

# **Bond Case Briefs**

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## **What Investors Should Expect from 2021's Municipal Bond Market.**

Head of BlackRock's municipal bonds group, Peter Hayes joined Yahoo Finance Live to break down the municipal bond outlook for 2021.

### **Video Transcript**

ADAM SHAPIRO: We invite into the stream Peter Hayes. He is the head of BlackRock's municipal bonds group. He is a frequent guest here at Yahoo Finance. It's good to have you here, Peter.

PETER HAYES: Thanks for having me, Adam. Nice to be back.

ADAM SHAPIRO: I want to ask you about something that, in a recent note, you said to your clients, which is- this has to do with the Fed, the Fed started their meeting today. And you said that we do not believe the conclusion of the Muni Liquidity Facility at year end will have a meaningful impact on the overall market. Why not?

PETER HAYES: Well, I think, you know, it's interesting, a couple things. One is I heard this segment a couple sessions ago talking about state and local government and what would happen with the stimulus. The only two borrowers really have tapped that particular facility. So there hasn't been a lot of demand for it.

What has proven resilient, I think, is the primary new issue market with municipals themselves. We've seen tremendous issuance this year. But even lower quality issuers, those impacted by the virus, have been able to access the market, sometimes at higher borrowing costs. But I think the market is fully open for all those issuers.

So it may not have a very big impact if the MLF does expire at the end of the year, at least that's our thinking. If we get a second shutdown and we begin to see a big economic drag perhaps in the first quarter, I think there's always a possibility that that liquidity facility could come back, be bought back. But right now, we don't view it as having a big impact on the market should it expire at the end of this month.

SEANA SMITH: And Peter, looking back over the last couple of months, I guess the question is how significantly has the Fed's Muni Facility- or has it significantly changed the dynamics of the market at all? I know you're saying going forward it might not make that big of a difference, but looking back, though, how critical has it been?

PETER HAYES: You know, that's a good question, and it's a little bit of a head-scratcher because if you go back into March and April when the market just felt like there was no bottom in sight, and where would we see the bottom, what would create a bottom, I think it was some of these facilities that did, whether it be the MLF which was created, some of the money market facilities helped overall liquidity in the market, et cetera. So they clearly have had an impact because the market has had an enormous bounce back.

When you think about the round trip of the index, which was up 3.5%, down 8 and change. So that's at a negative 11% move, which is fairly big for this particular market. And then you look at where we are now, which is 5%. So it's just an enormous amount of volatility. But it's been a tailwind. And I think a lot of the tailwind has come from some of these programs like the MLF.

I think that it's been psychological as opposed to really having an actual impact. Because as I mentioned, only two borrowers have really accessed that facility thus far.

ADAM SHAPIRO: So Peter, you also point out that the S&P Municipal Bond Index grew in November, what, 1.27%, but there's been part of the strong performance is because there is a lack of Muni issuance. Why? Municipalities and states need money right now. New Jersey came to market successfully, why haven't the others?

PETER HAYES: I think it's interesting. So that's- we're going to see right now about \$450 billion worth of issuance, which is a pretty big number. But the breakdown of that is a really important element, I think, for your listeners. There's only been a little over 300 billion created in traditional tax exempt issuance. The rest has been in a taxable market.

That appeals to different types of investors. And part of the reason for that is simply advance refunding elimination from the 2017 Tax Act, as well as no restrictions on the use of proceeds that exists in the tax exempt market. You'd think they'd be borrowing more, and we do think they will borrow more in 2021. I think it's been a little bit of a surprise that the market reopened so quickly.

I think there's been an aversion, generally, to debt, but I think it's just- today, we saw the state of Florida, the legislature approve one of the biggest borrowing programs we've ever seen. So I think there'll be more issuance ahead. And then, again, in this segment just a few ahead of us, the infrastructure was mentioned, which everybody wants to do infrastructure. No one can really agree on how to pay for it.

Perhaps we'll see that in 2021 as well and that will add to issuance. But clearly, issuance is underwhelmed. It's been a huge tailwind. In fact, we view this really as a technical rally, very good demand, not a lot of bonds around. And that's been a big driver of the positive performance we've seen, even though the credit fundamentals still are fairly weak given the economy hasn't fully recovered.

SEANA SMITH: So Peter, then, going off of that and taking a look at the past performance, I know the longer term in the lower credit quality assets have been the stronger performers, but what's your recommendation looking out 6 to 12 months? How should investors be positioned at this point?

PETER HAYES: A lot of that's going to depend. And I think we all agree that there will be long-term behavioral changes that will exist from this pandemic, even long after the economy stabilizes and the population is fully, or whatever percentage fully means, vaccinated. But, you know, what sectors will they impact?

So things like small colleges, will it be cheaper for someone to get an education by doing it virtually as opposed to being on campus? That likely is going to be detrimental to small colleges and student housing bonds. Senior living facilities have been particularly hard hit in the pandemic. You know, I think the long-term prognosis for those is not quite good as well.

So I think there's a lot of things that still have to play out. But there are areas, such as airport bonds, for instance, which had gotten beat up initially, I think there's a lot of pent up demand in the system for things like travel, et cetera, that likely will bounce back once we get to a better state in terms of

vaccination and the- I guess the positivity rate declining to at least something closer to 0. So state and local governments, again, I think are going to benefit from the next leg up in the economy.

The housing market's been a big boost to the overall economy, again, state and local governments. So, you know, that tells us we have an up in quality bias over the next 6 to 12 months. Some of those other sectors are on the lower quality part of the spectrum.

ADAM SHAPIRO: Peter, we look forward to following up with you on all of this in the first quarter of next year. Thank you for joining us. Peter Hayes is head of municipal bonds group at BlackRock. All the best to you and your team.

PETER HAYES: Thank you for having me.

## **Yahoo Finance**

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