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The Brookings Institution

The Hutchins Center on Fiscal and Monetary Policy

11th Annual Municipal Finance Conference

Discussion: Mutual Fund Flows and Capital Supply in Municipal Financing

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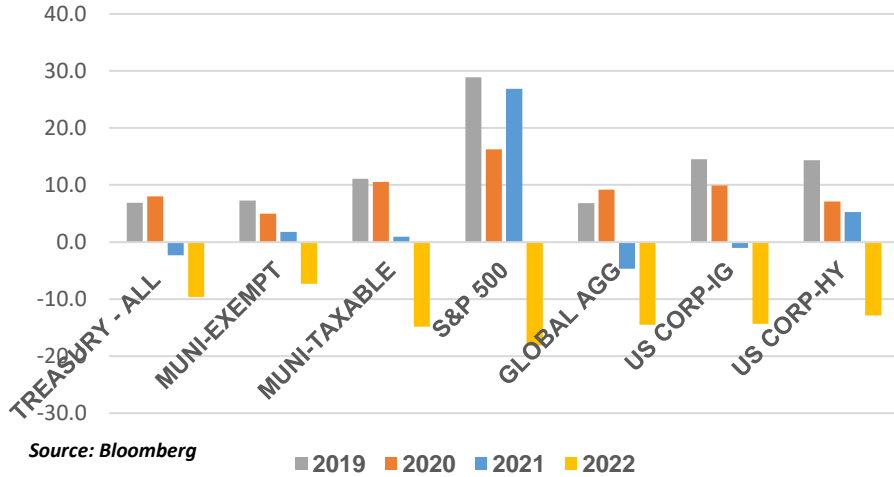


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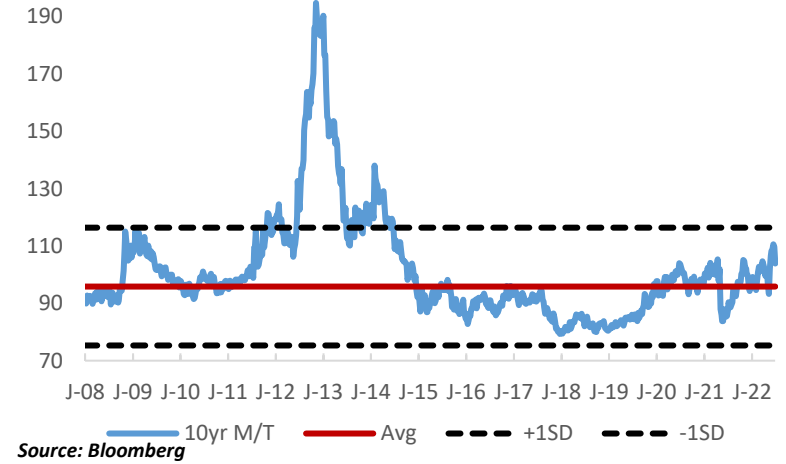
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Demand: Returns, Yield, Rates & RV, Reinvest / Cashflow, Tax Policy

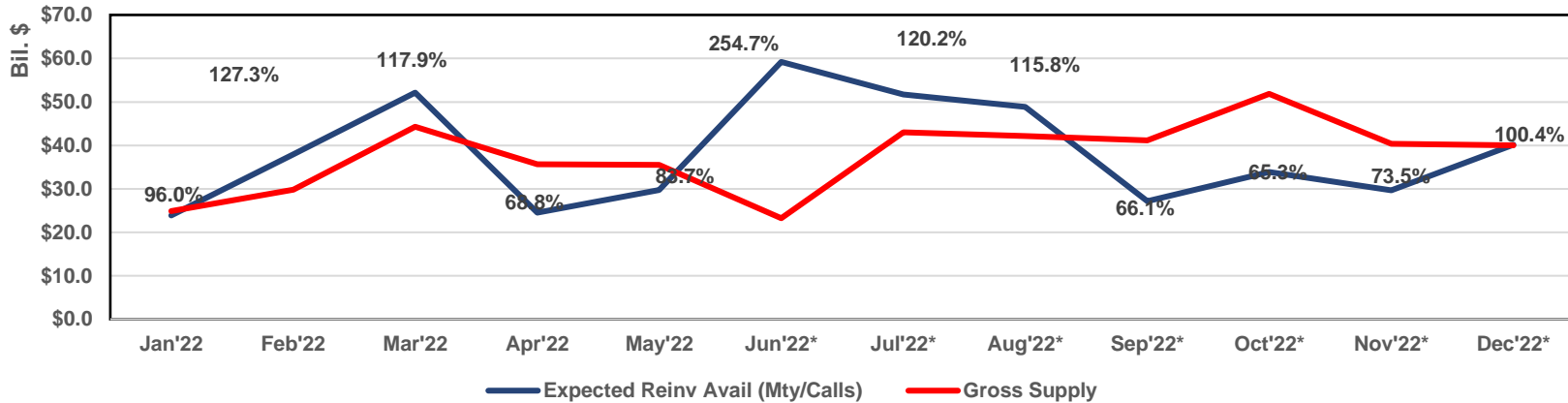
Asset Class Returns 2019-22 YTD



Relative Value: 10yr M/T ratio



Reinvestment Avail % Gross Supply - 2022 Proj

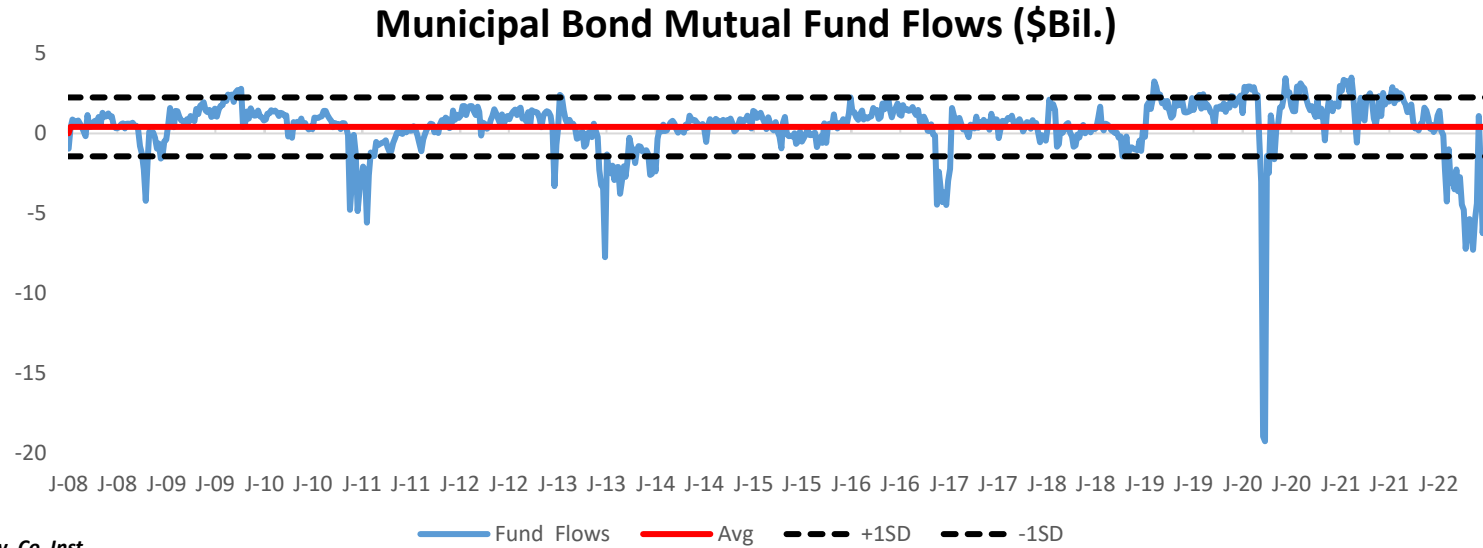


Projected *

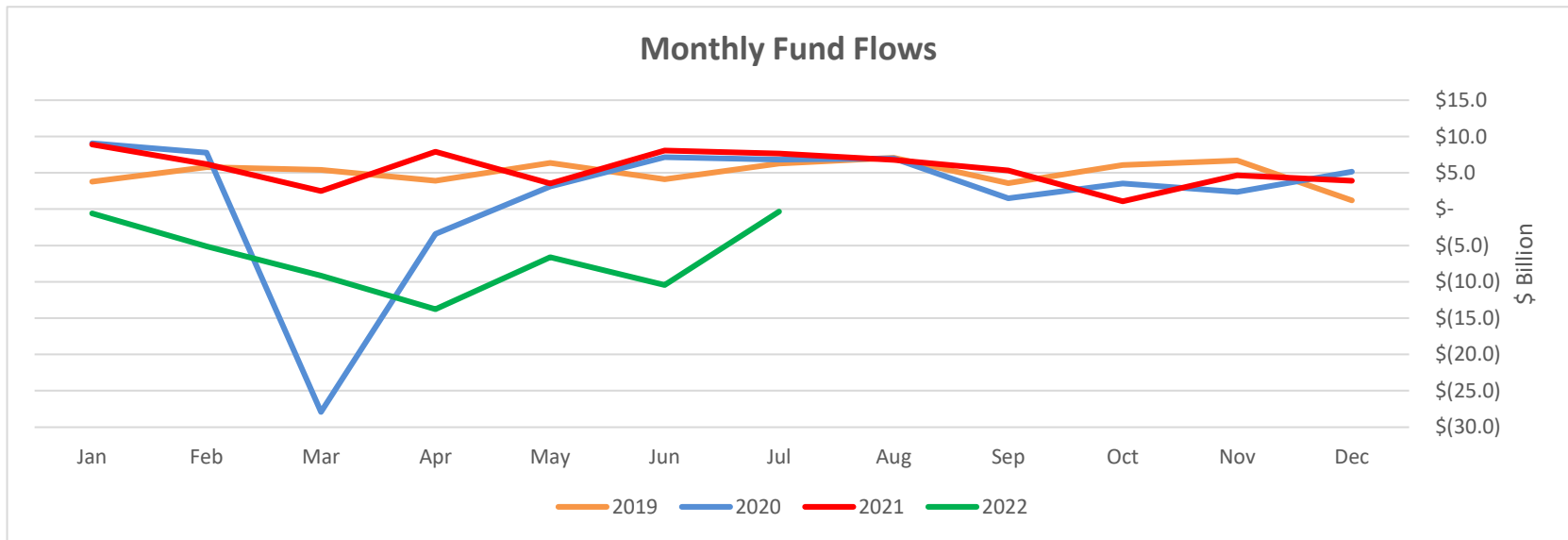


Source: Bloomberg and Thomson Reuters

Demand Proxy: Fund Flows



Source: Inv. Co. Inst.



Source: Bloomberg and Thomson Reuters

Valuation: Munis (x-HY) are fair to cheap but sector RV is mixed

	This Wk	Last Wk	End Qtr	End Yr	Mean		Value	
	7/8/22	7/1/22	3/31/22	12/31/21	12M	3Y	12M	3Y
AAA MMD / UST								
2 Yr	58%	68%	77%	33%	60%	98%	Fair	Fair
5 Yr	65%	77%	81%	47%	62%	82%	Fair	Fair
10 Yr	81%	94%	94%	68%	76%	90%	Fair	Fair
30 Yr	92%	102%	104%	78%	84%	94%	Cheap	Fair
UST								

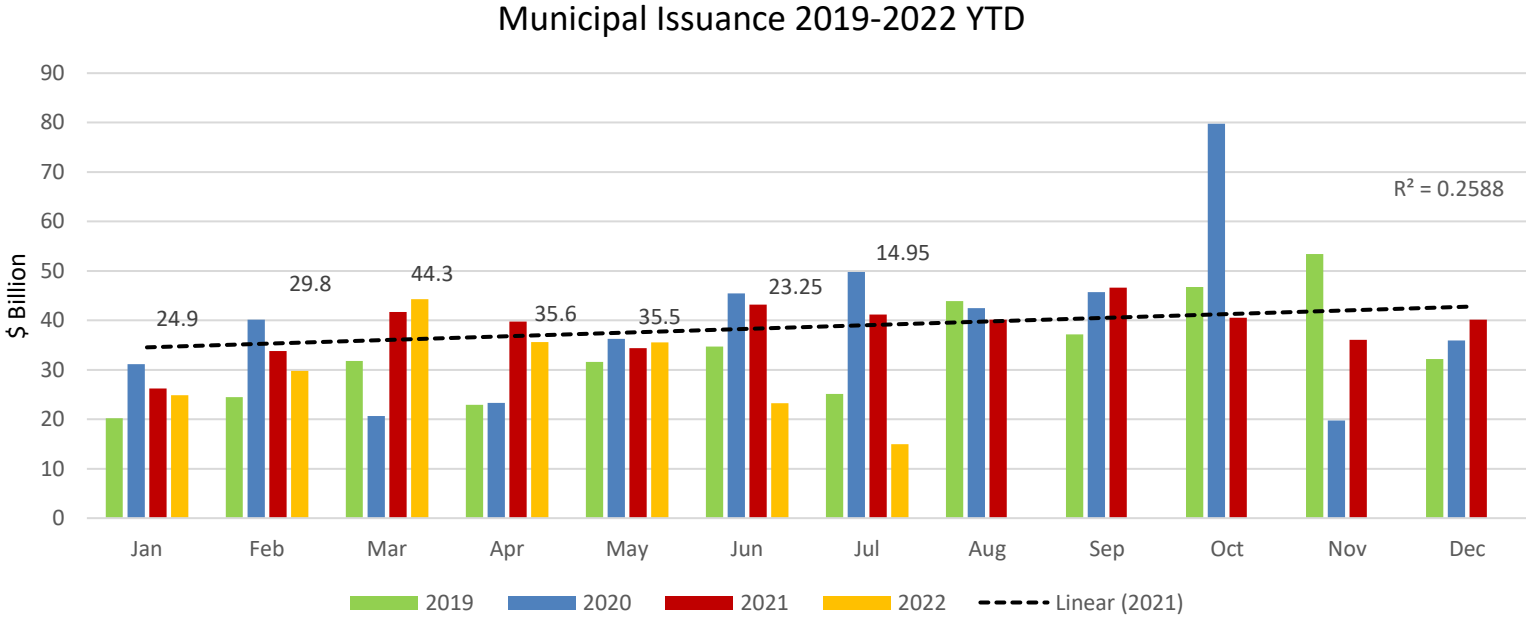
MUNI TAX-EXEMPT SECTOR RELATIVE VALUE*							
3y Historical (%)							
Sector	7/8/22	Avg	Min	Max	SD	Z-Scr	Value
GO	91%	84%	70%	95%	6%	1.11	Cheap
HOSP	128%	144%	113%	171%	16%	-0.97	Fair
HI ED	113%	123%	105%	139%	10%	-1.03	Rich
TRANS	108%	112%	101%	139%	10%	-0.37	Fair
POWER	92%	84%	73%	94%	5%	1.45	Cheap
WTR / SWR	96%	87%	71%	98%	7%	1.38	Cheap
HY	61%	75%	50%	98%	9%	-1.67	Rich

* vs S&P MAIN INDEX (HY vs HY CORP)

MUNI TAX-EXEMPT SECTOR CREDIT SPREADS (10Y)										
3y Historical (bps)										
Sector	Rating	Cur Yld	7/8/22	Avg	Min	Max	SD	Z-Scr	Value	Sharpe
GO	AA	2.83%	28	21	7	54	7	1.00	Cheap	-2.7
	A	3.08%	53	38	20	92	10	1.47	Cheap	0.5
HOSP	AA	3.04%	49	32	10	107	15	1.07	Cheap	0.1
	A	3.36%	80	56	25	146	27	0.90	Cheap	1.2
HI ED	AA	2.82%	27	21	7	43	8	0.74	Cheap	-2.6
	A	3.20%	65	55	16	139	26	0.41	Fair	0.7
TRANS	AA	2.92%	37	31	5	99	21	0.28	Fair	-0.5
	A	3.22%	67	45	18	145	26	0.84	Cheap	0.8
POWER	AA	2.78%	23	14	-1	38	6	1.54	Cheap	-4.2
	A	3.07%	52	36	19	59	10	1.69	Cheap	0.5
WTR / SWR	AA	2.77%	21	17	6	37	6	0.79	Cheap	-4.5
	A	3.34%	78	45	17	83	14	2.37	Cheap	2.2
HY	<BBB-	5.20%	265	310	197	508	84	-0.54	Rich	2.6

Source: Bloomberg

Municipal Issuance Trends 2019 – 2022 YTD



Ramirez Projected 2022 Supply of ~\$450-\$470 Billion

2022 Supply Forecast

- Supply forecast is as much “art” as “science”
- Gross supply proj. @ ~\$460 bil.
- Taxable and new money exp to be lower in '22 vs '21 due to significantly higher rates, inflation, and political uncertainty
- Refundings exp to be higher (~+10% to 15%): due to higher issuance in 2012 (currently refundable bonds w/ 10yr par calls)
- June, July, Aug highest reinvestment / negative net supply months
- Net Supply 2022 (est avg) = ~+\$4 bil./month
- Key variables of issuance / supply forecast:
 - Relative level of rates
 - Universe of current-refundable bonds and advance refundable bonds
 - Current refunding %
 - New money needs
 - Inflation
 - Governmental policies (tax)

2022 Forecast

Gross Supply - Tax Status			
	Total	% YoY	% Tot
Tax-Exempt	\$ 350	3.8%	75%
Taxable	\$ 118	-7.2%	25%
Total	\$ 468	0.8%	100%
Gross Supply - Purpose			
	Total	% YoY	% Tot
New Money	\$ 323	-3.8%	69%
(Taxable)	\$ 50	-0.9%	11%
(Tax-Exempt)	\$ 273	-4.3%	58%
Refunding	\$ 145	12.7%	31%
(Taxable)	\$ 67	-12.8%	14%
(Tax-Exempt)	\$ 78	50.5%	17%
Total	\$ 468	0.8%	100%
Net Supply			
	Total	% YoY	
Gross Supply	\$ 468	0.8%	
Mty / Call (est)	\$ (425)	2.5%	
Total	\$ 43	-13.2%	
Avg mo (est)	\$ 4	-13.2%	

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