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JPMorgan Sees Sky-High Rates Reviving Short-Term Muni Deals.

- **Public finance bankers have more talks on short-term products**
- **Fixed-rate debt was all the rage during low interest rate era**

Decades-high interest rates are poised to revive interest in a little-used corner of the municipal-bond market: variable rate deals.

That's according to the public finance leaders at JPMorgan Chase & Co., the third-biggest underwriter in the $4 trillion market who say talks with US state and local government clients about short-term securities, typically tied to variable interest rates, are picking up.

The Federal Reserve's tightening regime continues to ripple through the muni bond world with the talks signaling a shift away from years of bond sales being structured with fixed-interest rates as municipalities tried to lock in ultra-low borrowing costs.

Such discussions with issuers haven't taken place in a long time, according to Jamison Feheley, head of public finance investment banking at the bank.

"It was really hard to argue against — why would you do anything but long, fixed-rate debt when 30-year paper was in the 2% range?" Feheley said in a Zoom interview on Nov. 29. "Why wouldn't you lock that in?"

Now, he said issuers are thinking strategically about whether to incorporate short-term debt products into their portfolios. He said they may be reluctant to "lock in" their debt with longer, fixed-rate bonds while rates remain elevated.

Floating-rate notes, for example, can be tied to the yield on the Sifma Index which is currently 3.3%. Yields on the gauge of short-term municipal borrowing costs that resets weekly have been below fixed-rate 30-year AAA benchmark debt, which currently sits at 3.7%, since September.

For debt issuers, offering the securities represents a bet that short-term interest rates won't go higher.

JPMorgan's public finances team expects a stronger year for muni sales next year. Issuance this year is essentially flat, or down 2%. This month, the team's muni strategists led by Peter DeGroot forecast an 8% bump in muni issuance in 2024.

A revival of deals by hospitals and healthcare entities may prove to be a bright spot next year as the sector recovers from Covid-related pressures and pursues tie ups. Healthcare is "is really poised for a significant uptick in 2024," Feheley said. That will be driven by hospitals' capital needs as well as activity from mergers and acquisitions in the space, Feheley said.

Charles Giffin, head of public finance at the bank, sees 2024 kicking off on a high note as issuers benefit from the current bond rally which has pushed yields downs. November was the best month for state and local debt since the 1980s, with the securities notching a 6.4% gain.

“January’s going to be a great time to issue debt,” he said.

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