THE BOND BUYER

October issuance surges led by both new-money, refundings

By

Jessica Lerner

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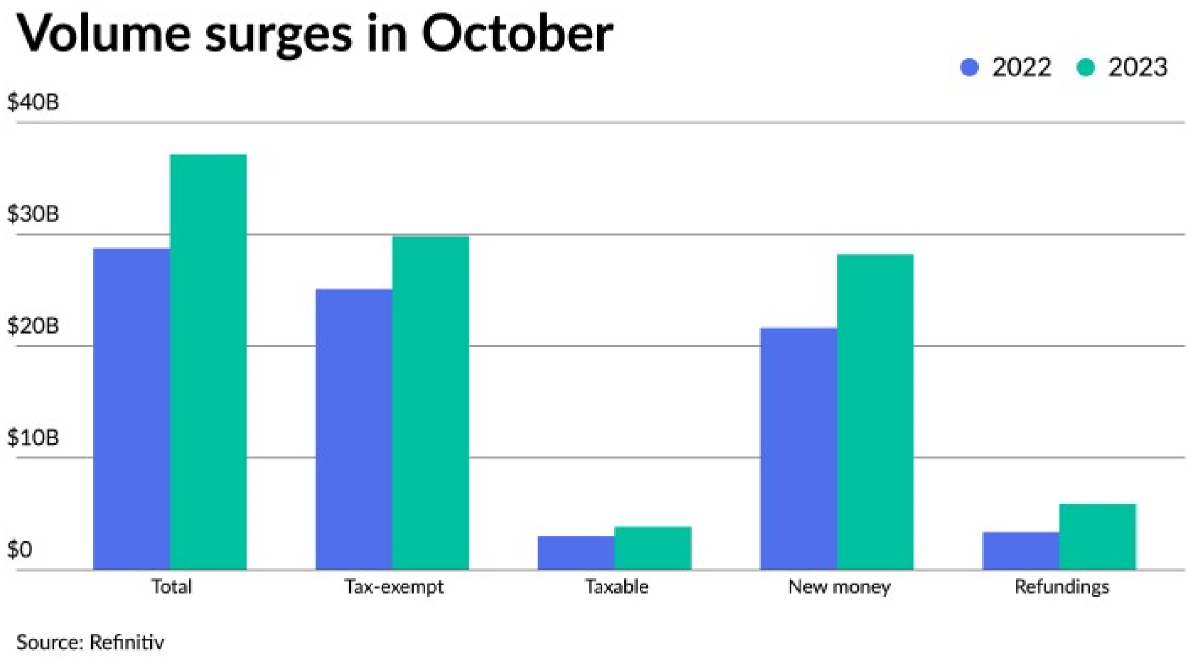
October municipal bond issuance surged year-over-year, as issuers came off the sidelines after realizing that the Fed will keep rates higher for longer and that projects could only be delayed for so long.

Led by tax-exempt, new-money deals, October's total volume rose 29.3% to $37.156 billion in 661 issues from $28.738 billion in 614 issues a year earlier.

New-money issuance rose 30.3% to $28.189 billion from $21.642 billion a year prior. Refunding volume also rose significantly from a year ago to $5.897 billion from $3.371 billion in 2022, marking a 74.9% increase.

However, issuance for the month is lower than the $43.836 billion 10-year average, according to Refinitiv data.

October is the third month to see an increase in supply from 2022 in a year that has seen mostly losses. In June, issuance rose 4.3% to $39.476 billion from $37.775 billion year-over-year, while in September, issuance ticked up 1.2% to $27.585 billion from $27.251 billion a year earlier.



Tax-exempt issuance rose 18.8% to $29.832 billion in 584 issues from $25.113 billion in 566 issues in 2022. Taxable issuance totaled $3.853 billion in 62 issues, up 28% from $3.010 billion in 45 issues a year ago. Alternative-minimum tax issuance rose to $3.471 billion, up 464.4% from $615 million.

Supply in October was helped by several billion-dollar deals coming to market, with one week seeing nearly $12 billion on tap, the highest weekly issuance year-to-date.

Several factors contributed to the surge in supply, market participants said.

For one, issuers had held out on entering the market, waiting for interest rates to fall. Upon realizing the Fed will keep rates higher for longer and rate cuts could be a while off, they opted to bring deals before yearend, said Eve Lando, a portfolio manager and managing director at Thornburg Investment Management.

Issuers opted to enter the market because of funding needs and stopped "playing the game of timing the market," Lando said.

The "tremendous" rate volatility this year also led to hesitancy among issuers, said Vikram Rai, lead strategist at Wells Fargo.

However, he noted issuers can only push projects for so long, and with only a few months left in the year, they are being forced to come to market to finance the projects they have been delaying.

In addition to new money, the growth of refundings was also meaningful. The last time refundings increased year-over-year was in July.

Matt Fabian, a partner at Municipal Market Analytics, said refundings are not always rate-dependent.

There was "some stability in interest rates for a bit that might have … pulled some refundings off the shelf, but with things becoming seemingly less predictable in the last month, it may be more difficult for November and December to replicate October," Fabian said.

"It's not just higher rates, but it's also volatility in rates," Fabian said.

Fabian also pointed out that several market participants earlier in the year had been expecting a potential recession this fall, which also led to expectations of lower interest rates.

Once it became clearer the U.S. was not entering a recession this year, issuers that needed to borrow came out in October, Fabian said.

State and local governments have built up a "huge cash pile" after the pandemic, which reduced the need to tap into the capital market in previous months, Rai noted.

"But even though growth hasn't slowed dramatically, and the employment numbers are still good, the constant chatter about an impending recession is making issuers a little nervous about spending on the cash pile," he said.

This, Rai said, brought governments to market for projects they had in the pipeline rather than spending their rainy day funds.

Rai also noted that elections are scheduled in November, and while it's an off-cycle, there are still some races on the docket. This has led some issuers to come to market ahead of time as elections can introduce create policy disruptions or volatility "and they want to avoid it," Rai said.

Even though issuance is only about $3 billion due to the Federal Open Market Committee meeting this week, market participants said supply for the remainder of the year will be choppy, but elevated.

Lando expects that issuers will still be "playing catch up" for all the supply that hasn't made it to market yet.

Rai expects issuance to be lumpy as holiday-shortened weeks ahead, including Thanksgiving and Christmas, will cram deals into non-holiday weeks, pushing certain weeks higher than average.

Both Rai and Fabian believe issuance for the year will fall at $380 billion, which would be down only 1.1% from 2022 when issuance was $384.086 billion.

Lando said she expects issuance to be higher or lower than 2022 but not "by a very significant amount" in either direction.

Fabian argued that 2023 could see the smallest issuance in the next decade, Fabian said.

"However, the stronger relative performance of new-money and tax-exempt sales (both on track to approximate last year's results — $318 billion and $354 billion, respectively — despite still-elevated yields and, if anything, weaker institutional demand) and a reasonable modest improvement in refunding and taxable issuance economics, 2024 should be able to produce $425 billion to $450 billion of total sales," he said.

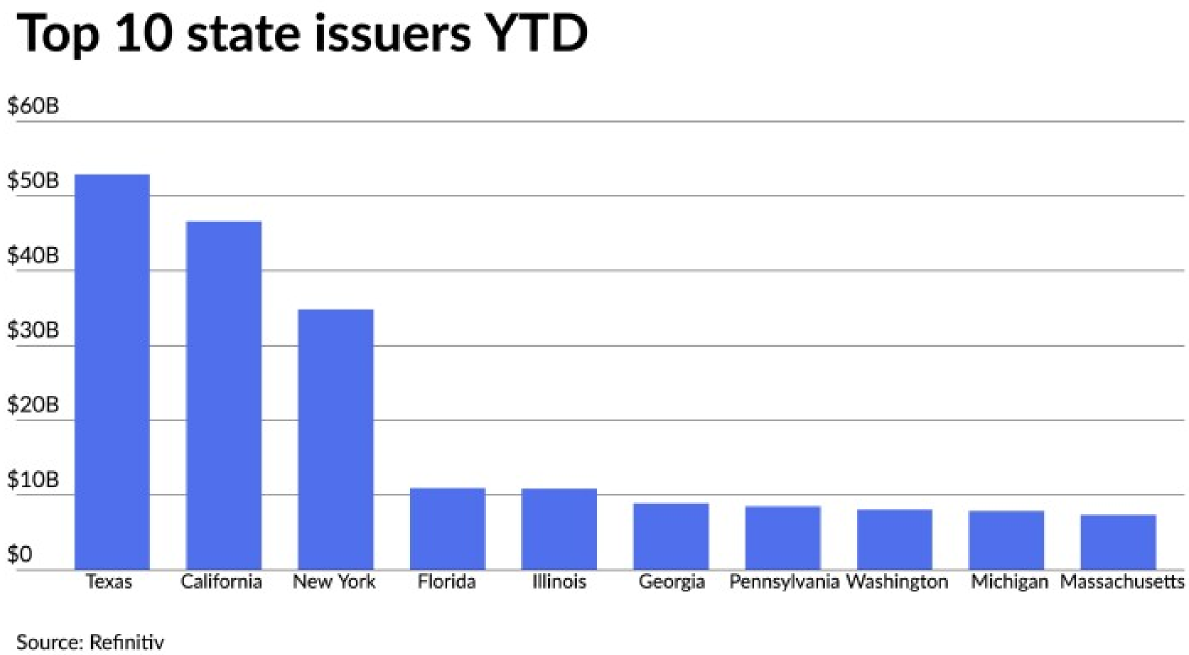
Issuance details

Revenue bond issuance increased 70.7% to $24.222 billion from $14.191 billion in October 2022, and general obligation bond sales fell 11.1% to $12.935 billion from $14.547 billion in 2022.

Negotiated deal volume was up 25.4% to $27.267 billion from $21.740 billion a year prior. Competitive sales increased 65.2% to $9.742 billion from $5.896 billion in 2022.

Deals wrapped by bond insurance saw an 88% increase to $3.851 billion in 146 deals from $2.048 billion in 106 deals in 2022.

Bank-qualified issuance fell 2.5% to $737 million in 172 deals from $755.7 million in 196 deals a year prior.



In the states, Texas claimed the top spot year-to-date.

Issuers in the Lone Star State accounted for $52.890 billion, up 18.9% year-over-year. California was second with $46.609 billion, up 10.6%. New York was third with $34.807 billion, down 22.5%, followed by Florida in fourth with $10.920 billion, down 23.7%, and Illinois in fifth with 10.839 billion, a 2.8% decrease from 2022.

Rounding out the top 10: Georgia with $8.897 billion, up 2%; Pennsylvania with $8.497 billion, down 9.6%; Washington with $8.059 billion, down 1.5%; Michigan at $7.865 billion, down 9.3%; and Massachusetts with $7.366 billion, down 33.6%.