# Municipals start summer strong

## Municipal June update

- Municipal bonds posted their strongest June performance since 2019.
- The asset class outperformed amid improving seasonal supply-and-demand dynamics.
- Looking ahead, July has historically been the strongest performing month of the year.



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### Market overview

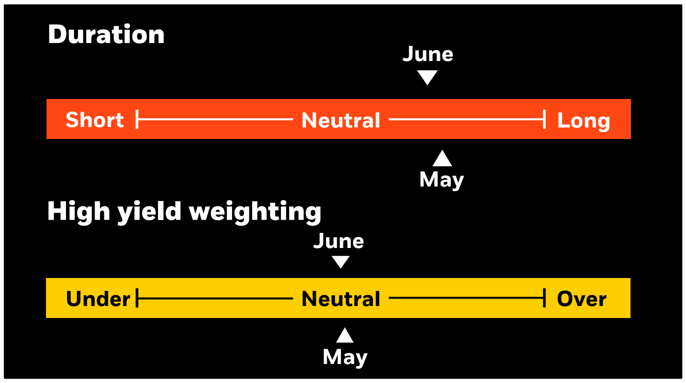
Municipal bonds rebounded and posted their strongest June since 2019. Falling interest rates provided direction as economic data showed persistent weakness. However, attractive valuations ahead of an anticipated improvement in seasonal supply-and-demand dynamics propelled strong municipal outperformance versus comparable Treasuries. The S&P Municipal Bond Index returned 1.59%, bringing the year-to-date total return to 0.17%. High yield (led by tobacco), the long end of the yield curve, and the housing and hospital sectors performed best.

Issuance remained robust at $47 billion, 11% above the five-year average, bringing the year-to-date total to $234 billion, up 37%, year over year. As a result, the market faced its fourth consecutive month of net positive supply with issuance outpacing reinvestment income from maturities, calls, and coupons by over $10 billion. Luckily, investors were willing buyers ahead of the expected transition to net negative supply during the months of July and August. As a result, deals were oversubscribed 4.6 times on average, above the year-to-date average of 4.4 times. At the same time, fund flows remained mixed and inconsistent but could be poised for some near-term improvement on the back of recent strong performance.

July has historically been the strongest performing month of the year. While some performance may have been pulled forward into June, we see several reasons for continued strength. Interest rates tend to be supportive during the summer months, yields remain attractive and should continue to entice retail buyers, and supply is entering the most seasonally favorable period of the year. Amid this backdrop, we will continue to selectively add duration but remain cognizant that event risks increase in the fall.

### Strategy insights

We maintain a neutral duration posture. We advocate a barbell yield curve strategy, pairing front-end exposure with the 15-20-year part of the curve. We prefer single-A rated credits but think high yield offers an attractive risk-reward opportunity, given favorable structures and the ability to generate alpha through security selection.




### Overweight

- States that primarily rely on consumption taxes
- Essential-service revenue bonds
- Flagship universities
- Select issuers in the high yield space

### Underweight

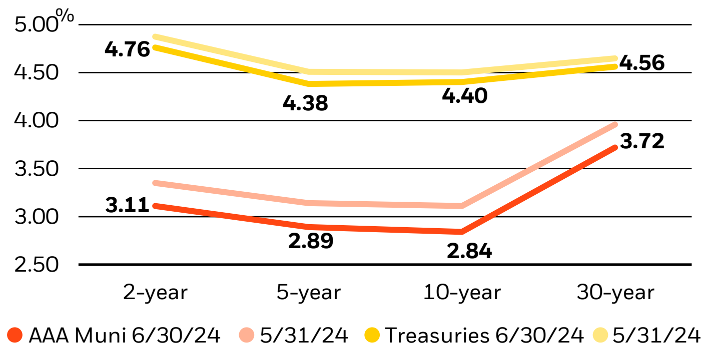
- States overreliant on personal income taxes, especially California
- Speculative projects with weak sponsorship, unproven technology, or unsound feasibility studies
- Senior living and long-term care facilities
- Lower-rated private universities
- Stand-alone and rural health providers

## Credit headlines

In June the municipal market priced one of the largest transactions of the year. The New Terminal One (NTO) project at JFK International Airport, initially projected to issue $1.5 billion in tax-exempt debt, successfully expanded the deal to $2.55 billion due to strong investor demand for higher-yielding, low investment grade paper. As the largest public-private partnership in the U.S., NTO was established to finance, construct, and operate the international terminal at JFK. This project is a key component of the Port Authority of New York and New Jersey's ambitious $19 billion initiative to modernize JFK and restore its status as a premier global aviation hub.

Recently, we've observed a notable increase in hospital issuances, primarily from highly rated institutions such as Intermountain Health, Cleveland Clinic, Advent Health, Memorial Hermann, and Yale New Haven. Remarkably, Crouse Health, despite its BB rating by Fitch, attracted significant interest, being oversubscribed by 35 times. Although there was a general hesitancy to enter the market in 2023, this year has brought forth multiple refinancing announcements and initiatives to meet deferred capital needs, presenting attractive value relative to other municipal sectors. Our preference remains with strong multi-state systems that boast leading market positions, strategic management, and the financial flexibility to adapt, as demonstrated by the majority of the issues that were priced in June.

### Municipal and Treasury yield movements




Sources: BlackRock, Bloomberg.

## Municipal performance

| | June'24 | YTD |
|---|---|---|
| **S&P Municipal Bond Index** | **1.59%** | **0.17%** |
| Long maturities (20+ yrs.) | 2.32% | 1.00% |
| Intermediate maturities (3-15 yrs.) | 1.46% | -0.62% |
| Short maturities (6 mos.-4 yrs.) | 0.69% | 0.63% |
| High yield | 2.05% | 4.16% |
| High yield (ex-Puerto Rico) | 2.34% | 4.46% |
| General obligation (GO) bonds | 1.61% | -0.45% |
| California | 1.50% | 0.05% |
| New Jersey | 1.51% | -0.08% |
| New York | 1.65% | -0.07% |
| Pennsylvania | 1.63% | 0.34% |
| Puerto Rico | 0.20% | 2.21% |

Sources: S&P Indexes.

***Investment involves risk.*** *The two main risks related to fixed income investing are interest rate risk and credit risk. Typically, when interest rates rise, there is a corresponding decline in the market value of bonds. Credit risk refers to the possibility that the issuer of the bond will not be able to make principal and interest payments. There may be less information available on the financial condition of issuers of municipal securities than for public corporations. The market for municipal bonds may be less liquid than for taxable bonds. A portion of the income from tax-exempt bonds may be taxable. Some investors may be subject to Alternative Minimum Tax (AMT). Capital gains distributions, if any, are taxable.* ***Index performance is shown for illustrative purposes only. You cannot invest directly in an index. Past performance is no guarantee of future results.***



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