Bond Case Briefs

Municipal Finance Law Since 1971

Competitive Underwriters Face Mounting Pressure, Competition.

Underwriters are experiencing greater pressure in the competitive market as several firms bid on deals more frequently, and deals, on average, see more bids and narrower spreads.

“Competitive underwriting remains a tough business that’s getting tougher,” said Justin Marlowe, professor at the University of Chicago Harris School of Public Policy and director of the school’s Center for Municipal Finance. “You see some firms that have been around for a while who seem to have stepped up their participation in competitive sales, and then a few others either who weren’t involved or being actively bid but are now getting more involved in the business.”

Competitive issuance during the first half 2024 was $41.467 billion, up 18.7% from the same period of 2023, according to LSEG.

The top 10 competitive underwriters for the first half of the year saw some minor shuffling, with new entrants Truist and Raymond James bumping Citi and RBC Capital Markets. However, those just shy of the top 10 are getting more involved in bidding, according to LSEG Lipper.

Some major players in the negotiated space are absent from the top 10 competitive underwriters list, potentially due to this market being a higher-risk proposition, particularly when there’s volatility, market participants said.

Some firms, though, top the rankings year after year in both the negotiated and competitive markets.

BofA is one of the largest firms, in terms of capital and healthy balance sheets, said Matthew McQueen, head of municipal banking and markets at BofA.

The firm remained the top competitive underwriter during the first half of the year. It underwrote $8.587 billion in 46 deals versus $6.524 billion in 62 in 1H 2023.

Similarly, J.P. Morgan is still a top contender in competitive underwriting, moving up to second in the rankings in 1H 2024 from third in 1H 2023. The firm underwrote $6.897 billion in 70 issues, up from $3.183 billion in 43 issues, according to LSEG.

Both firms pride themselves on being a market leader and serving their large client bases.

“We have the commitment and the capital on balance sheet to continue to support our issuer clients and to distribute that to our investor clients,” McQueen said.

“We aim to be a top trading partner with all of our investor clients,” added Sean Saroya, managing director and head of public finance trading at J.P. Morgan. “Being consistently active across the breadth of the competitive space is an important way to achieve that goal.”

Given its stature, BofA is particularly drawn to large deals, while J.P. Morgan tries to bid on every transaction of sufficient size.

Meanwhile, others, like Baird, retain their status by bidding as a large syndicate, having several other firms with it on every deal, said Peter Anderson, a municipal bond underwriter and trader at Baird.

This works out for the firm as Baird remained in fifth during the first half of 2024, underwriting $2.9 billion in 226 deals versus $2.869 billion in 249 deals in the first half of 2023, according to LSEG.

“We take a group mentality toward everything and work as one in getting these deals,” he said.

The amount of bidders on any competitive deal can vary.

Some deals, such as larger transactions with more risk, may attract a smaller group of bidders, while others will see a wider range, Saroya said.

In any market, especially ones with low “entry barriers,” there will be ebbs and flows of market participants: sometimes heavier, sometimes lighter, Anderson added.

Currently, it’s one of the “heavier” periods as firms attempt to chase the same deals, he said.

Data shows the average bids per competitive sale is up noticeably over the past few quarters, Marlowe said, rising to 8.5 bids in Q1 2024 from 6.1 bids in Q1 2022.

“With the interest rate environment we’re in, with these rates here, with retail participation, that naturally brings in more dealers looking for product,” said Doug Vissicchio, managing director and head of municipal trading at UBS.

A big part of the reason for the increased bid frequency is new and returning entrants to the competitive market, propelled, in part, by Citi’s exit.

“It’s a $4 trillion market, and there is a need out there, so the market will absorb it,” McQueen said.

Many market participants worried about the impact of Citi’s departure on the muni market, including concerns over liquidity, but the bank’s exit created opportunities for firms like Truist to step in and gain a foothold, said Todd Bleakney, managing director and head of munis at Truist.

Truist was one of the new entrants into the top 10 competitive underwriters, ranking seventh. The firm underwrote $1.436 billion in 23 deals in 1H 2024 after not underwriting any deals in 1H 2023, according to LSEG.

The bank took its time building its muni team over the past several years. It started beefing up its muni presence with the hiring of Scott Frail, head of public finance origination and syndicate at Truist, in 2021, followed by Bleakney a year afterward.

Since then, the bank has added around 20 employees, including at least four from Citi in March.

Competitive underwriting is another “extension” of what Truist is doing and building, Bleakney said.

“We see this as an opportunity to take more [of a market] share, but we’re trying to be methodical and thoughtful and profitable as well,” he said.

Along with the new entrants, some longstanding firms stepped up their presence in the competitive

market.

UBS, for instance, rose in the rankings to 12th in the first half of 2024, underwriting $834.5 million in 33 deals, up from 24th and underwrote $197.2 million in 10 deals in the same period of 2023.

When UBS exited the negotiated muni underwriting business, it “doubled down” on competitive underwriting, Vissicchio said.

“All of our customers depend on us for liquidity both on the bid side and on the offered side, and one of the best ways we can satisfy customer demand is staying in the [competitive] market,” he said. “We now have the luxury of being able to tailor our bids to what we think is best for our clients.”

This becomes more challenging as the average bid spread narrows. Bid spreads have steadily declined since the end of 2021, Marlowe said, noting that the average spreads across the past five quarters are the lowest in the past decade.

Multiple times throughout the week, UBS sees the top three or four cover bids all within a basis point of each other, said Vincent Pietanza, head of municipal competitive underwriting.

“A lot of times you need to bid through the market, not necessarily on the whole scale, but in spots,” Anderson said.

Many firms will get similar big presale orders from funds and “then it’s a race to who’s going to be the most aggressive and try to buy the deal,” leading to some frustration, he noted.

“It just goes to show you how tight the market bidding is right now and how hard it is to source products with a competitive space,” Pietanza said.

But even as firms compete against each other in an increasingly competitive marketplace, market participants say competitive underwriting is an important part of their business.

“Buying competitive deals allows us to expand our capabilities in ETFs and on the creation side,” Saroya said. “With increased inventory, we can more effectively engage in e-trading, portfolio trading, and swaps with clients. Sourcing risk for SMAs, funds and other investor clients is essential, making this integral to our business.”

By Jessica Lerner

BY SOURCEMEDIA | MUNICIPAL | 08/05/24 10:50 AM EDT

Copyright © 2026 Bond Case Briefs | bondcasebriefs.com