

Municipal Market Update

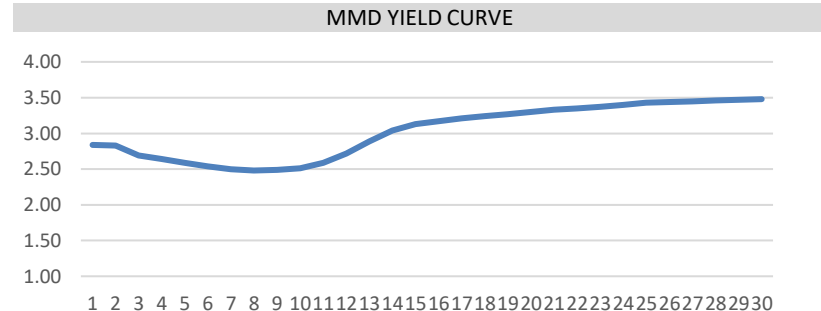
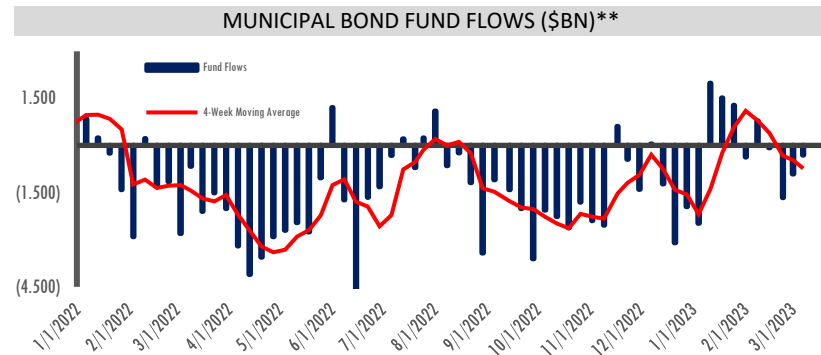
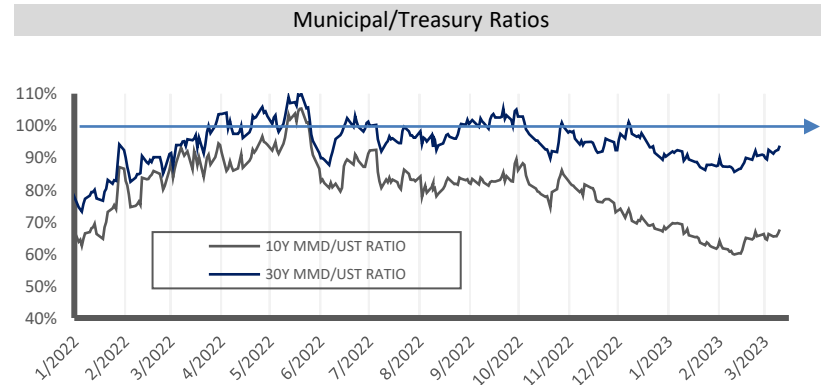
March 13, 2023



As market volatility increased for Treasuries last week, with yields moving higher then reversed by Friday, municipals decoupled themselves as yields moved lower throughout the week and as we saw the largest issuance calendar of the year price. Mixed economic data and inflation concerns continue to move markets as investors try to predict what lies ahead.

- The municipal market saw over \$11 billion of bonds price last week making it the largest calendar week of the year with strong participation from professional retail, moving yields lower throughout the week, as volatility played out in both Treasuries and equities.
- The overall market in March has remained firm to stronger than what we saw play out in February.
- This week the municipal market saw strong participation in the belly of the curve with the 10yr -20yr range seeing the most strength.
- After a year of low issuance, the taxable market saw an uptick of issuance this week as several large State deals priced in the market.
- Treasuries saw yields move higher to start the week with the 2yr UST moving over 5%, but municipals remained firm, as Fed President Powell continued his hawkish comments moving the probability of a 50bps rate hike to 75% in March.
- By the end of the week Treasuries retreated and the rate hike prediction moved back to 25bps as the jobs numbers on Friday showed unemployment numbers somewhat higher, easing inflation concerns. *With the recent collapse of SVB bank Swaps on Monday are pricing in no more hikes this year.*
- Overall demand in the market continues to be driven by concerns around inflation and potentially higher rates.
- Coupon interest out long has shifted away from straight 5% coupons to either 4% discount paper or higher 5% coupons.
- Ratios have increased slightly week over week but remain well below the percentage to bring in cross-over buyers and have continued to price out certain accounts.
- Next week all eyes will be on CPI, PPI and retail releases and investors continue to predict what lies ahead with the Fed's rate action.
- **Treasuries opened the week down as much as 39 bps on the front-end as the market digest the recent collapse of two smaller banks.**

Source: Bloomberg, Refinitiv, Bond Buyer



New Issuance Highlights:

- The primary market saw the largest week of issuance this year with \$12 billion pricing and well above the weekly average as taxable debt moved over \$5 billion.
- Retail orders periods saw strong demand this week with some deals upsized to take advantage of the strong investor appetite.

Secondary Highlights:

- Bid wanted lists remain large but still below the daily average of last year.
- Municipal bidding remained firm this week as market tone remained strong.

Muni Bond Funds:

- The week ending March 9th saw outflows of \$307 million which is a decrease from last week's \$964 million outflow.
- High yield funds saw \$14.7 million of outflows last week.
- The 4-week moving average grew to -\$735.3 million outflows.

The week ahead

- Issuance will decrease next week to \$6.903 billion but remain above the weekly average of \$4.86 billion.
- Stern Brothers will be a co-manager on the St. Louis Board of Education, General Obligation Bonds, Series 2023 which will price on Tuesday March 14th.
- Stern Brothers will be a co-manager on the New York City Transitional Finance Authority, Future Tax Secured Subordinate Bonds, Fiscal 2023 Series F deal that is set to price Retail on Monday, March 13th.

Current MMD/UST Changes									
	AAA MMD					US Treasury			
Maturity	10-Mar	1 Week Change (bps)	1 Month Change (bps)	YTD Change (bps)	Ratios	10-Mar	1 Week Change (bps)	1 Month Change (bps)	YTD Change
2-year	2.83%	-16	48	28	61.56%	4.60%	-26	9	19
5-year	2.59%	-9	47	7	65.32%	3.97%	-29	5	3
10-year	2.51%	-12	27	-13	67.65%	3.71%	-26	-3	-8
30-year	3.48%	-12	20	-9	93.88%	3.71%	-18	-13	-17

- **INITIAL JOBLESS CLAIMS ROSE 21,000 TO 211,000**—higher than the 195,000 number expected
 - Continuing claims jumped the most since November 2021 to 1.72M
 - The elevated figures could have been driven by recent contract negotiations for NYC school workers (bus drivers and janitorial staff) where they now can file for unemployment benefits when there is a school break; NYC had its winter break last month...
- **FACTORY ORDERS FELL 1.6% IN JANUARY and December** orders were revised lower to down 1.7%; excluding transportation, orders rose 1.2%
- **DURABLE GOODS ORDERS FELL 4.5% IN JANUARY**; excluding transportation, orders rose 0.8%
- **FRIDAY'S JOBS NUMBER SEEMED TO HAVE A LITTLE BIT TO LIKE AND DISLIKE WITH THE HEADLINE NONFARM PAYROLLS ADDING 311,000 JOBS**, much higher than the 225,000 number expected
 - On the “like” side, wage growth moderated with hourly earnings up 0.2%, lower than the up 0.4% consensus
 - The unemployment rate also ticked up to 3.6% from 3.4%
 - The Labor Participation Rate inched up slightly to 62.5%
 - Employers had 10.8M job openings in January, down from 11.2M in December, but still double the number of unemployed people seeking work—a sign that strong hiring could continue
- **IT WAS AN ACTIVE WEEK IN M&A WITH \$8.55B ADDED TO THE YTD TOTAL OF \$52.0B, INCLUDING SPIN-OFFS**
 - *Magna International Inc.* added \$800M which proceeds will be used to help fund their acquisition of Veoneer Active Safety business from SSW Partners
 - *Kenvue Inc.* priced \$7.75B in preparation for their separation and spinoff of Johnson & Johnson’s Consumer Health business into an independently traded company

	Yield	2022 Close	+/- bps
Fed Funds	4.570	4.330	24.000
3-Month T-Bills	4.586	4.343	24.300
3-Month Libor	5.138	4.767	37.100
2-Year UST	4.147	4.426	-27.900
3-Year UST	3.953	4.224	-27.100
5-Year UST	3.672	4.004	-33.200
10-Year UST	3.517	3.875	-35.800
30-Year UST	3.635	3.963	-32.800

(USD)	Current	Y/E 2022	2023 Projected	2024 Projected
NYM WTI Crude (\$/bbl)	\$75.35	\$80.26	\$76.26	\$71.45
NYMEX Nat. Gas (MMBtu)	\$2.46	\$4.48	3.08	3.77
Gold (\$/t oz)	\$1,890.16	\$1,824	1,912	1,999
Silver (\$/t oz)	\$21.01	\$24	21.21	21.69
Soybeans (cents/bu)	\$1,521.75	\$1,519	1,449.33	1,330.60
Wheat (cents/bu)	\$674.75	\$792	693.97	725.17

Monday	Tuesday	Wednesday	Thursday	Friday
27-Feb	28-Feb	1-Mar	2-Mar	3-Mar
Durable Goods	Consumer Confidence	MBA Mortgage Applications	Initial Jobless Claims	ISM Services
Pending Home Sales		ISM	Continuing Claims	
		Construction Spending		
6-Mar	7-Mar	8-Mar	9-Mar	10-Mar
Factory Orders	Wholesale Inventories	MBA Mortgage Applications	Initial Jobless Claims	Change in Nonfarm Payrolls
Durable Goods		ADP Employment Change	Continuing Claims	Unemployment Rate
13-Mar	14-Mar	15-Mar	16-Mar	17-Mar
	CPI	PPI	Initial Jobless Claims	Leading Index
	Small Business Optimism	MBA Mortgage Applications	Continuing Claims	U. Of Michigan
		Retail Sales	Housing Starts	Industrial Production
			Building Permits	
20-Mar	21-Mar	22-Mar	23-Mar	24-Mar
	Existing Home Sales	FOMC Rate Decision	Initial Jobless Claims	S&P Global PMI
		MBA Mortgage Applications	Continuing Claims	Durable Goods
			New Home Sales	
27-Mar	28-Mar	29-Mar	30-Mar	31-Mar
	Consumer Confidence	MBA Mortgage Applications	Initial Jobless Claims	PCE Deflator
		Pending Home Sales	Continuing Claims	Personal Income/Spending
			GDP Price Index	U. Of Michigan

Disclaimer

Stern is not acting as financial advisor or municipal advisor to you and does not owe a fiduciary duty pursuant to Section 15B of the Securities Exchange Act of 1934 to you with respect to the information contained herein and/or accompanying materials (collectively, the “Materials”). Stern is acting for its own interests. You should discuss the Materials with any and all internal or external advisors and experts that you deem appropriate before acting on the Materials.

Stern may seek to serve as underwriter in connection with a possible issuance of municipal securities you may be considering and not as financial advisor or municipal advisor. Stern may be providing the Materials for discussion purposes only, in anticipation of being engaged to serve as underwriter (or placement agent).

The role of an underwriter includes the following: Municipal Securities Rulemaking Board Rule G-17 requires an underwriter to deal fairly at all times with both municipal issuers and investors. An underwriter’s primary role is to purchase the proposed securities to be issued with a view to distribution in an arm’s length commercial transaction with the issuer. An underwriter has financial and other interests that differ from those of the issuer. An underwriter may provide advice to the issuer concerning the structure, timing, terms, and other similar matters for an issuance of municipal securities. Any such advice, however, would be provided in the context of serving as an underwriter and not as municipal advisor, financial advisor or fiduciary. Unlike a municipal advisor, an underwriter does not have a fiduciary duty to the issuer under the federal securities laws and is therefore not required by federal law to act in the best interests of the issuer without regard to its own financial or other interests. An underwriter has a duty to purchase securities from the issuer at a fair and reasonable price but must balance that duty with its duty to sell those securities to investors at prices that are fair and reasonable. An underwriter will review the official statement (if any) applicable to the proposed issuance in accordance with, and as part of, its responsibilities to investors under the federal securities laws, as applied to the facts and circumstances of the proposed issuance.

The Materials do not include any proposals, recommendations or suggestions that you take or refrain from taking any action with regard to an issuance of municipal securities and are not intended to be and should not be construed as "advice" within the meaning of Section 15B of the Securities Exchange Act of 1934 or Rule 15Ba1-1 thereunder. The Materials are intended to provide information of a factual, objective or educational nature, as well as general information about Stern’s experience, qualifications and capabilities.