



U.S. Municipal Bond Market 2020 Volume Forecast Preview

Quick Look: Municipal Bond Market Volume Forecast for 2020

We estimate total primary market municipal bond issuance will be \$450 billion in 2020, a record amount. Our estimate just surpasses the \$449 billion sold in 2017, a large portion of which was driven by the 2017 Tax Cut scare in the final two months of the year.

U.S. Municipal Bond Issuance Forecast Breakdown

Type	Forecast (in \$) 2020	Forecast 2020 (as a % of Total)	Full Year* (in \$) 2019	Full Year* 2019 (as a % of Total)
New Money	\$297,000	66%	\$282,705	69%
Refunding	153,000	34%	129,868	31%
Total	\$450,000	100%	\$412,572	100%
Tax-Exempt	\$360,000	80%	\$343,197	83%
Taxable	90,000	20%	69,375	17%
Total	\$450,000	100%	\$412,572	100%

Source: Thomson Reuters and HilltopSecurities. *Dec. 2019 issuance forecast at \$34.9 billion.

Next year's new money issuance is going to come in at \$297 billion (66% of overall issuance), approximately 5% higher than new money issuance in 2019. Refunding issuance is likely to amount to \$153 billion, or about 34% of overall issuance. While the percentage breakdown is not quite as high as the 50%+ levels we saw before the 2017 Tax Cut eliminated tax-exempt advance refundings, it is well above 2018's 24%, and slightly above 2019's 31%.

Refunding Volume is Dependent Upon Interest Rates

One of the issues of the day in the municipal bond market has to do with this recent trend of taxable issuance. We think that if interest rates stay near where they are now or drop, then the taxable refunding trend could continue. A small amount of non-refunding taxable issuance will remain but the majority of the \$90 billion of taxable issuance we expect to see in 2020 will be for refundings. This will amount to about 20% of overall issuance and is just under the percentage breakdown of taxable issuance compared to tax-exempts sold from August through November 2019. While all of the above-mentioned variables are sensitive to interest rate movements, this component is especially susceptible and very much driven by future interest rate action. The remaining \$360 billion of issuance will be tax-exempt and include a portion of bonds subject to the Alternative Minimum Tax (AMT).

Future commentary will follow up this preview and provide a more in-depth look at our volume forecast and our expectation for 2020.

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