked index fell about two points to 11.7.

Price and wage pressures increased as the wages and benefits index rose to an all-time high of 26.9 in May from 21.5 in the prior month. The selling prices index also rose to an all-time high, to 23.5 from 18.6 while the input prices index increased nine points to a 13-year high of 43.8.

"Pricing pressures are not easing up," Moya said. "If price pressures continue this trend throughout the entire summer, the Fed's argument that inflation is transitory might not hold up."

He added that "for now," the Fed regional surveys all show "growth is slowing and pricing pressures are growing."
"But it is still too early for the Fed to shift away from their ultra-accommodative stance."

Looking ahead, survey respondents are becoming more optimistic. The future general business activity index increased to a new record high of 48.2 while the future revenue index held steady at 58.3.

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