Municipal Bond Investor Weekly

High Net Worth Wealth Solutions and Market Strategies // Fixed Income Solutions

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THE WEEK AHEAD

1. Muni yields will likely remain elevated as the supply-demand imbalance continues and creates near term opportunities for clients (see commentary below.)
2. Another solid week of new issuance approaching $10 billion --- with a $2+ billion transaction from the State of California (Aa2/AA-) and multiple housing new issues (opportunities discussed in commentary).
3. All eyes will be on the March payroll report due out on Friday --- will we be above or below the 135,000 consensus estimate? (Feb was 151,000)

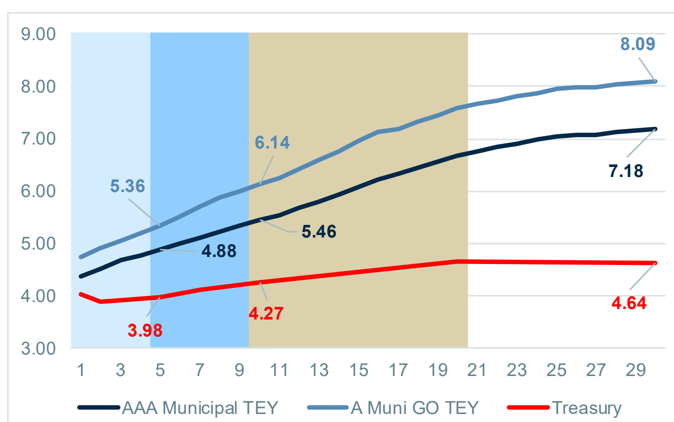
MONDAY'S COMMENTARY

THE NUMBERS THIS WEEK

Treasury yields were mixed last week as shorter yields fell by 2 to 5 basis points while longer maturity yields rose by the same margins. Municipal bonds sold off, taking yields higher across the curve. On the AAA municipal curve, yields from 5 to 30 years rose by 13 to 17 basis points from 5 to 30 years. Muni-Treasury ratios are currently at ~76% at 10-year and ~92% at 30-years.

Year		Treasury	Municipal (AAA)	Municipal (A)	Municipal TEY* (AAA)	Municipal TEY* (A)	Muni (AAA)/Tsy Ratio	Muni TEY* (AAA)/Tsy Ratio
1	2026	4.04	2.58	2.81	4.36	4.75	64%	108%
2	2027	3.89	2.68	2.91	4.53	4.91	69%	116%
5	2030	3.98	2.89	3.17	4.88	5.36	73%	123%
10	2035	4.27	3.23	3.64	5.46	6.14	76%	128%
20	2045	4.65	3.96	4.49	6.69	7.58	85%	144%
30	2055	4.64	4.25	4.79	7.18	8.09	92%	155%

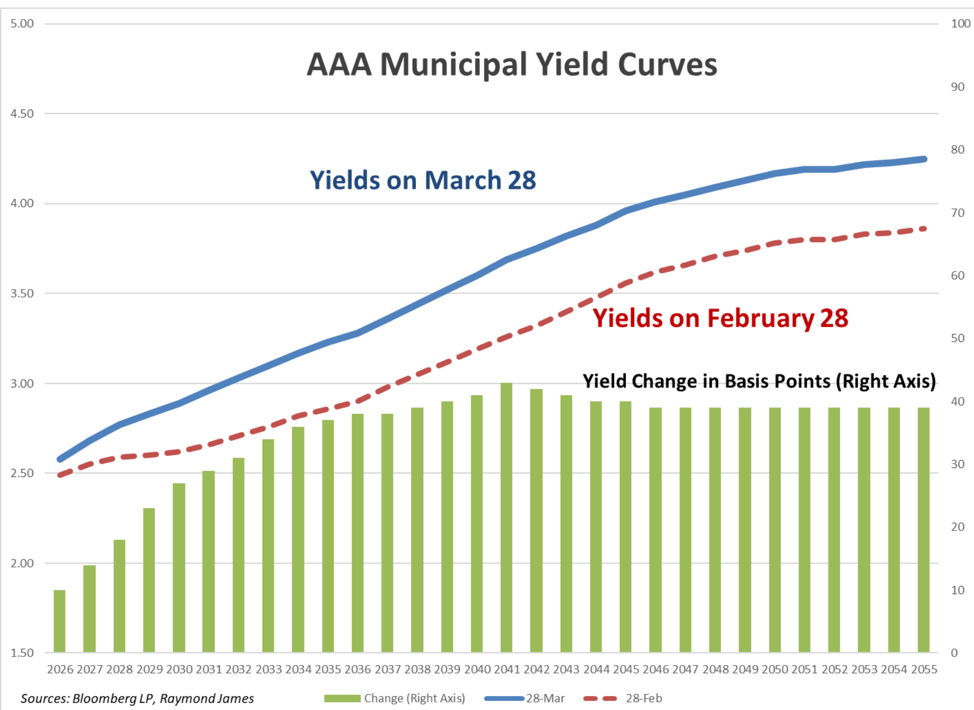
**Taxable equivalent yield @ 40.8% tax rate*



SEEING RED?

In my commentary on March 3, I briefly highlighted our concern about the developing supply – demand imbalance in the muni market for March and April. The first two months of 2025 saw a strong, but roughly "balanced" market --- balanced in the sense that there was ~$70 billion in new issuance, while just under $60 billion of principal was being returned to muni investors from bonds maturing and called in January and February. But that was about to change in March and April. We knew money being returned to investors in the form of principal repayments over the ensuing two months was estimated to be slightly more than 50% of the principal returned during the previous two months --- and the forecast for new issue volume was expected to continue --- setting up a significant supply / demand imbalance. April has always been a "challenging" month for munis as investors are more likely to sell bonds to meet April 15 tax liabilities.

All of this has muni investors seeing red --- or they soon will be when they receive their March statements. With the supply / demand imbalance, muni yields have moved higher in March across the entire yield curve --- up ~ 10 basis points on the short end of the curve, but up ~40 basis points from 10-years on out. (See chart below.) Recall the fundamental relationship of bond yields and prices: Yields up, prices down (and vice-versa.) And when yields move up 40 basis points in just one month, the price action can be a bit unsettling --- 3 to 5 points lower (and possibly more) depending on a bond's unique characteristics. A 10-year maturity, 5% coupon bond that was priced at ~115 at the beginning of March, is today priced at ~ $110. For holders of 4% coupon bonds, the moves can be even greater. It's just fixed income math, no other change in the bond's characteristics. Consider this a buying opportunity. The only time lower prices aren't a good thing is when you are selling --- and for buy-monitor-hold investors, that's not what they do! And when rates eventually move lower --- as we expect they will over time --- prices will move higher. No more "statement red."



There's even more good news in here: recall that price / yield movements do not affect the coupon cash flow on your bonds. If you own a 5% coupon bond, you will continue to receive the 5% coupon payment whether yields (interest rates) continue to rise or reverse direction and fall. That's the beauty, and reliability of fixed income securities. **When you know what you own, you know what you are going to get paid and when.**

Just to put a **finer point on the opportunity** in today's market, we can buy long 4% coupon bonds with tax-exempt yields in the 4.25 – 4.50% range depending on the bond's characteristic. For an investor in the top Federal tax bracket and also subject to the Net Investment Income Tax, that **4.50% tax-exempt yield is a taxable equivalent yield of 7.60%**. If you live in a state with a higher income tax, where the top state tax bracket exceeds 9%, the combined federal and state tax liability creates a **"2:1 effect:"** that 4.50% becomes greater than 9.00%. We've recently been taking advantage of **new issue housing bonds**, with longer maturities, priced at par. Here's just one example: we bought a long, 4.75% coupon --- for a Massachusetts client, in the top brackets, and the taxable equivalent yield was 9.46%. Similar opportunities for investors in NY City and CA can take taxable equivalent yields well over 10% --- for AA and higher quality credits in the housing sector. (*Ask you* *financial advisor if housing bonds, with their unique features are right for your portfolio.*) Comparable long Treasury bonds yield just ~4.60%. Something to consider, not just at tax time, but anytime.

We don't expect municipal market conditions to change significantly for the next several weeks. The supply demand imbalance will likely continue, possibly abated slightly during the first week of April as principal is re-paid on bonds coming due or called. Some relief could come in May, but there is still an imbalance that's not likely resolved until June. For our regular readers, this is the **marketplace noise** that long-term investors must endure in the short term while focusing on longer term strategies to lock in the higher yields --- at very attractive taxable equivalent yields --- in our current environment. With the tax deadline approaching, there's no better time to have a conversation with your financial advisor to identify tax-efficient strategies that allow you to keep more of your hard-earned money.

ILLUSTRATIVE PORTFOLIOS

Our illustrative proposals reflect three opportunities along the yield curve with bonds maturing from 1 to 30 years. Last week municipal bond yields were higher by 5 to 17 basis points across the curve. Strategically, our 10–20-year maturity illustration continues to offer an excellent tax efficient solution. **Looking to maximize yield?** The 20 – 30-year range offers an additional ~60 basis points (over 10 – 20 years) and may be appropriate for some investors. For a portfolio rated A or better, the tax-free yield to worst is ~4.45%, which equates to a **taxable equivalent yield to worst of ~7.45%** for an investor in the top federal tax bracket and subject to the net investment income tax. If the callable bonds are not called, the yield to maturity increases to ~4.59%, which equates to a **taxable equivalent yield to maturity of ~7.69%**. This option has an average coupon ~4.31% and a market price of ~$96.02. The **current yield is ~4.49%**. An investment with $1 million par value (~$968,030 market value with accrued interest) will generate a federally tax-exempt annual coupon cash flow of $43,125.

National Municipal Bond Illustrative Portfolios

Week of March 31, 2025

1 – 10 Years

Totals & Averages @ Market	
Summary Totals	
Original Face	$1,000,000
Current Face (Par)	$1,000,000
Market Principal	$1,039,287
Accrued Interest	$8,867
Cash & Cash Alternatives	$0
-	-
-	-
Total Portfolio Value	$1,048,154
Next 12mo Cpn Cash Flow	$37,750
Generic Annual Cpn Cash Flow	$43,000
Weighted Averages	
Coupon*	4.300%
Maturity**	4.79 yrs
Duration	3.16
Yield to Worst	3.115%
Yield to Maturity	3.331%
Market Price*	103.929
Tax Lots Holdings Included	20 of 20

10 – 20 Years

Totals & Averages @ Market	
Summary Totals	
Original Face	$1,000,000
Current Face (Par)	$1,000,000
Market Principal	$1,032,402
Accrued Interest	$9,519
Cash & Cash Alternatives	$0
-	-
-	-
Total Portfolio Value	$1,041,921
Next 12mo Cpn Cash Flow	$40,250
Generic Annual Cpn Cash Flow	$45,000
Weighted Averages	
Coupon*	4.500%
Maturity**	13.67 yrs
Duration	6.83
Yield to Worst	3.838%
Yield to Maturity	4.124%
Market Price*	103.240
Tax Lots Holdings Included	20 of 20

20 – 30 Years

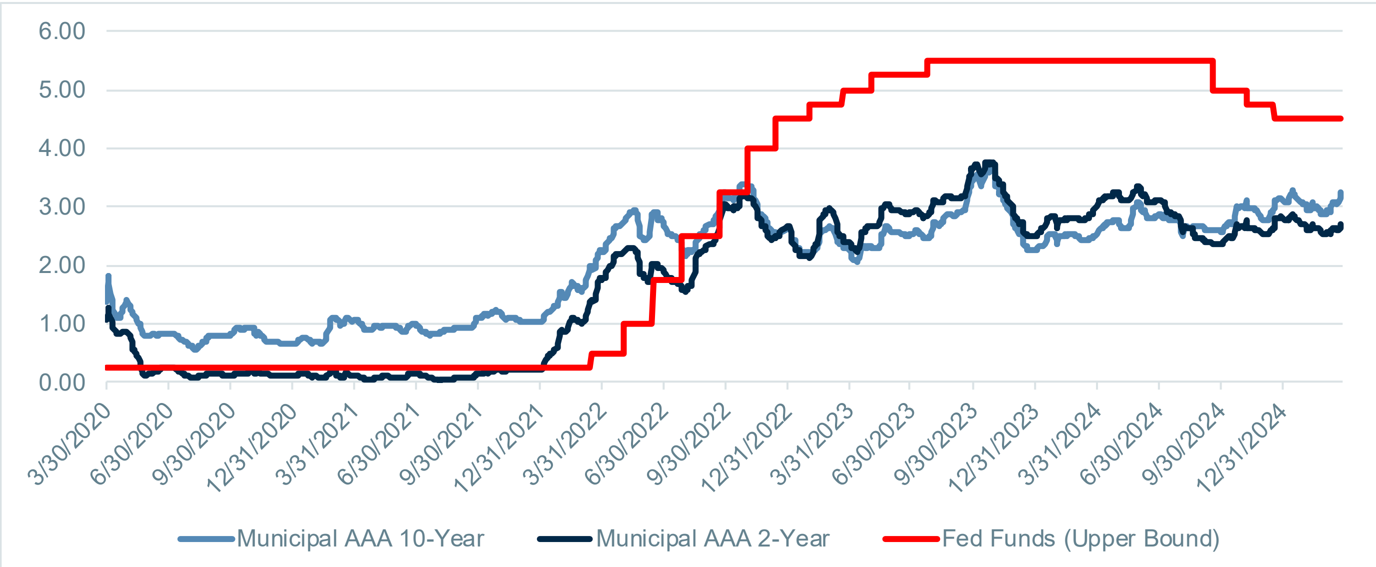
Totals & Averages @ Market	
Summary Totals	
Original Face	$1,000,000
Current Face (Par)	$1,000,000
Market Principal	$960,207
Accrued Interest	$7,823
Cash & Cash Alternatives	$0
-	-
-	-
Total Portfolio Value	$968,030
Next 12mo Cpn Cash Flow	$37,875
Generic Annual Cpn Cash Flow	$43,125
Weighted Averages	
Coupon*	4.313%
Maturity**	23.78 yrs
Duration	11.18
Yield to Worst	4.455%
Yield to Maturity	4.593%
Market Price*	96.021
Tax Lots Holdings Included	20 of 20

NAVIGATING TODAY'S MARKET

According to The Bond Buyer, just under $10 billion in new issuance is expected this week. Some of the larger deals include: California (Aa2/AA-/AA) is selling $2.6 billion of general obligation bonds, with $1.2 being new issuance and $1.4 billion of refunding bonds; the Illinois Finance Authority (-/AAA/AAA) is bringing an $852 million green Clean Water Initiative Revolving Fund revenue bond deal to market; the California Educational Facilities

Commission (-/AA) is bringing a $600 million revenue bond deal for the University of Southern California; the San Francisco Public Utilities Commission (Aa2/AA-) is issuing $465 million of San Francisco water revenue refunding bonds; and the Michigan State Housing Development Authority (Aa2/AA+) is bringing a $337 million social single-family mortgage revenue deal to market. See table below for additional new issuance.

HISTORICAL YIELDS



Date	Amount	Issuer	ST	Description	Moody's/S&P/Fitch	Maturity
03/31	$22MM	Maryland CDA	MD	COMMUNITY DEVELOPMENT	Aa2/--/AA+	2027 - 2067
04/01	$10MM	Catasauqua Area SD	PA	Catasauqua Area School District	Aa3/AA/--	2026 - 2045
04/01	$53MM	Michigan State Housing	MI	2025 SERIES B (FEDERALLY TAXABLE)	Aa2/AA+/--	2026 - 2043
04/01	$15MM	Somerset Area SD	PA	Somerset Area School District	NR/AA/--	2027 - 2039
04/01	$337MM	Michigan State Housing	MI	2025 SERIES A (NON-AMT)	Aa2/AA+/--	2026 - 2055
04/02	$4MM	Ambridge Borough	PA	Borough of Ambridge	NR/AA/--	2025 - 2055
04/02	$8MM	Strongsville	OH	Strongsville City (Cuyahoga County) Ohio	NR/NR/NR	2025 - 2025
04/02	$6MM	Community Unit School District	IL	General Obligation School Bonds, Series	Aa3/--/--	2029 - 2032
04/02	$126MM	Cleveland	OH	CITY OF CLEVELAND, OHIO	A2/A/A-	2026 - 2033
04/02	$1440MM	California	CA	VARIOUS PURPOSE	Aa2/AA-/AA	2026 - 2045
04/02	$1216MM	California	CA	VARIOUS PURPOSE	Aa2/AA-/AA	2028 - 2055
04/02	$32MM	Volusia Co Educ Facs	FL	Volusia County Educational Facilities	Baa1/BBB+/--	2026 - 2036
04/03	$5MM	Kirtland	OH	Kirtland City (Lake County) Ohio	--	2026 - 2026
04/03	$96MM	Illinois Hsg Dev Aut	IL	Illinois Housing Development Authority	Aaa/NR/NR	2045 - 2055
04/03	$29MM	Morongo Unified School District	CA	Morongo Unified School District	Aa3/--/--	2026 - 2054

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Sourced from Bloomberg: Treasuries: US Fed H15 CMT Curve - The H15 curve is comprised of the constant maturity treasury rates as published daily by the Federal Reserve in the H15 report. Municipal (AAA): BVAL Municipal AAA Yield Curve (Callable) - The curve is populated with high quality US municipal bonds with an average rating of AAA from Moody's and S&P. The yield curve is built using non-parametric fit of market data obtained from the Municipal Securities Rulemaking Board, new issues, and other proprietary contributed prices. The curve represents 5% couponing. The 3 month to 10 year points are bullet yields, and the 11 year to 30 year points are yields to worst for a 10-year call. Municipal (AA): US General Obligation AA Muni BVAL Yield Curve - The BVAL curve is populated with pricing from uninsured AA General Obligation bonds. Municipal (A): US General Obligation A+ A A- Muni BVAL Yield Curve - The BVAL curve is populated with pricing from uninsured A+, A, and A-rated General Obligation bonds. Fed Funds (Upper Bound): The federal funds rate is the short-term interest rate targeted by the Federal Reserve's Federal Open Market Committee as part of its monetary policy. US Treasury securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance.

The illustrative portfolios are intended as a starting point for a conversation on individual bonds. They are not intended as specific recommendations and bonds are shown for illustration purposes only. The bonds listed in the illustrative portfolios are rated A or better, with average ratings from Moody’s and Standard and Poor’s of Aa2 / AA. The yields shown in the proposals are based on pricing models, not current market offers. Yields shown are indicative of general market levels but are not a guaranteed result. Prices and yields are not inclusive of any fees or commissions.

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