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Bond Market 2024 Forecast

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Bond Market 2024 Forecast

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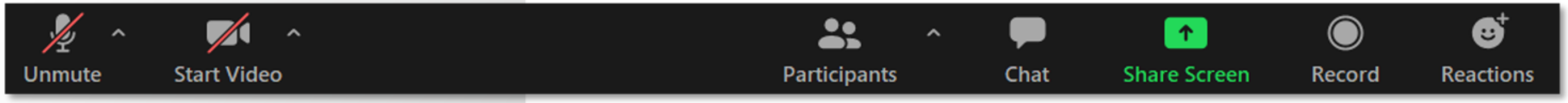

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Bond Market 2024 Forecast

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Bond Market 2024 Forecast Presentation

January 2024

Huntington | CAPITAL MARKETS

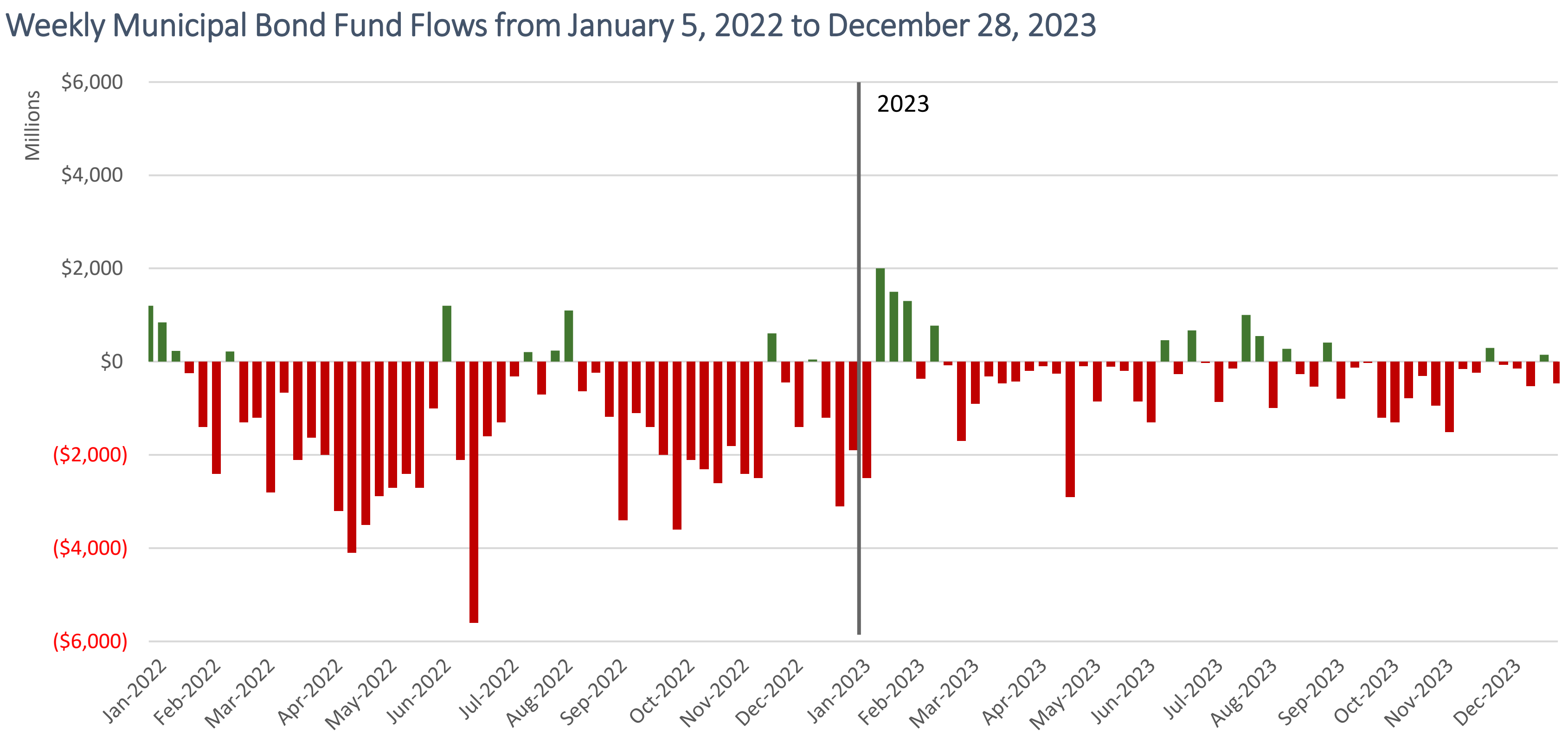
2023 Year in Review

- The U.S. regional banking crisis, Fed policy actions, and the conflict in the Middle East created significant volatility in the debt and equity markets in 2023
- The Federal Reserve raised its benchmark rate four times for a total increase of 100 basis points in 2023, ending the year at a target rate of 5.25% to 5.50%
- Long-term, new municipal issuance totaled $380.0 billion in 2023, a 2.8% decrease in comparison to 2022
- Long-term tax-exempt and taxable interest rates increased with 30-Year U.S. Treasury rates and AAA "GO" MMD rates reaching their highest levels since July 2007 and August 2009, respectively, in late October 2023 before experiencing a year-end rally
- As of December 28, 2023, municipal bond funds in 2023 saw 40 out of 52 weeks of outflows resulting in total net outflows for the year of $15.8 billion
- Tender & Exchange transactions became more common as call dates were reached for tax-exempt bonds that were taxably advance refunded after 2017, allowing those bonds to revert back to being tax-exempt.

Source: TM3, Bloomberg and Board of Governors of the Federal Reserve System, Lipper, A Thomson Reuters Company

Municipal Bond Funds Experienced $15.8 Billion of Outflows in 2023

- Municipal bond fund flows in 2023 continued to experience outflows, albeit to a lesser extent than 2022
- Municipal bond funds posted 40 out of 52 weeks of outflows, resulting in $15.8 billion of total net outflows for the year

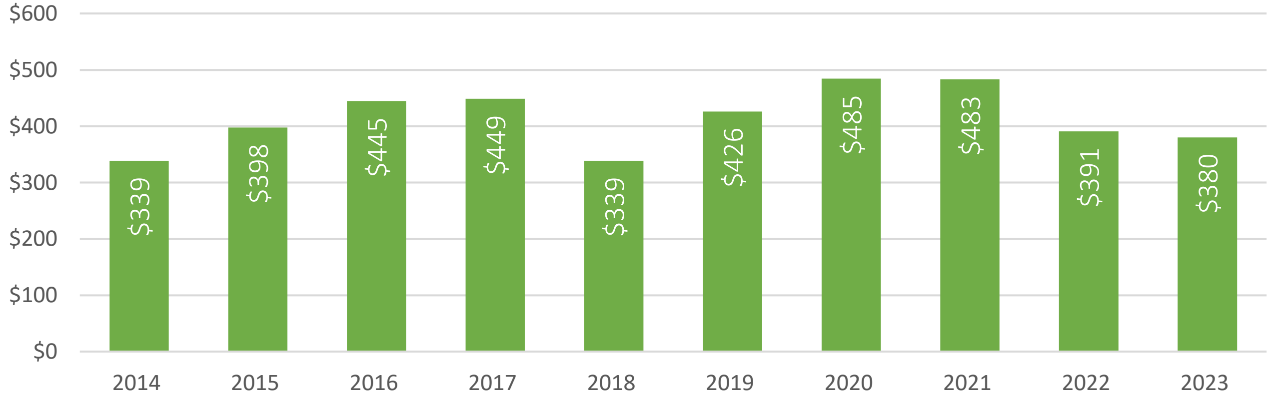


Source Lipper, A Thomson Reuters Company, as of December 29, 2023

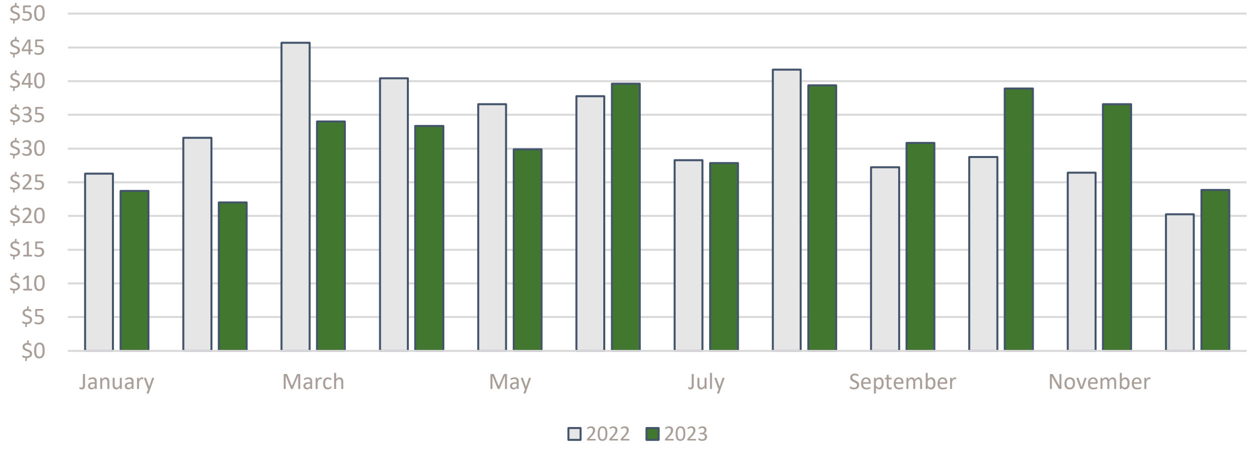
Long-Term New Issue Volume Declined by 2.8% in 2023

- In 2023, long-term, new municipal issuance ended the year at $380 billion. This was a slight 2.8% decrease from $391 billion in 2022
- Robust fourth quarter issuance made up for lower supply during the first half of the year

Historical Long-Term New Issue Volume ($Bn)



Monthly Volume ($Bn)

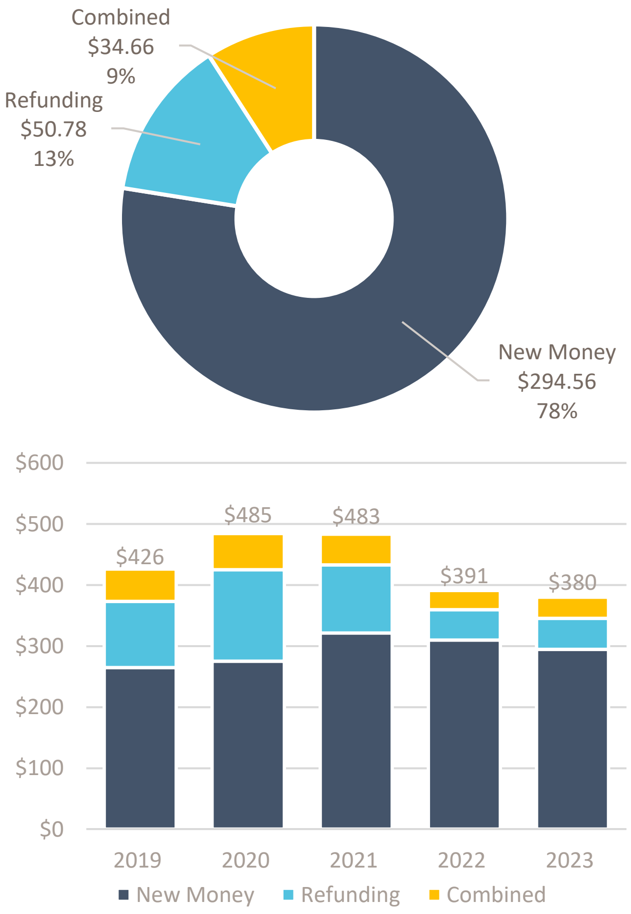


Source: The Bond Buyer

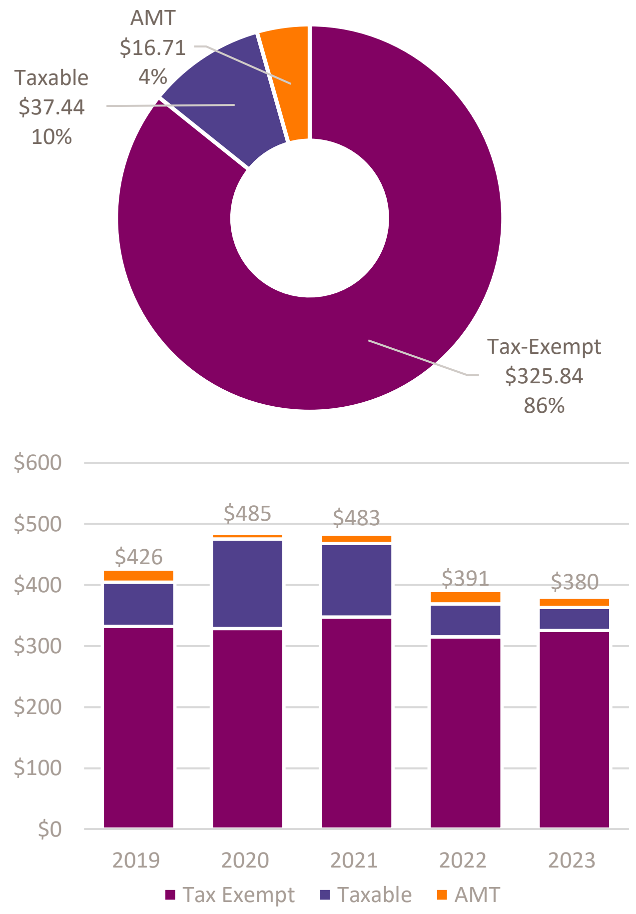
Long-Term New Issue Supply Breakdowns

- Higher interest rates led to another year of low refunding issuance with refunding and combined issuance comprising 22% of issuance in 2023
- Tax-exempt issuance increased by 3.4% while taxable issuance declined by 31% in comparison to 2022

Use of Proceeds ($Bn)



Tax Status ($Bn)

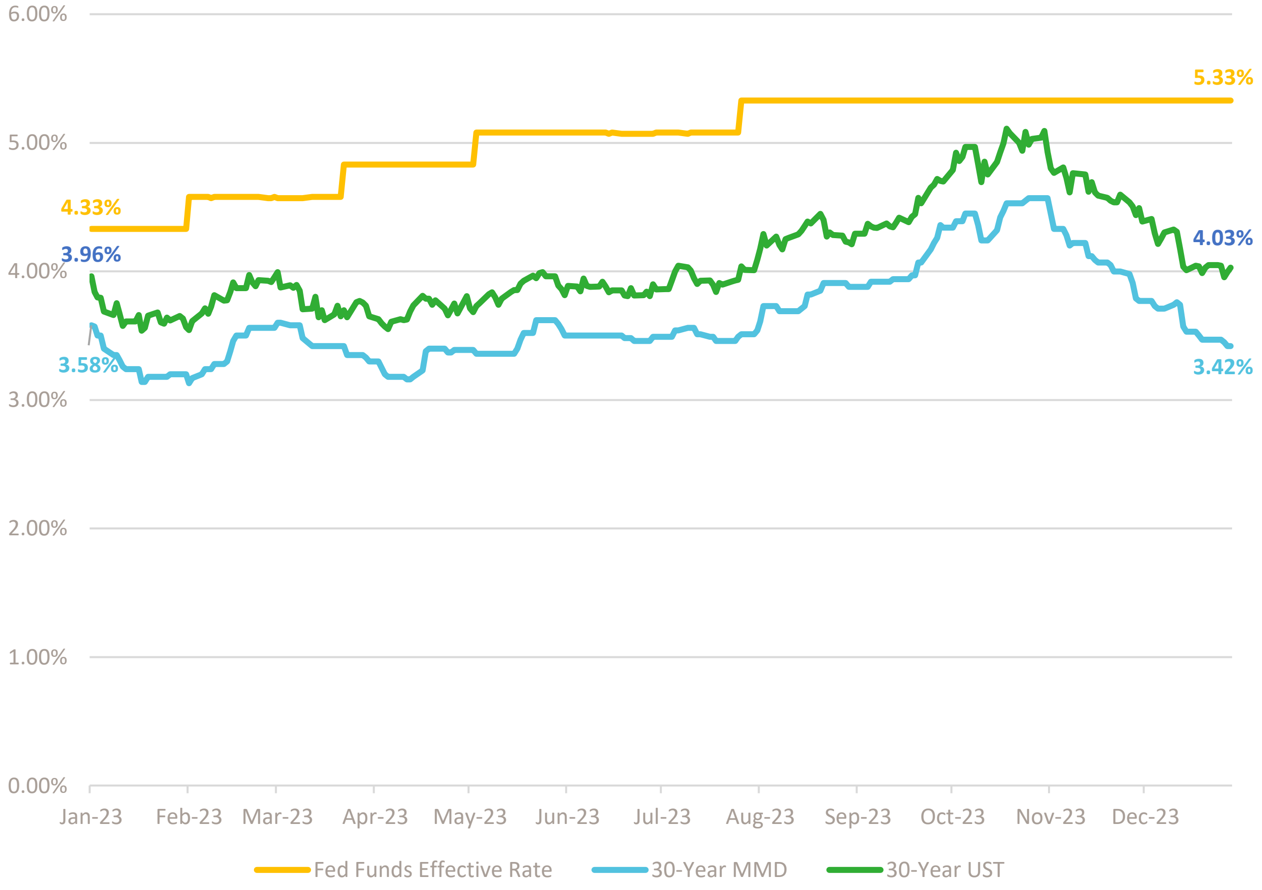


Source: The Bond Buyer

Long-Term Interest Rates in 2023 Rose to Their Highest Levels in over a Decade Before Rallying at the End of the Year

- The Federal Reserve raised its benchmark rate 4 times throughout the course of the year before beginning to pause rate hikes at the September 2023 Fed meeting
- In October 2023, tax-exempt and taxable interest rates rose to their highest levels in over a decade before rallying
  - 30-Year UST hit 5.11% on October 19, 2023, the highest level since July 2007, before ending the year at 4.03%
  - 30-Year MMD hit 4.57% on October 26, 2023, the highest level since August 2009, before ending the year at 3.42%

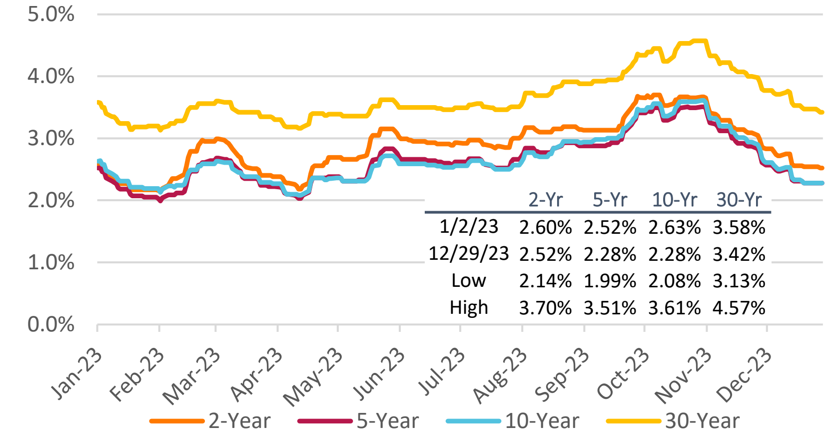
Interest Rate Movement (January 2, 2023 to December 29, 2023)



Source: TM3, Bloomberg and Board of Governors of the Federal Reserve System

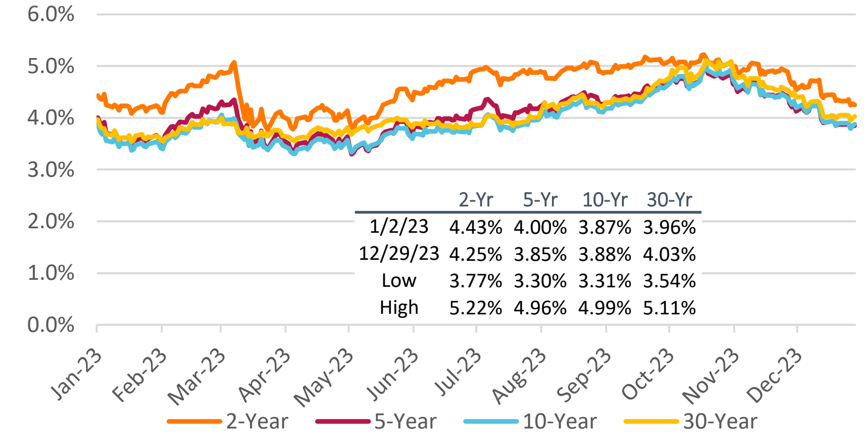
Tax-Exempt and Taxable Interest Rate Movement in 2023

AAA "GO" MMD Rates



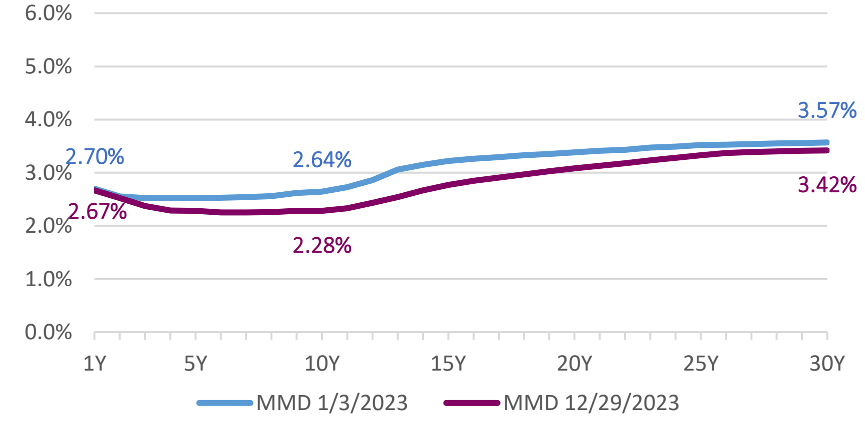
	2-Yr	5-Yr	10-Yr	30-Yr
1/2/23	2.60%	2.52%	2.63%	3.58%
12/29/23	2.52%	2.28%	2.28%	3.42%
Low	2.14%	1.99%	2.08%	3.13%
High	3.70%	3.51%	3.61%	4.57%

US Treasury Rates

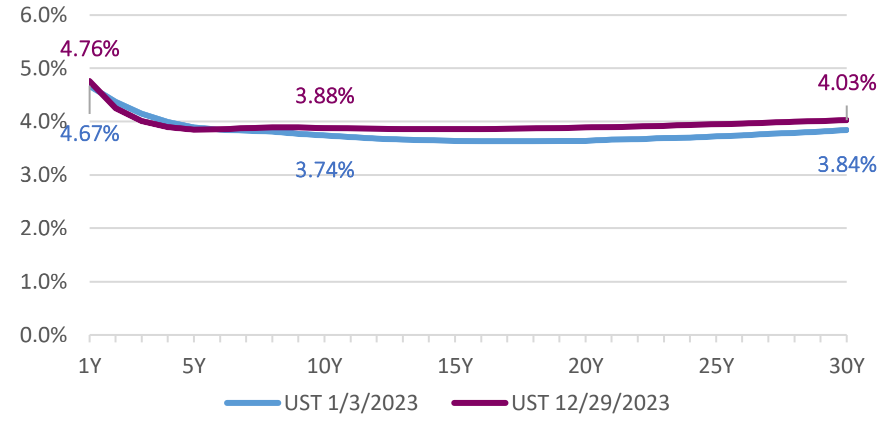


	2-Yr	5-Yr	10-Yr	30-Yr
1/2/23	4.43%	4.00%	3.87%	3.96%
12/29/23	4.25%	3.85%	3.88%	4.03%
Low	3.77%	3.30%	3.31%	3.54%
High	5.22%	4.96%	4.99%	5.11%

AAA “GO” MMD Yield Curves



US Treasury Yield Curves

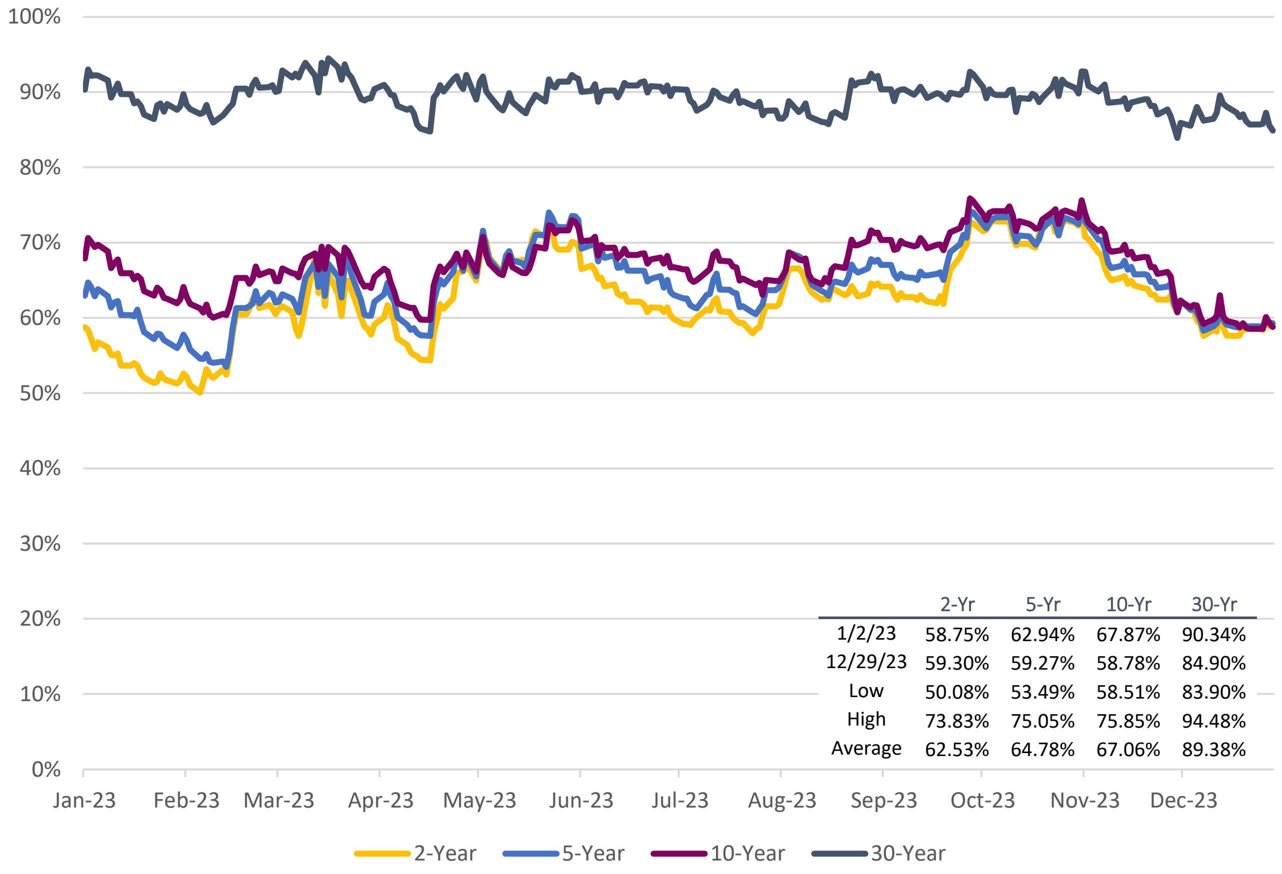


Source: TM3 and Bloomberg

Municipal to US Treasury Ratios in 2023

- Shorter dated municipal to Treasury ratios in 2023 were rich with the 2-year, 5-year, and 10-year ratios averaging in the 60s and ending the year at 59%

Municipal to US Treasury Ratios (January 2, 2023 to December 29, 2023)

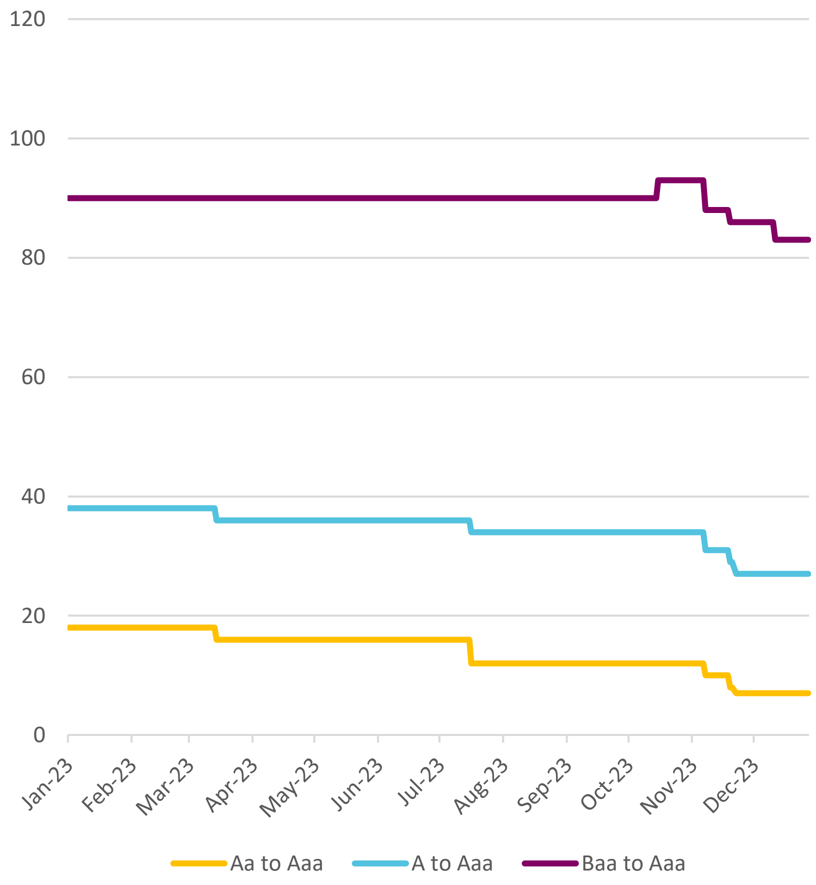


	2-Yr	5-Yr	10-Yr	30-Yr
1/2/23	58.75%	62.94%	67.87%	90.34%
12/29/23	59.30%	59.27%	58.78%	84.90%
Low	50.08%	53.49%	58.51%	83.90%
High	73.83%	75.05%	75.85%	94.48%
Average	62.53%	64.78%	67.06%	89.38%

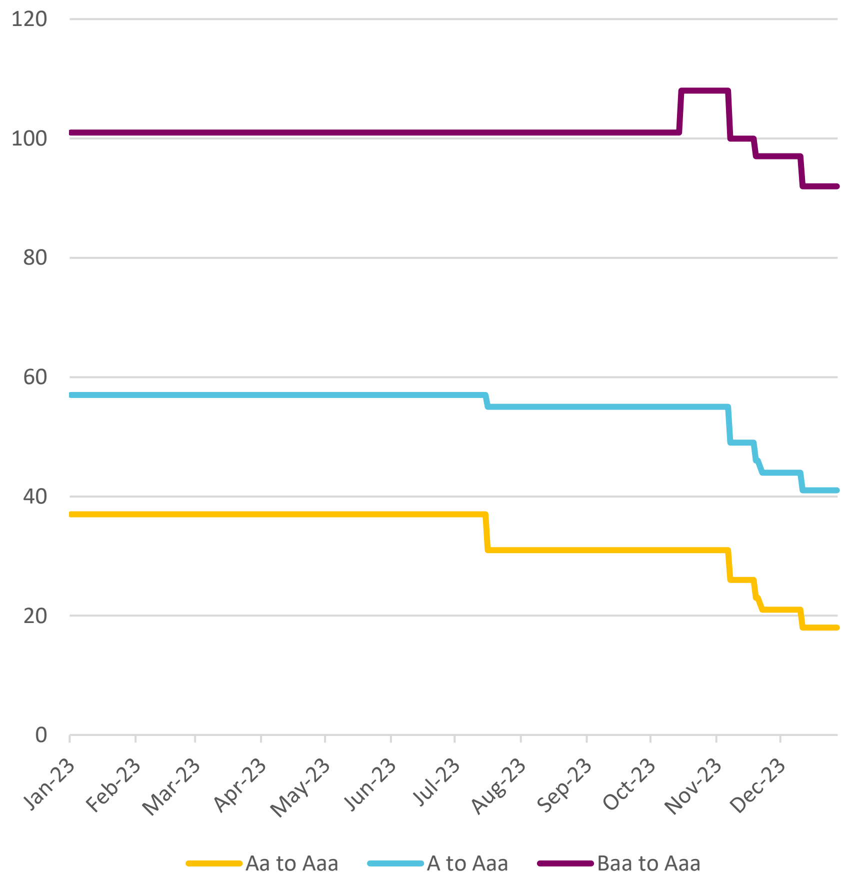
Source: TM3 and Bloomberg

2023 Saw Narrowing Credit Spreads

10-Year AAA "GO" MMD Credit Spreads (bps)



30-Year AAA "GO" MMD Credit Spreads (bps)



Source: TM3

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Bond Market 2024 Forecast

Council of Development Finance Agencies

John Hallacy

President
John Hallacy Consulting LLP

CDFA

Outlook for 2024

John Hallacy

John Hallacy Consulting LLC

January 16, 2024

Outlook 2024

- The Fed and the rate forecast are key to activity this year.
- Inflation continues to come down in halting fashion.
- Chairman Powell’s more dovish commentary stoked the market’s positive reaction. Some easing of rates is expected to take place in the March to June timeframe.
- Quantitative easing is ongoing with the Fed selling Treasury and MBS paper each month. To date, this activity has not unsettled markets.
- Treasury will be selling more paper due to the federal deficit. Last year the deficit was $1.7T. This year’s level is anticipated at $2T.

Outlook 2024

- The federal budget deliberations are entering a more critical phase with the deadlines of January 19 and February 2.
- After saying there would not be one, the Speaker is now calling for a short Continuing Resolution. Now March 1 and March 8.
- The challenge is the 12 appropriation bills are nowhere near completion and approval.
- There is an agreement between the two parties on the amount of the total budget.
- However, the details especially the preferred cuts will take time to put together.
- A government shutdown remains a possibility despite denials.

Outlook 2024

- The yield curve continues to be inverted. However, the short end has been coming down and the inversion is not as great.
- At some point, possibly this year, the curve will become upwardly sloping once again.
- Equity markets are expecting a good year despite volatility throughout the year. Profits are not expected to be as robust.
- Fixed income markets had experienced strong demand on the short end due to the higher rates.
- Strategies for investments will change with the change in the curve.

Outlook 2024

- For the municipal market, volume for the year is estimated at $390 billion + or - $10 billion in either direction.
- Presidential election years are not always as strong due to focus on the political agenda. However, rates are still more important to the outcome.
- Some firms have opted out of the business including UBS and Citi.
- We may expect some more consolidation and the regionals benefitting from these changes.
- So far, it has been reported that liquidity has not suffered due to these departures.

Outlook 2024

- Credit quality has been relatively stable.
- However, some states have announced growing budget gaps including CA and NY.
- State taxes are not anticipated to change very much in an election year.
- Property taxes may experience more marginal increases due to lower turnover in the housing sector and a soft commercial sector.
- Demand for high yield paper has been strong and there have been fewer defaults. These conditions are likely to change if the economy softens.

Outlook 2024

- Development bonds should continue to experience strong demand.
- Growth in the sunbelt is ongoing and will create more supply of development bonds.
- In the present environment, the spread between a non-rated development bond and a rated one is relatively narrow.
- More projects covered by the Infrastructure Law will get a start this year. Companion funding of projects will be necessary and will increase supply.

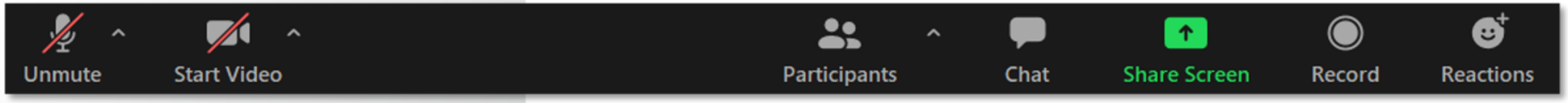
Outlook 2024

- The economy remains relatively strong with low unemployment and job openings remaining relatively high at over 8 million.
- The so called “soft landing” is poised to become a reality.
- Recession is not on the horizon according to most economists.
- Artificial Intelligence will reduce some positions and will probably create others.
- Hiring has accelerated in the public sector due to Boomer retirements.
- Wage growth has moderated but remains positive.

Outlook 2024

- Sales and sales taxes remain strong but there are signs of some softening.
- Interruptions in shipping may be expected to be ongoing.
- There are no signs that the wars are abating.
- Energy markets are stable at lower prices but are subject to shocks.
- EV adoption has slowed recently.
- In summary, the economy continues to perform well but is subject to potential external shocks and industry specific developments.

Audience Questions



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Intro Bond Finance WebCourse
March 4-5 // Daily: 12:00 – 5:00 PM Eastern

Advanced Bond Finance WebCourse
March 6-7 // Daily: 12:00 – 5:00 PM Eastern

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