



The Municipal Bond Market

The Association of Hispanic Municipal Officials

March 24, 2023

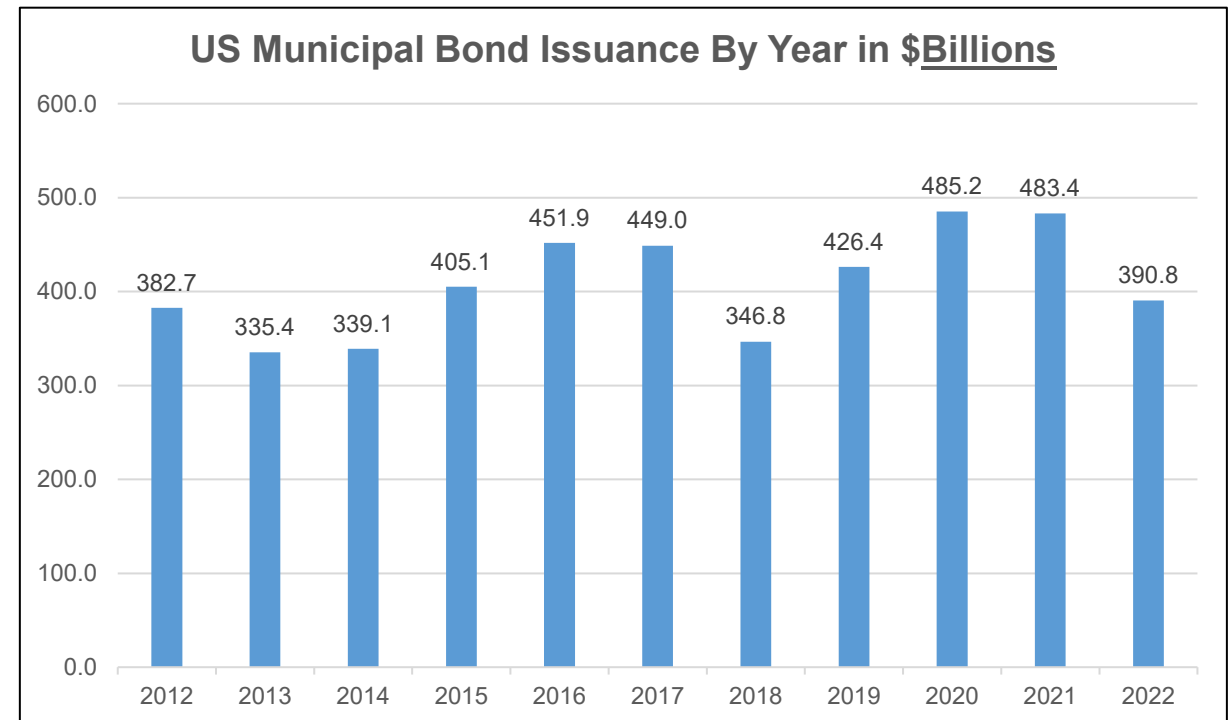
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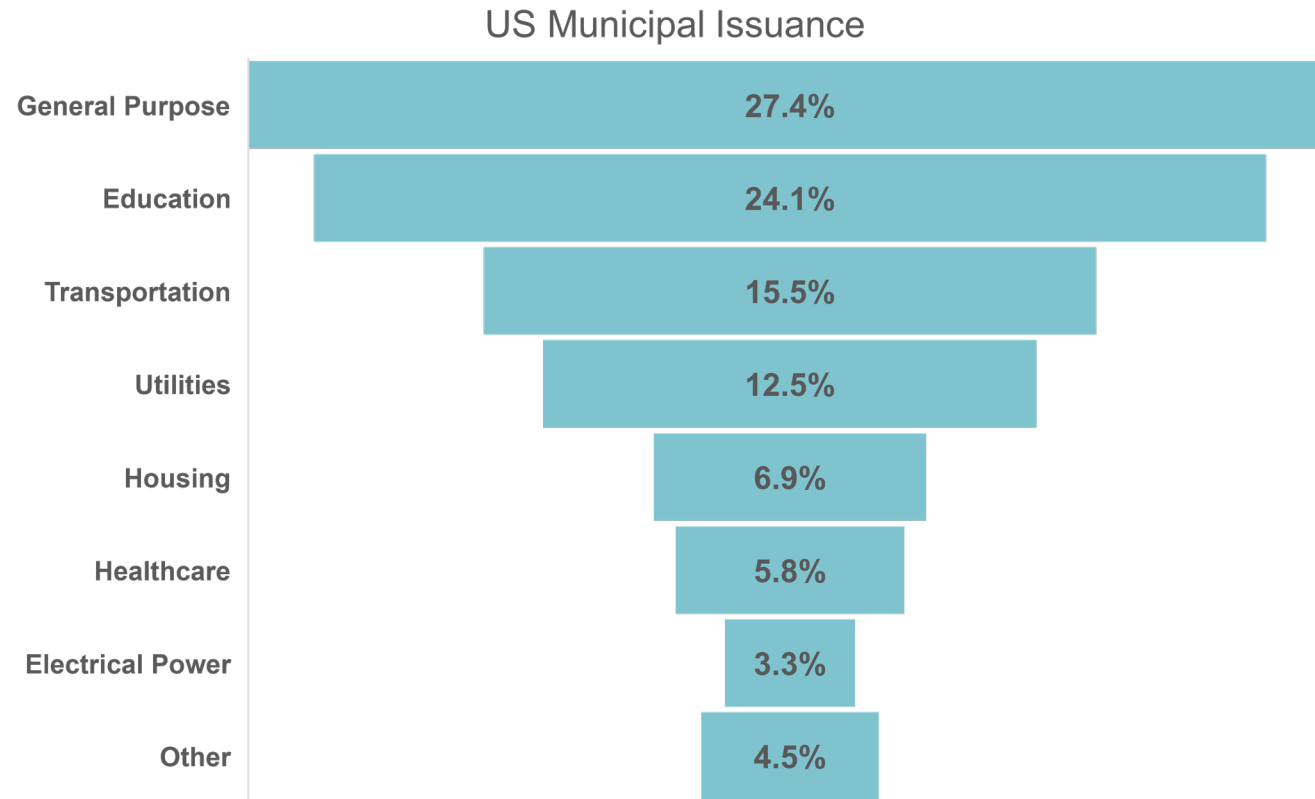


The Basics of Municipal Bonds

- The Municipal bond market is crucial in state and local government financing.
- Funds infrastructure, building and maintenance, day-to-day governmental operation.
- Municipal bonds may be classified according to their tax status and source of repayment.
- Tax-Exempt Bond Interest Payment is not subject to taxes
- Municipal Bonds provide a low interest way to fund projects.
- Taxable Bonds interest payments are subject to all federal taxes.
- General Obligation Bonds are backed by full faith and credit of municipality.
- Revenue Bonds are secured by revenues of an enterprise or facility, such as Water and Sewer Systems, Tolls, Airport and Hospitals.



Bond Issuance – Purpose For Capital



Municipal Bonds – Who Sells Them and Why?

- The U.S. Municipal Market is a \$4 trillion dollar market as of the end of 2022.
- Bond Issuers: States, Cities, Counties, School Districts, other governmental entities.
- The U.S. municipal market is a substantial and reliable source of funding for a broad array of purposes and provides funding for capital projects, etc.



**Public (Issuer)
Entity has need for
Capital**

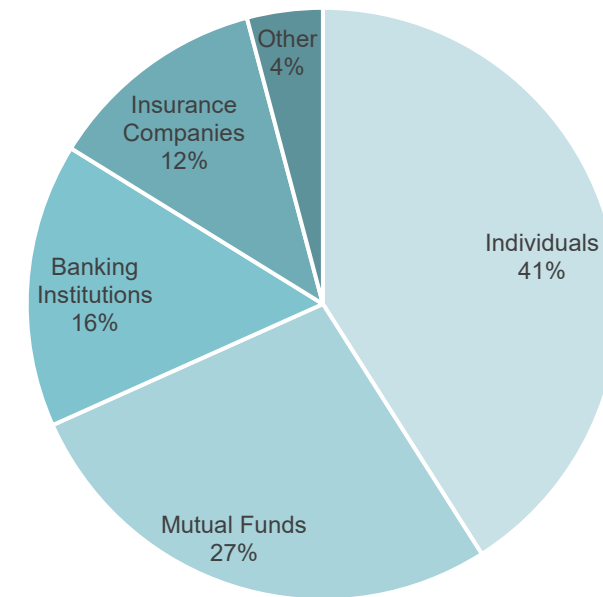
Municipal Bonds – Who Buys Them and Why?

- Who are the buyers of the municipal bonds?
 - Individual investors
 - Mutual funds (Money market funds, closed end funds, and ETFs)
 - Insurance Companies
 - Banking Institutions

- Credit Quality: U.S. municipalities have had dramatically lower default rates than their corporate peers.

- Tax-Exempt status: municipal bonds shelter from interest income taxes.

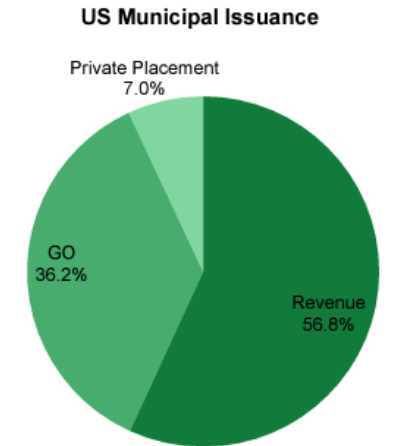
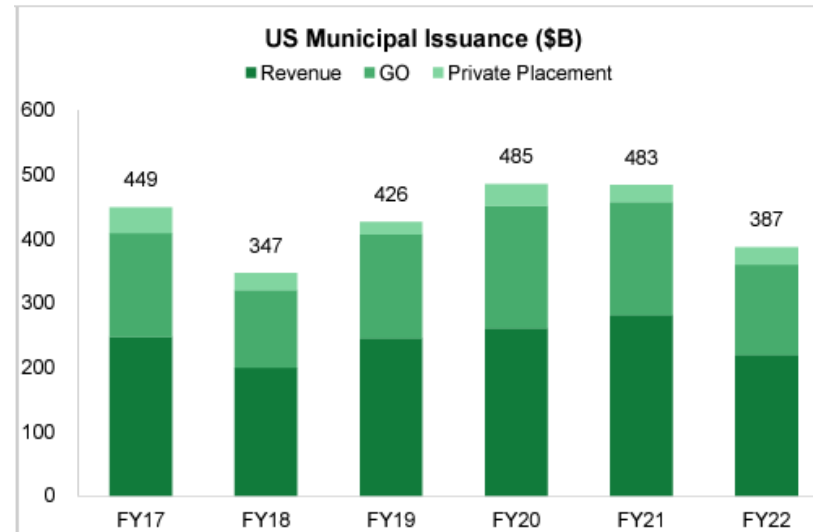
Municipal Bond Holdings as of 4Q 2022



■ Individuals ■ Mutual Funds ■ Banking Institutions ■ Insurance Companies ■ Other

Source of Repayment

- **Tax-Backed Bonds**
 - General Obligation Bonds
 - Annual Appropriation Bonds, Lease Revenue Bonds and Certificates of Participation
- **Revenue Backed Bonds**
 - Essential Service Revenue Bonds
 - Other Revenue Bonds
 - Non-Government Borrowers



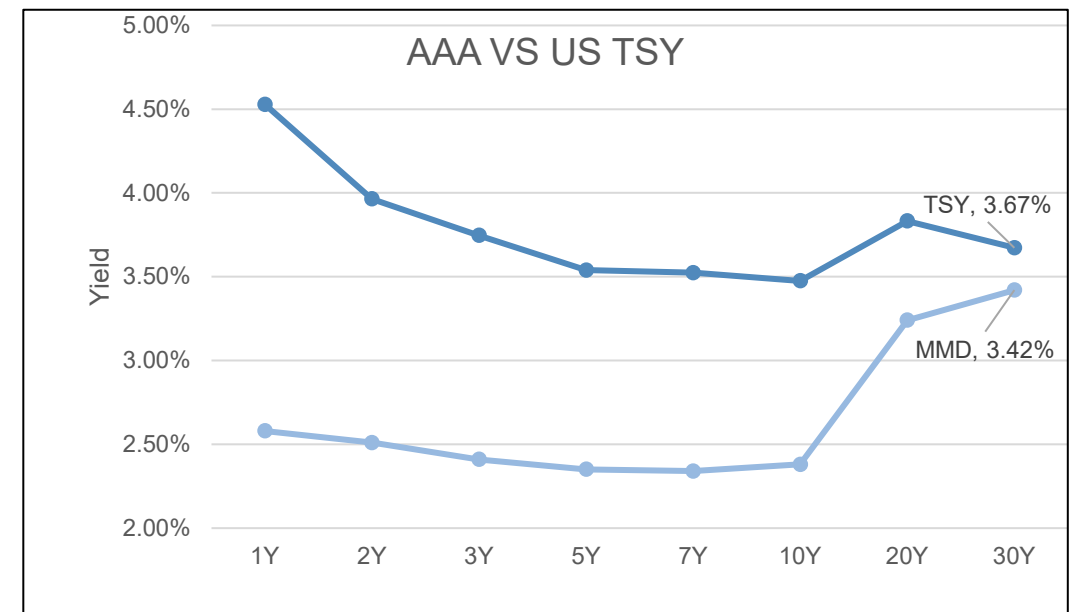
US Treasury Bond *Yield* Forecast – Market Consensus

Rate	Market Yields Q1 23	Q2 23	Q3 23	Q4 23	Q1 24	Q2 24	Q3 24	Q4 24	Q1 25	Q2 25	
United States											
US 30-Year	3.67	3.79	3.82	3.78	3.69	3.61	3.54	3.51	3.49	3.54	3.49
US 10-Year	3.48	3.68	3.66	3.60	3.48	3.38	3.30	3.22	3.16	3.25	3.22
US 5-Year	3.54	3.89	3.85	3.73	3.56	3.42	3.30	3.18	3.11	3.19	3.17
US 2-Year	3.98	4.45	4.37	4.16	3.88	3.63	3.39	3.16	2.99	3.03	3.01
US 3-Month Term SOFR	4.88	4.90	5.11	5.04	4.85	4.48	4.01	3.63	3.31	3.10	3.02
Fed Funds Rate - Upper Bound	5.00	4.95	5.35	5.40	5.25	4.90	4.50	4.20	3.85	3.65	3.45
Fed Funds Rate - Lower Bound	4.75	4.72	5.10	5.13	5.01	4.67	4.27	3.93	3.62	3.42	3.22
2 Year - 10 Year Spread	-0.50	-0.77	-0.71	-0.56	-0.40	-0.25	-0.09	0.06	0.17	0.22	0.21

- The FOMC meets eight times each year to make monetary policy decisions. Policy changes can have significant effects on financial markets and on the economy.
- Market moves can be swift, while economic shifts tend to have "long and variable lags".

Municipal Bond Tax-Exempt & US Treasury Summary

AAA Tax-Exempt			US TSY			
Year	Yield	YTD Change	Yield	YTD Change	Ratio	Spread
1Y	2.58%	-4%	4.53%	-4%	57%	1.95%
2Y	2.51%	-2%	3.96%	-9%	63%	1.45%
3Y	2.41%	-4%	3.75%	-10%	64%	1.34%
5Y	2.35%	-7%	3.54%	-9%	66%	1.19%
7Y	2.34%	-8%	3.52%	-8%	66%	1.18%
10Y	2.38%	-10%	3.48%	-7%	68%	1.10%
20Y	3.24%	-4%	3.83%	-5%	85%	0.59%
30Y	3.42%	-4%	3.67%	-4%	93%	0.25%



- Historical Averages: 10yr 85%, 30yr 95%

Municipal Bond Market – 2023 YTD Issuance

Description	Current	Prior Year	% Change
Issuance by Type	66,813	82,229	-18.7
Taxable	9,055	13,733	-34.1
Short-Term Notes	3,497	3,431	1.9
Total Competitive	11,568	16,731	-30.9
Total Negotiated	55,245	65,498	-15.7
Bank Qualified Total	1,368	2,691	-49.1
Issuance by State			
New York	7,850	9,844	-20.3
New Jersey	510	1,419	-64.1
Texas	13,282	9,390	41.5
California	9,360	10,801	-13.3
Illinois	2,278	2,369	-3.8
Indiana	691	1,236	-44.1
Iowa	226	600	-62.3
Wisconsin	2,756	1,557	77
Michigan	1,454	3,906	-62.8

- Muni primary sales are lower by about 18% vs. last year due to rising rates
- Texas Issuance Leads the overall market Issuance \$13.2 Billion
- One notable deal of \$3.52 billion Texas securitization for natural gas providers (Texas Natural Gas Securitization Finance Corp.)

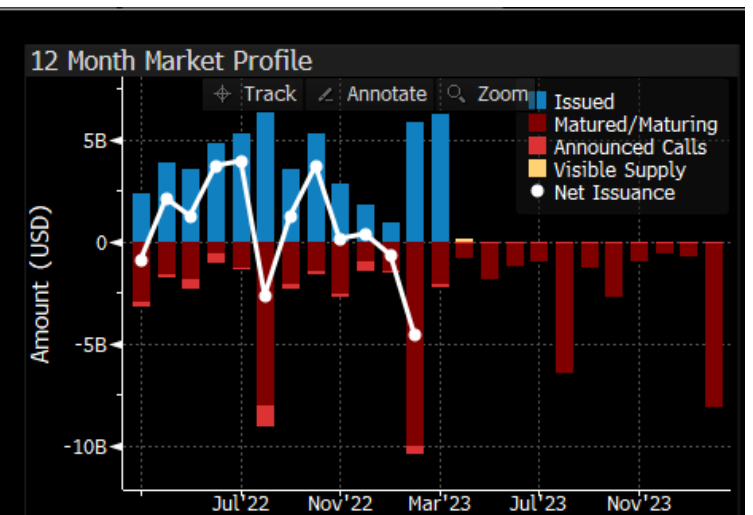
Municipal Bond Market - Supply Indicators

- Timing of the Bond Sale - When Is Investor Cash Available?
 - Investors Maturities Expire Principal & Interest Due
 - Supply Factor
 - Demand Historically Higher in High Deficit Months
- At the end of last week, the municipal market was facing **negative net supply of \$4.6 billion.**
- Demand for Municipal Bonds was higher than the Supply

State	Texas		
Market Profile		Value	Chg/%Chg
Outstanding/Called/Issued			
Current Amount Outstanding	\$421.8MMM		\$+19.7MM
Amount Maturing - Next 30 Days	\$519.2MM		--
Announced Calls - Next 30 Days	\$147.5MM		\$-9.2MM
Amount Issued - Past 30 Days	\$2.3MMM		--
Visible Supply			
Total 30 Day Supply	\$169.0MM		\$+18.1MM
MSRB Trade Activity			
Current Par Amount Traded	\$885.8MM		+22.0%
Current Par Amount Sells	\$424.8MM		+25.9%
Current Par Amount Buys	\$260.4MM		+31.1%
Current Par Amount Dealer	\$200.6MM		+5.6%

1) MSRB Market Flow | MFLO »

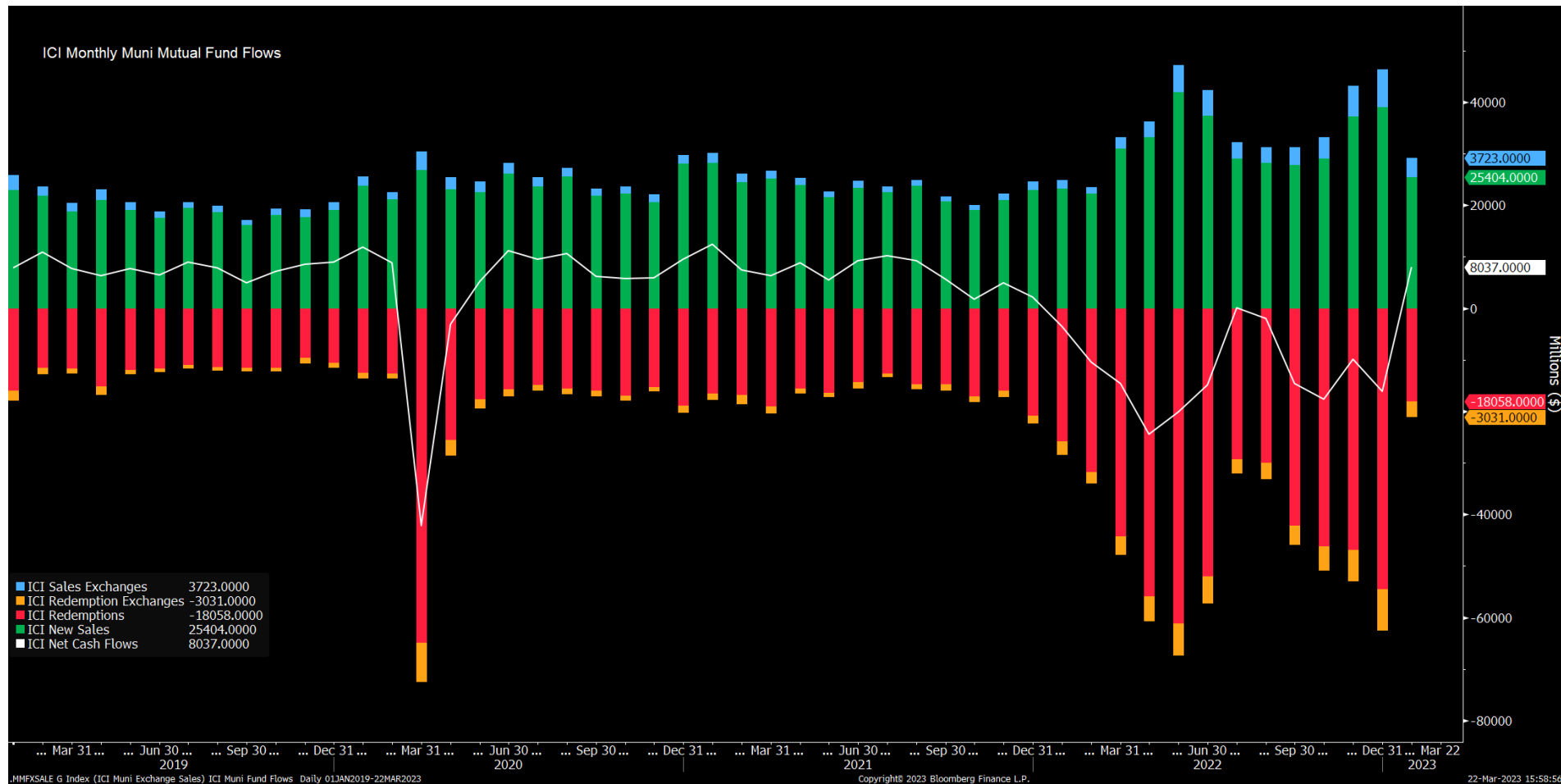
Issuer	Vol(M)	Vol%	AVAT%
Total	706,321	100.00%	-35.0%
1. State of Texas	88,700	12.56%	+386.1%
2. Texas Children's H...	34,300	4.86%	+508.4%
3. Dallas Independen...	22,110	3.13%	+295.2%
4. Texas Transportati...	18,490	2.62%	+163.3%
5. County of Bexar TX	18,180	2.57%	+118.0%



2) Municipal Fixed Rate Calendar | CDRA »

Date	Description	ST	Amt (M...)	Tax	Sr Mngr
1. 03/27/23	GTR TEXOMA U...	TX	138.455	N	ROBERT W ...
2. 03/27/23	ARLINGTON HG...	TX	62.670	N	ROBERT W ...
3. 03/20/23	DENISON -CTFS...	TX	39.520	N	STIFEL NIC...
4. 03/27/23	DEL RIO -CTFS ...	TX	26.115	N	SWBC INVE...
5. 03/20/23	WILLIAMSON C...	TX	25.000	N	RAYMOND ...
6. 03/28/23	CEDAR HILL	TX	15.865	N	

Municipal Bond Market - Demand Indicators



Future Outlook:

- Surviving the Great US Banking Crisis of 2023, Municipal Bonds remain a strong, high-quality investment for investors.
- The Demand for Municipal Bonds is expected to remain healthy.
- Regarding the Overall Municipal Market: we continue to be optimistic, in general, states continue to have strong balance sheets, credit upgrades are far outpacing downgrades in all sectors of the market, and new Municipal Bond Sales are on track to come in at the lower end of estimates.
- Tax-exempt Municipals have historically served as safe haven assets in times of market disruption.
- Volatility continues to weigh on municipal-bond supply, but a pickup is possible if lower interest rates stick.

Final Thoughts:

- Texas Cities will continue to feel the pressure of making investments to keep up with growth.
- Work closely with your City Finance Team, Financial Advisor and Bond Underwriters to understand all of the financing options available.
- Stay abreast of current market dynamics and the best time to access the bond market if needed.
- In general, it is still a good time for municipalities to access the capital markets through the sell of municipal bonds.





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INDEX, SOURCES AND DISCLOSURES

Bloomberg Terminal Data Sources:

NCOVUSCA Index Coronavirus (2019-nCoV) U.S. Confirmed Cases

NCOVUSDE Coronavirus (2019-nCoV) U.S. Confirmed Deaths

CGRTSUSA Index Stringency Index United States

INJCJC Index US Initial Jobless Claims SA

Indeed.com

ALLX MOVT US Jobless Claims

TSATTPCY Index US TSA Checkpoint Numbers Total Traveler Throughput

MBAVPRCH Index MBA US Purchase Index SA

COMFCOMF Index Langer US Weekly Consumer Comfort Index

REDSMYOY Index Johnson Redbook Index Same Store Sales Monthly

OPENCOUS Index OpenTable United States Seated Diners

BAKEOIL Index Baker Hughes United States Crude Oil Rotary Rig Count Data

RSPR Index American Iron and Steel Institute US Raw Steel Production Data

BENF STOXX Europe ex UK Total Market Oil & Gas

SPX Index S&P 500 INDEX

BFCIUS Index Bloomberg United States Financial Conditions

BYFC Bond Yield Forecast

MBIX Municipal Bond Indices

H15T10Y Index US Treasury Yield Curve T Note

CAAA10YR BVAL Municipal AAA Yield Curve

WETFMBLT ICI Municipal Bond Long-Term Mutual Fund and ETFs Weekly Flows

MBM Municipal Bond Monitor

Dallas Fed

San Antonio Economic Indicators

<https://www.dallasfed.org/research/indicators/sa/2021/sa2104.aspx>

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