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Market Awash in Debt Offerings with Taxable Debt Way Up

The Bond Buyer reported that municipal bond issuance rose to $44.67 billion in November, up over 53% from a year ago. Through the first 11 months of the year, total issuance was $377.7 billion up from $320 billion for the same period last year. A large portion of the increase in debt resulted from a significant increase in the issuance of taxable bonds. The proliferation of taxable bonds is attributed to low rates, increased retail sector demand and growing interest from foreign investors. As interest rates remain low, many issuers have turned to taxable bonds to advance refund their outstanding debt. President Trump signed legislation in December 2017 that eliminated the use of tax-exempt debt to advance refund outstanding bonds. That unexpected change in the law resulted in a significant reduction in municipal debt in 2018. The increase in supply will continue in December as the first week of the year saw over $17 billion hitting the market.

There is some concern in the municipal markets that the increased issuance of taxable municipal bonds could weaken the argument for the necessity to maintain the tax exemption on municipal securities. With many advance refundings being done taxably, the possibility of bringing back tax exempt debt to fund advance refundings becomes more remote. The amount of taxable municipals issued this year is second only to the amounts issued in 2009 and 2010 when taxable Build America Bonds were introduced to the market.

Economists Predict Fed Likely to Stand Pat in 2020

A half-year survey released last week by the members of the Securities Industry and Financial Markets Association's ("SIFMA") Economic Advisory Council showed that the economists polled are evenly divided over the issue of the next move by the Federal Reserve Bank. Of the 17 economists surveyed, half predicted a hike would be the Fed's next move but many in that group said it wouldn't happen in 2020. Just less than half of the group said the Fed's next move would be a rate cut and predicted that it would occur in the second quarter of 2020. While the tax exempt interest rates in the municipal market certainly don't move in lock step with the Fed, if the national bank cuts rates, municipal rates will likely follow and prices on municipal securities will rise.

MMD General Obligation Interest Rates

	December 2, 2019					1 Month Ago - November 1, 2019					1 Year Ago - December 3, 2018				
Term	Aaa	Aa	Insured	A	Baa	Aaa	Aa	Insured	A	Baa	Aaa	Aa	Insured	A	Baa
1 yr.	1.07%	1.10%	1.15%	1.16%	1.45%	1.11%	1.14%	1.19%	1.20%	1.49%	1.84%	1.85%	1.93%	2.03%	2.30%
5	1.16	1.25	1.38	1.43	1.73	1.16	1.25	1.38	1.43	1.73	2.14	2.21	2.40	2.52	2.84
10	1.51	1.65	1.77	1.81	2.13	1.49	1.63	1.75	1.79	2.11	2.51	2.68	2.85	2.98	3.34
15	1.74	1.94	2.04	2.11	2.39	1.70	1.90	2.00	2.07	2.35	2.79	2.99	3.15	3.28	3.67
20	1.92	2.12	2.22	2.29	2.57	1.88	2.08	2.18	2.25	2.53	3.05	3.26	3.39	3.55	3.92

Recent CMA Client Sale Results

Issuer	Issue Type	Par Amount	Sale Date	Term	Rate	Purchaser
Valhalla UFSD	Ref. Bonds	$ 9,915,000	26-Nov	12 yrs.	1.40%	Roosevelt & Cross, Inc.
Mt. Vernon City SD	Bonds	$ 22,275,000	21-Nov	15 yrs.	1.94%	BNY Mellon Capital Markets
Syracuse City	RAN	$ 48,400,000	13-Nov	8 mos.	1.32%	Morgan Stanley & Co. LLC
Sleepy Hollow Village	BAN	$ 7,293,031	12-Nov	12 mos.	1.27%	Piper Jaffray & Co.
Yonkers City	Bonds	$ 73,500,000	Negot.	18 yrs.	2.48%	FHN Financial Capital Markets; M&T Securities; Loop Capital Markets
Niagara County	Ref. Bonds	$ 12,345,000	7-Nov	13 yrs.	1.70%	Janney Montgomery Scott LLC
Irvington Village	Bonds	$ 9,890,000	6-Nov	16 yrs.	2.04%	Roosevelt & Cross, Inc.