CapitalMarketsAdvisors,LLC

Capital Markets News

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Market Uncertainty Continues to Challenge Issuers in Early 2023

Recent reports indicating strong consumer demand and a tight labor market have stoked fears that the Federal Reserve may lift interest rates to higher levels than initially forecast by economists towards the end of 2022. Initial forecasts speculated that the Fed would raise rates up until the new year with the hope that rates would begin to fall as winter turned into spring in early 2023. Those optimistic outlooks now appear unlikely as experts keep raising their long-term expectations for interest rates which are already at a 16-year high.

Current expectations of additional rate hikes may be the basis for statistics recently reported in *The Bond Buyer* stating that in February, municipal bond issuance dropped by 42% led, in part, by a steep decline in taxable and refunding issuances. Tax-exempt issuances were down as well, by 32%, with new money issuances also down 34% as compared to this time last year. One Bank of America economist said Tuesday that the Fed "might have to raise rates closer to 6% to get inflation back to about 2% year-over-year", predicting more Fed rate hikes than initially expected. With all the uncertainty in the market, some local governments have taken a wait and see approach, many with unspent federal aid, strong balance sheets, and an unwillingness to enter the market while rates are at their peak. These factors have contributed to the decrease of supply in the market as tax exempt interest rates steadily rose throughout February before settling down toward the end of the month.

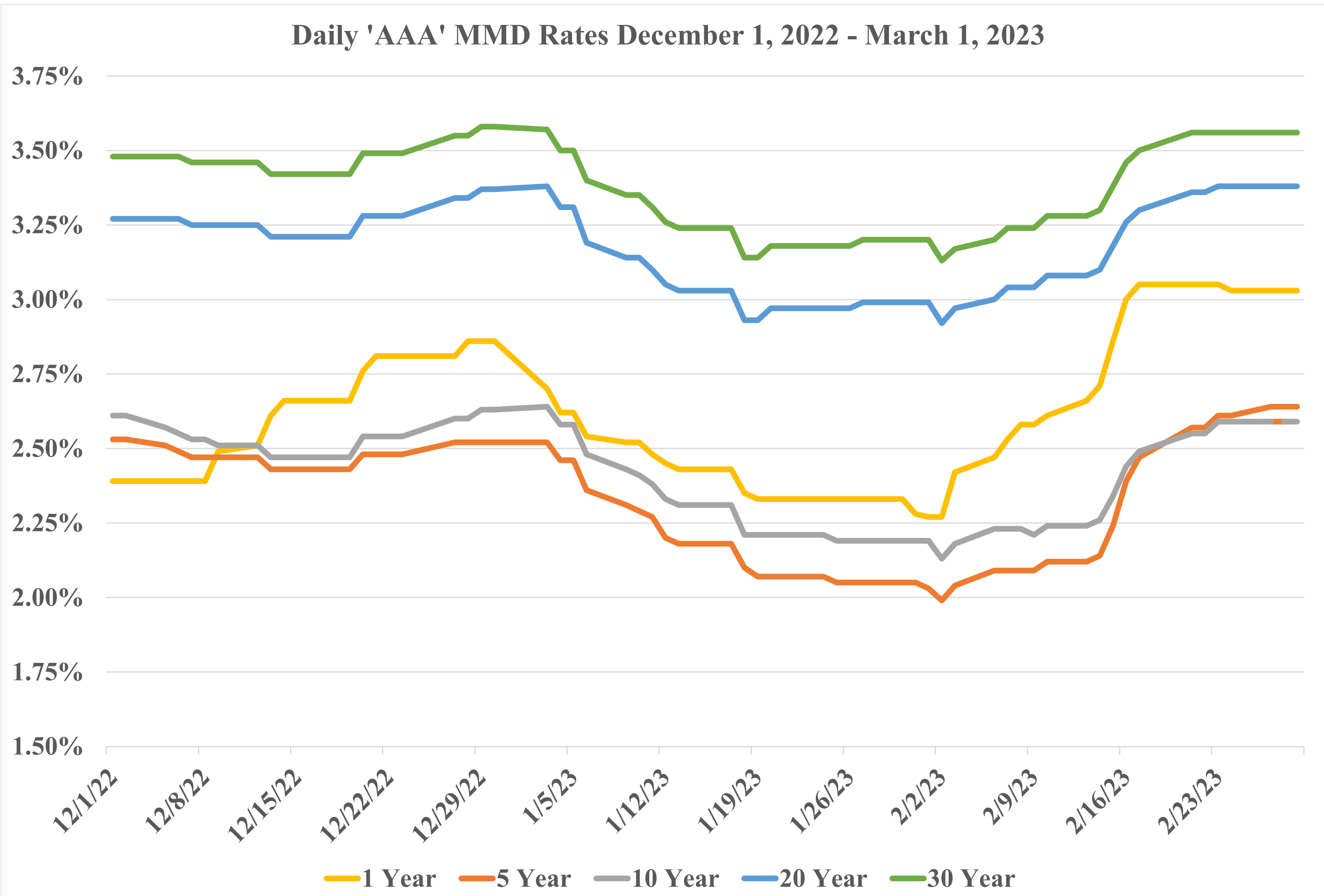
The current expectation is that the Fed will raise rates by another quarter of a percent in March and possibly again in May, continuing its aggressive approach to combating inflation. Despite this outlook, many see issuance picking up in March and April. However, experts contend that with local governments flush with cash, it is hard to predict when issuance will pick back up.

With the likelihood of tax exempt rates continuing to climb, it may be time to reconsider the viability of advance *taxable* refundings. This "bird in the hand approach" could make even more sense considering that the necessary legislation by the US Congress to once again allow *tax-exempt* advance refunding, is not likely to be adopted this year.

Recent CMA Client Sale Results

Issuer	Issue Type	Par Amount	Sale Date	Term	Rate	Purchaser
East Hampton HA (Aaa)	Bonds (Tx.)	$440,000	28-Feb.	3 yrs.	6.00%	Roosevelt & Cross, Inc.
Buchanan Village (AA-)	BAN	$50,000	21-Feb.	1 yr.	5.25%	PCSB Bank
Rochester City (AA-/A1)	BAN	$49,005,000	15-Feb.	1 yr.	3.32%	Oppenheimer & Co.
North Tonawanda City (A3)	TAN	$1,595,000	8-Feb.	3 mos.	5.39%	Fidelity Capital Markets
Hingham Town (Aaa)	BAN	$83,542,880	7-Feb.	1 yr.	2.86%	Jefferies LLC
Garden City Village (Aaa)	BAN	$46,778,000	2-Feb.	1 yr.	2.50%	BofA Securities
Cheektowaga Town (Aa3)	Bonds	$10,000,000	1-Feb.	20 yrs.	2.94%	RBC Capital Markets

At the start of January, interest rates had begun to decline, reaching their lowest point in the past three months on February 2nd. From this point forward, interest rates trended upward with short term rates increasing significantly. In February, 1-year rates increased 76-basis points from February 1st through February 28th. With the Fed still striving to slow down the economy, industry professionals anticipate that rate increases will continue. The Fed is projected to raise the target interest rate by an additional 25 basis points, with the potential of a 50-basis point hike, although unlikely, by the end of March. Year-over-year, one year note rates are up an eye-popping 200+ basis points while 15-year bond rates have almost doubled.



MMD General Obligation Interest Rates

	March 1, 2023					1 Month Ago - February 1, 2023					1 Year Ago - March 1, 2022				
Term	Aaa	Aa	Insured	A	Baa	Aaa	Aa	Insured	A	Baa	Aaa	Aa	Insured	A	Baa
1 yr.	3.03%	3.08%	3.18%	3.19%	3.52%	2.27%	2.32%	2.42%	2.43%	2.76%	0.81%	0.87%	0.96%	0.97%	1.17%
5	2.64	2.74	2.83	2.88	3.23	2.03	2.13	2.22	2.27	2.62	1.30	1.39	1.47	1.52	1.77
10	2.59	2.77	2.90	2.97	3.49	2.19	2.37	2.50	2.57	3.09	1.53	1.69	1.80	1.87	2.24
15	3.21	3.51	3.61	3.72	4.16	2.82	3.12	3.22	3.33	3.77	1.67	1.87	1.95	2.06	2.40
20	3.38	3.72	3.83	3.93	4.37	2.99	3.33	3.44	3.54	3.98	1.77	2.01	2.10	2.20	2.54