

Monthly Municipal Market Update

Month in review

April marked a generally strong month for the U.S. economy, as continued nationwide vaccination efforts resulted in a broader reopening for the consumer-driven services and manufacturing industries.¹ Despite generally positive economic data and equity market strength, Treasuries rallied during the month on heightened international demand, solid auctions, and a pullback from the recent selloff. U.S. Treasury yields inside of the three-year tenor ended the month flat or down by one basis point (bp), while yields at the five-year tenor and beyond closed 8–14 bps lower than the previous month end.²

Municipal bond yields declined across the curve in April in tandem with Treasuries. The 10-year tenor of the AAA Municipal Market Data (MMD) curve closed the month at 0.99%, down 13 bps from March's final tally.³ Despite rich AAA municipal valuations, demand for munis has remained robust, with municipal fund inflows on pace for a record year (+\$41.5 billion year-to-date).⁴ Demand for munis is expected to persist as President Biden pushes for both an increase in capital gains taxes for the wealthiest Americans and higher corporate tax rates, the latter of which would likely drive demand from banks and insurance companies.

April brought \$37.6 billion of total municipal debt to market, a 20% decrease from March's total. By contrast, taxable municipal issuance increased, with the \$11.3 billion brought to market in April, representing a 28% gain over the \$8.8 billion issued in March.^{5*}

- The Federal Open Market Committee (FOMC) left interest rates unchanged at its April meeting, reinforcing its commitment to support the U.S. economic recovery. Fed officials noted they will

likely require further progress toward the central bank's labor market and inflation goals – maximum employment and 2% symmetric inflation, respectively – before rates can be hiked and the Fed's bond purchase program can be tapered back. Last month's survey of Fed officials indicated that most do not expect a rate hike until 2023 at the earliest.⁶

- Municipal bonds experienced a strong month of performance in April in both the federally tax-exempt and taxable spaces. The Bloomberg Barclays Municipal Bond Index posted a 0.84% gain, the Bloomberg Barclays High Yield Municipal Bond Index returned 1.46%, and the Bloomberg Barclays Taxable Municipal Index advanced by 1.52% over the month. April's performance brings year-to-date total returns for the three indices to 0.48%, 3.61%, and -2.01%, respectively.⁷
- Because U.S. municipal yields generally declined in greater magnitudes than U.S. Treasury bond yields of equal tenors in April, municipal taxable-equivalent spreads tightened across the curve. At month-end, spreads equated to nine bps at the one-year tenor (down slightly), -13 bps at the five-year tenor (down from -8 bps), three bps at the 10-year tenor (down from 15 bps), and 38 bps at the 30-year tenor (down from 54 bps).^{8*}
- Though secondary market trade activity was down in April relative to March, it still marked the second most active month of the year so far. Trades for the month totaled just under 668,000 (down from ~771,000 in March), with par traded amounting to \$197 billion (down from \$223 billion in March).⁹

Figure 1: Market snapshot

	Muni yields (MMD AAA)			U.S. Treasury yields			Muni taxable equivalent**	
	Yield	MTD change	YTD change	Yield	MTD change	YTD change	Yield	Spread
2-year	0.10%	-0.04%	-0.04%	0.16%	0.00%	0.04%	0.17%	0.01%
5-year	0.43%	-0.08%	0.21%	0.86%	-0.08%	0.50%	0.73%	-0.13%
10-year	0.99%	-0.13%	0.28%	1.64%	-0.10%	0.72%	1.67%	0.03%
30-year	1.59%	-0.16%	0.20%	2.31%	-0.11%	0.66%	2.69%	0.38%

\$151.3B	-\$9.5B	+\$41.5B	0.48%	+3.61%	+28 bps	+72 bps
YTD muni issuance	M/M muni issuance	YTD muni fund flows	YTD IG return	YTD HY return	YTD change in 10yr muni yield	YTD change in 10yr Treasury yield

*Figures for total municipal issuance and taxable municipal issuance include both municipal CUSIPs and not-for-profit corporate CUSIPs. **Taxable-equivalent yield assumes 37% federal income tax and 3.8% Medicare investment tax. Spread refers to spreading the municipal taxable equivalent yield against the U.S. Treasury yield.

Sources: Muni CUSIP Issuance: The Bond Buyer, including bond and note issuance. Not-for-profit corporate CUSIP issuance: PIMCO analysis of Bloomberg data. Yield and spread data: Thomson Reuters. Muni fund flows: Refinitiv Lipper, inclusive of weekly and monthly reporting funds. YTD IG return: Bloomberg Barclays Municipal Bond Index. YTD HY return: Bloomberg Barclays High Yield Municipal Bond Index. All data as of 30 Apr 2021 except for muni fund flows data which is as of 28 Apr 2021, and not-for-profit corporate CUSIP issuance which was sourced on 3 May 2021, but as of 30 Apr 2021.

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Muni technicals in focus: Municipal market sees unrelenting demand

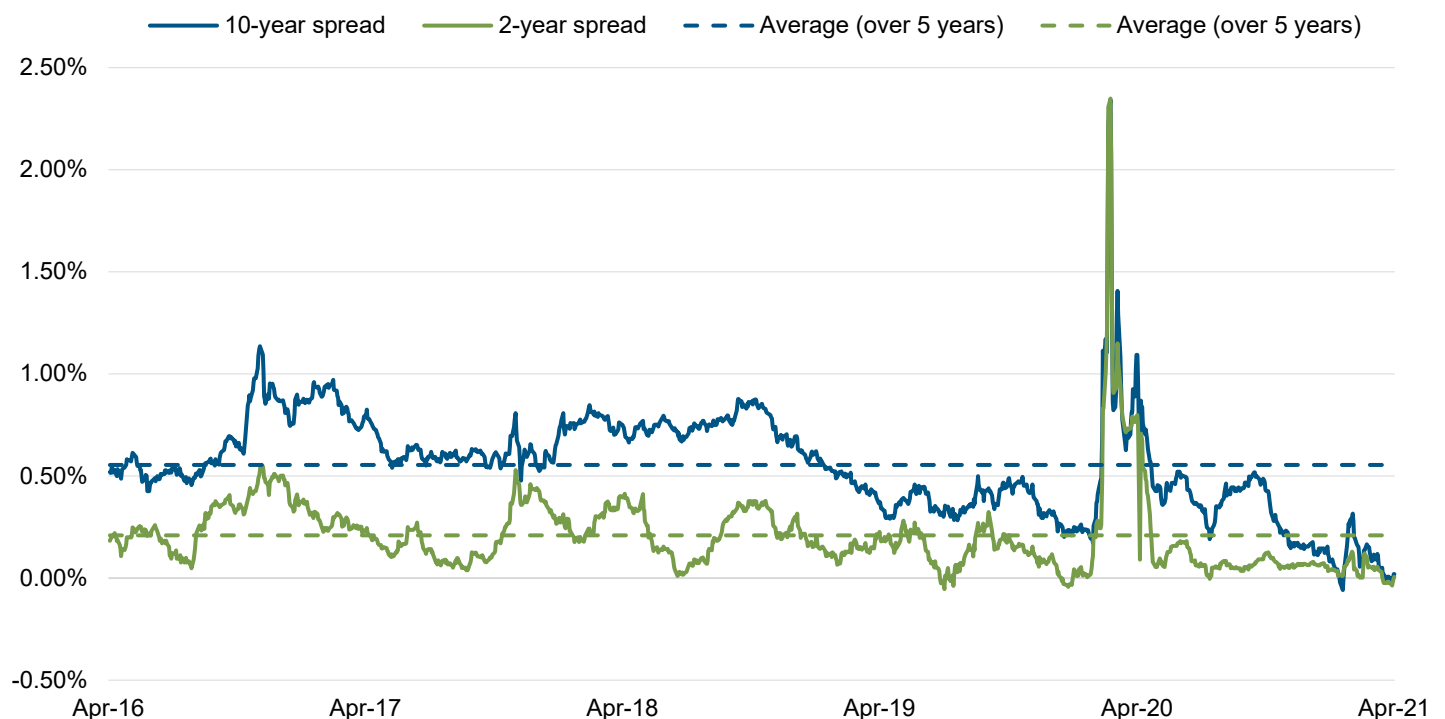
Investor sentiment was positive in April, bolstered by the continued domestic vaccination rollout, promising economic data, strong corporate earnings, accommodative monetary policy, and expansive fiscal policy. Equity and fixed income markets deviated from their usual inverse relationship and rallied in tandem for much of the month.¹⁰ With fixed income markets seeking signs of clear directionality and revived foreign appetite for Treasuries, the 10-year Treasury yield closed the month down 10 bps from last month-end.¹¹ Municipal yields generally tracked Treasuries' downward course in April, and the Bloomberg Barclays Municipal Bond Index, Bloomberg Barclays Municipal High Yield Index, and Bloomberg Barclays Municipal Taxable Index posted positive monthly returns of 0.84%, 1.46%, and 1.52%, respectively.¹²

April usually brings seasonal headwinds for the municipal market, as investors look to sell municipals to meet tax payments and elevated supply tends to outweigh reinvestment capital. However, President Biden's proposed infrastructure plan and the American Families Plan, which call for higher corporate and capital gains tax rates, largely propelled heightened demand for municipals.¹³

Despite relatively expensive municipal valuations, retail investors piled ~\$7.88 billion into municipal funds – continuing a trend that has led to the fastest year-to-date pace of municipal inflows on record.¹⁴ The robust demand absorbed the \$33.65 billion in net supply over the month.¹⁵ Notably, taxable issuance, which comprised over a fifth of April's total volume, would likely rise if discussion regarding the revival of a program reminiscent of Build America Bonds comes to fruition.¹⁶

April saw a continuation of last month's encouraging credit trends, driven in large part by similar factors: federal support and an improving outlook on the virus and vaccination rates. We have seen the rating agencies turn more positive on large swaths of the municipal market as economic activity and travel begin to recover, illustrated by S&P revising its outlook to Stable on nearly 130 obligors spread across the transportation sectors (airports, mass transit, ports, and toll roads). Additionally, several high-profile rating actions suggest stabilization (S&P revised its outlook on the State of New Jersey to Stable from Negative) or material improvement (Moody's upgraded the State of

Figure 2: Municipal/Treasury after-tax* spreads



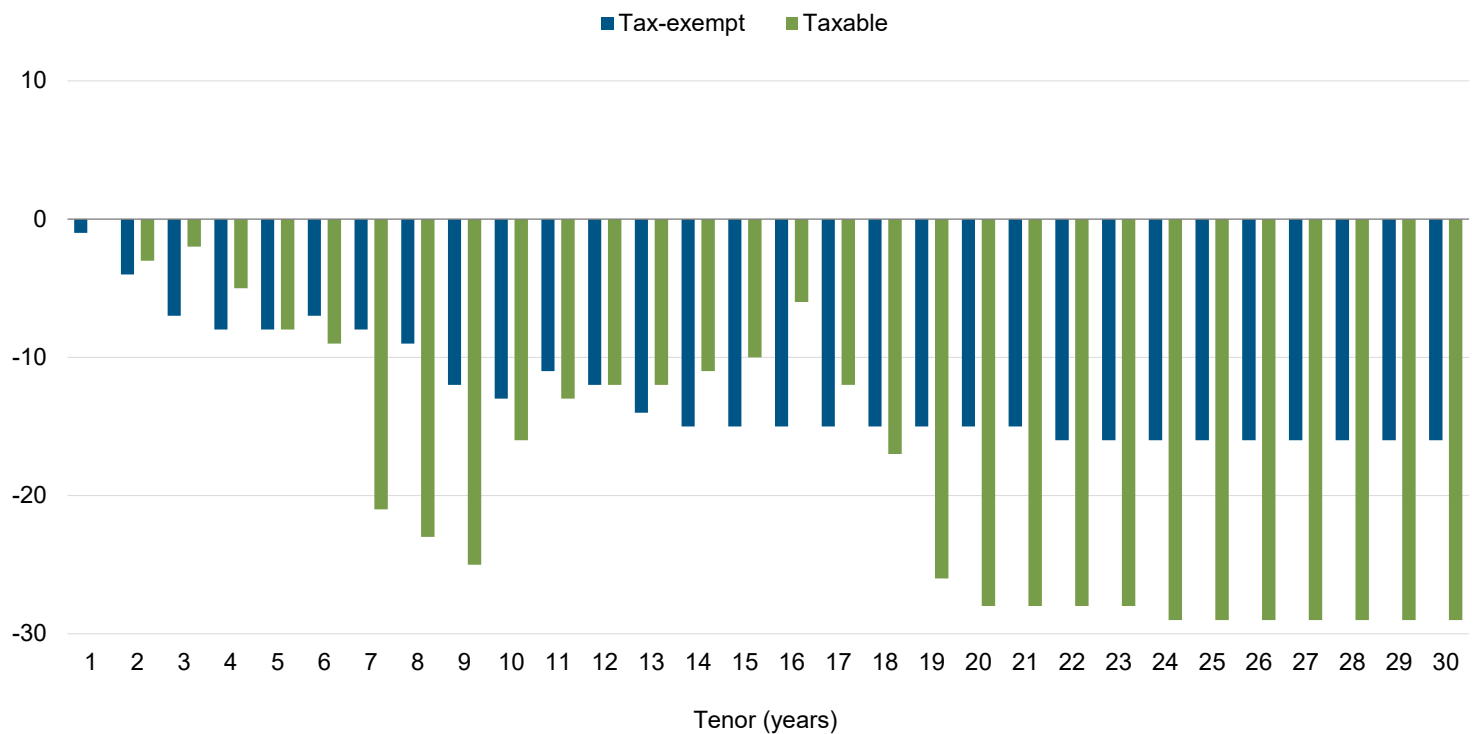
Sources: Figure 2: Thomson Reuters TM3 MMD Interactive as of 30 Apr 2021. 2-year and 10-year average spreads calculated over the last five years, starting 2 May 2016. *Assuming a 37% federal income tax rate and 3.8% Medicare tax rate.

Connecticut for the first time since 2001, bringing its general obligation rating to Aa3). State budget conditions in general continue to turn more constructive, as evidenced by fiscal year 2022 budgets proposing 3 to 4% spending growth in most cases – a sharp reversal from FY21’s austerity measures.¹⁷

While the news remains largely positive for municipal credit, we still see reminders of how long it may take individual obligors to fully recover from the pandemic. In April, New York City released its FY22 budget proposal, which forecasts a significant drop in

expected property tax collections. Likewise, San Francisco announced an expectation that property valuations will fall for one of the first times in more than two decades. The unprecedented amount of federal aid will help smooth out near term fiscal challenges for both cities (New York City alone is expecting nearly \$6 billion of direct federal aid in its FY22 budget). However, some municipal obligors will still need to make tough fiscal choices in order to balance budgets beyond the coming year.

Figure 3: Month-over-month change in AAA MMD yields (bps)



Sources: Figure 3: Thomson Reuters TM3 MMD Interactive as of 30 Apr 2021.

Figure 4: Market data**Municipal index returns**

Muni returns	YTW	MTD	YTD
Bloomberg Barclays Muni Index	1.04%	0.84%	0.48%
Bloomberg Barclays 1–10 (1–12)	0.61%	0.48%	0.22%
Bloomberg Barclays Muni Short (1–5)	0.35%	0.22%	0.30%
Bloomberg Barclays High Yield Muni	3.44%	1.46%	3.61%

Source: Bloomberg Barclays as of 30 April 2021

Average monthly visible supply (in millions)

Month	2021/2020	2020/2019	2019/2018
November	\$9,288	\$15,460	\$7,218
December	\$7,952	\$11,295	\$6,331
January	\$7,691	\$10,115	\$7,452
February	\$9,432	\$10,310	\$6,991
March	\$11,187	\$13,659	\$7,153
April	\$10,338	\$13,803	\$7,129

Source: Bloomberg as of 30 April 2021

Secondary market activity (in millions)

Month	Average par of Bloomberg pick	Average daily bid wanted
Apr-20	\$4,329	\$1,118
May-20	\$4,249	\$699
Jun-20	\$4,101	\$563
Jul-20	\$2,365	\$434
Aug-20	\$3,197	\$544
Sep-20	\$4,359	\$563
Oct-20	\$3,471	\$700
Nov-20	\$2,737	\$479
Dec-20	\$4,998	\$536
Jan-21	\$6,830	\$559
Feb-21	\$7,662	\$713
Mar-21	\$6,879	\$653
Apr-21	\$6,916	\$564

Source: Bloomberg as of 30 April 2021

10-year municipal vs. 10-year Treasury yields

Day	Municipal	Treasury
3/31/2021	1.12	1.74
4/30/2021	0.99	1.64

Source: Thomson Reuters as of 30 April 2021

Monthly new issuance (in millions)

Month	2021/2020	2020/2019	2019/2018
November	\$21,502	\$49,209	\$27,852
December	\$35,142	\$44,209	\$22,406
January	\$30,005	\$36,224	\$25,706
February	\$36,624	\$44,895	\$26,760
March	\$47,108	\$21,267	\$28,070
April	\$37,596	\$34,236	\$28,154

Source: Muni CUSIP issuance sourced from The Bond Buyer, including bond and note issuance, as of 30 April 2021. Not-for-profit corporate CUSIP issuance based on PIMCO analysis of Bloomberg data sourced on 3 May 2021, but as of 30 April 2021.

Monthly bond redemptions (in millions)

Month	Amount matured	Amount called
May-20	\$22,877	\$5,134
Jun-20	\$40,190	\$7,750
Jul-20	\$39,651	\$6,691
Aug-20	\$47,455	\$5,909
Sep-20	\$22,898	\$6,457
Oct-20	\$29,719	\$9,908
Nov-20	\$27,364	\$7,818
Dec-20	\$33,357	\$9,548
Jan-21	\$21,903	\$4,679
Feb-21	\$28,728	\$4,359
Mar-21	\$26,040	\$5,895
Apr-21	\$22,200	\$5,483

Source: Bloomberg as of 30 April 2021

Sector returns

Select sectors	April '21	YTD	2020
General obligation	0.73%	0.19%	5.49%
Pre-refunded	0.16%	0.03%	2.76%
Revenue	0.94%	0.65%	5.31%
Education	0.90%	0.33%	5.39%
Healthcare	1.04%	1.11%	5.70%
Industrial development	0.82%	0.51%	5.46%
Lease-backed	0.99%	1.05%	5.04%
Power	0.70%	0.15%	5.40%
Special tax	1.02%	0.36%	4.73%
Transportation	1.07%	1.11%	5.16%
Water & sewer	0.76%	-0.03%	5.86%
HY tobacco	1.09%	3.34%	13.93%
HY Puerto Rico	1.78%	2.34%	10.68%

Source: Bloomberg Barclays Indices as of 30 April 2021

¹ Paul Hannon and Gwynn Guilford, "U.S., Global Economy See Pickup as Services Revive and Factories Ramp Up," Wall Street Journal, 23 Apr 2021

² Thomson Reuters TM3 MMD Interactive Data, 30 Apr 2021

³ Thomson Reuters TM3 MMD Interactive Data, 30 Apr 2021

⁴ Refinitiv Lipper, 28 Apr 2021. *Data is inclusive of weekly reporting funds and does not include monthly reporting funds.

⁵ The Bond Buyer: Primary Market Statistics – A Decade of Bond Finance, 30 Apr 2021; Bloomberg, 1 Apr 2021

⁶ Paul Kiernan, "Fed Holds Steady on Interest Rates, Bond Purchases," Wall Street Journal, 28 Apr 2021

⁷ Bloomberg Barclays, 30 Apr 2021

⁸ Thomson Reuters TM3 MMD Interactive Data, 30 Apr 2021

⁹ The Bond Buyer: Secondary Market Data, 30 Apr 2021

¹⁰ Bloomberg, 30 Apr 2021

¹¹ Thomson Reuters TM3 MMD Interactive Data, 30 Apr 2021

¹² Bloomberg Barclays, 30 Apr 2021

¹³ Alicia Parlapiano, "Biden's \$4 Trillion Economic Plan, in One Chart," The New York Times, 28 April 2021

¹⁴ Refinitiv Lipper, 28 Apr 2021. *Data is inclusive of weekly reporting funds and does not include monthly reporting funds.

¹⁵ The Bond Buyer, "Bond Sales (Latest Month)", 30 Apr 2021

¹⁶ Liz Carey, "Bipartisan group reintroduces American Infrastructure Bonds Act," Transportation Today, 26 April 2021

¹⁷ "Summaries of Fiscal Year 2022 Proposed Budgets," National Association of State Budget Officers, 30 Apr 2021.

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Bloomberg Barclays Municipal Bond Index consists of a broad selection of investment-grade general obligation and revenue bonds of maturities ranging from one year to 30 years. It is an unmanaged index representative of the tax-exempt bond market. The index is made up of all investment grade municipal bonds issued after 12/31/90 having a remaining maturity of at least one year. The **Bloomberg Barclays High Yield Municipal Bond Index** measures the non-investment grade and non-rated U.S. tax-exempt bond market. It is an unmanaged index made up of dollar-denominated, fixed-rate municipal securities that are rated Ba1/BB+/BB+ or below or non-rated and that meet specified maturity, liquidity, and quality requirements. The **Barclays Taxable Municipal Index** represents a rules-based, market-value weighted index engineered for the long-term taxable bond market. For inclusion in the Index, bonds must be rated investment grade quality or better, have at least one year to maturity, have a coupon that is fixed rate, have an outstanding par value of at least \$7 million, and be issued as part of a transaction of at least \$75 million. The Intermediate Municipal subsector groups together securities with an average maturity between one to 10 years. The **Barclays 1-10 Year Municipal Bond Index** is an unmanaged index considered to be generally representative of investment-grade municipal issues having remaining maturities from 1-10 years and a national scope. It is not possible to invest directly in an unmanaged index.

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