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Muni Market Recap: Slow & Steady Wins the Race.

Municipal bond markets have been slowly and steadily grinding to lower yields and lower ratios over the summer. As a reminder, when yields are lower prices are higher due to the inverse relationship between yields and prices. Ratios represent the yield of the U.S. Government bond divided by the yield of the Municipal bond. Municipal front end yields, observed by bonds maturing in 2020, have declined from 1.65% to 1.62%, and 10 year yields have declined from 2.50% to 2.43% (based on MSRB trade data). Ratios in the front end of the yield curve (2 year) declined, 65% to 63%, and 10 year ratios have been steady at 85% (based on MSRB trade data). The long end of the muni curve has remained around 3.00% at 99% ratio to US Government 30 year debt (based on MSRB trade data).

The steady market has benefited large issuers trying to bring bonds to market. The demand has been relatively steady and has, at times, allowed large issuers to price deals in excess of $1 billion with no new issue discount. New issue discount is usually a function of a sudden increase in supply for a given issuer results in a widening of spreads or higher yields to compensate for the increased supply. The most recent example is the Denver Airport transaction that was brought to market this week: Denver Airport planned to raise $2.3bn and the deal had enough demand to issue $5 billion in bonds. The airport has a $3.5 billion capital program to expand the capacity of travellers coming into Denver. Miami Dade Aviation also sold $790 million of bonds this week to refund a past deal.

In a year with lower overall municipal bond issuance, down 11% relative to 2017, airports issuance is up 49 percent (source: Bloomberg) so far in 2018 with over $11 billion of bonds coming to market.

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