



## U.S. Municipal Bond Market

# Tax Deferrals Could Create a Cashflow Crunch; Market Needs Help With Liquidity; Federal Government Provided Some, Working on More Targeted Support

Summary, as of end of trading Friday, March 20

- To date, there have been a total of 16,315 coronavirus cases reported in the U.S., 220 deaths, and 125 recoveries;<sup>1</sup>
- Tax deferrals and a dislocated market with limited access could create a cashflow crunch for municipal issuers;
- Friday, the Federal Reserve expanded its Money Market Liquidity Support program to state and local government short-term debt;
- Also Friday, the Municipal Bonds Emergency Relief Act was introduced in the Senate. It is an emergency measure that could allow the Federal Reserve to purchase state and local government debt. We need more specifics on this legislation to share more analysis;
- The municipal bond market has lost a principal point of navigation because of the lack of primary market activity, and secondary trading, while substantial, is occurring at wider and wider spreads. We saw less than \$1 billion of municipal issues were sold this week out of a \$5 billion calendar. Next week's calendar has about \$2 billion, and over \$10 billion of issuance remain on day-to-day status; and
- AAA MMD rose 40-50 basis points across the curve at the close of today, Friday.

### Tax Deferrals Could Create a Cashflow Crunch for State & Locals

There are tax policy adjustments in the form of deferrals being made at different levels of government in order to give taxpayers and companies additional financial flexibility in coming months. There are unprecedented steps being taken across the financial landscape, so it is not surprising.

U.S. Treasury Secretary Steven Mnuchin announced this week that individuals who owe up to \$1 million in tax payments to the U.S. federal government and companies who owe up to \$10 million can defer until July 15, 2020.<sup>2</sup> If they file an extension, tax payment could be delayed until October 15, 2020. We expect similar actions could be taken at other levels of government, which is already underway in some areas. Maryland announced a delay for upcoming tax due dates, which right now matches the federal government's July 15 extension.<sup>3</sup> The Oklahoma Tax Commission announced yesterday that they are also deferring until July 15.<sup>4</sup>

Again, we understand why these tax policies are being adjusted, which is to give taxpayers flexibility. The problem is state and local governments may find themselves in a cashflow crunch as they wait for those delayed tax revenues to come in. In a market that is functioning normally they may be able to buy themselves some time with a short-term borrowing, if necessary. But, the municipal market is not functioning normally right now. This could be potentially more impactful to smaller, rather than larger, issuers because the smaller issuers do not have as much revenue flexibility. But, some larger issuers very well could feel this crunch.

Tom Kozlik

Head of Municipal Strategy & Credit  
214.859.9439  
tom.kozlik@hilltopsecurities.com

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## The Fed Expands Money Market Liquidity Support to State and Local Government Debt

The Federal Reserve announced Friday that it is expanding its Money Market Mutual Fund Liquidity Facility program to include short-term municipal debt with maturities of less than 12 months. [The Fed's press release and term sheet can be found here.](#)

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## Municipal Bonds Emergency Relief Act

A Senate bill introduced Friday has the potential to help alleviate the lack of liquidity in the municipal bond market.<sup>5</sup> Senator Bob Menendez introduced the Municipal Bonds Emergency Relief Act that could allow the U.S. Federal Reserve to:

...buy and sell, at home or abroad, bills, notes, revenue bonds, and warrants of any maturity, by any State, county, district, political subdivision, instrumentality of a political subdivision, territory, possession, or municipality in the United States, including irrigation, drainage and reclamation districts.

The devil could be in the details here. We viewed a draft of the bill today that noted, "actions shall be subject to such limitations, restrictions, and regulations as the Board may prescribe." In other words, even if this passes into law, there is still not enough information to be able to say that this legislation is the complete solution to the liquidity crunch currently facing the long- and short-term municipal bond market. We, and certainly the market, hope in the coming days lawmakers will provide that clarity, and that it does provide calm to the market.

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## Municipal Bond Issuance for the Week

The primary municipal bond market calendar for the week of March 16 was about \$5 billion. It appears that less than \$1 billion was priced in the primary market.

Next week's (week of March 23) primary municipal bond market calendar is about \$2 billion right now, and we believe there is over \$10 billion of issuance that can be considered day-to-day.

## AAA MMD Final Market Read

There were again significant increases in AAA MMD yields today. AAA MMD rose 40-50 basis points across the curve at the close of today, Friday. Yesterday, AAA MMD rose 50 bps across the curve.

The market is continuing to searching for a balance. There has been a significant amount of pressure on funds in recent days (\$12 billion of outflows yesterday). The municipal bond market has lost a principal point of navigation because of the lack of primary market activity and secondary trading, while substantial, is occurring at wider and wider spreads. Bid lists are continuing to appear on a daily basis. There are going to be opportunities for buyers during this dislocation process.

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### Recent HilltopSecurities COVID-19 Municipal Commentary

- [\\$12 Billion Flows Out of Municipal Funds, Recent Monetary & Fiscal Policy](#), March 19, 2020
- [March 18 Market Activity – A Focus on the Significant Pressure in the VRDO Market](#), March 18, 2020
- [March 17 Market Activity](#), March 17, 2020
- [March 16 Market Activity: HilltopSecurities Lowers Credit Outlooks Due to Unprecedented Steps Taken to Contain COVID-19](#), March 16, 2020
- [Municipal Market Update: Week of March 16 Playbook](#), March 16, 2020
- [Municipal Market Update: COVID-19 Impact Worsens](#), March 12, 2020
- [Lowered Airport Sector Outlook: Recent COVID-19 Impact](#), March 11, 2020
- [Falling Confidence and No Federal Stimulus Increase to Start the Week](#), March 9, 2020
- [Uncertainty – What the Municipal Market Knows and Doesn't Know About COVID-19](#), March 4, 2020
- [Bracing for the Worst; the Coronavirus Market Effect – Status of the Coronavirus Impact on the US Municipal Bond Market \(page 2\)](#), Feb 26, 2020

### Recent HilltopSecurities COVID-19 Economic Commentary

- [Government Goes Big on Latest Rescue Plan](#), March 19, 2020
- [Serious Support on the Horizon](#), March 16, 2020
- [Waiting on Fiscal Policy as Aggressive Fed Move Falls Flat](#), March 16, 2020
- [Stocks Rebound as Central Banks Respond](#), March 13, 2020
- [On the Edge of Recession](#), March 12, 2020
- [Central Banks Rush to Mitigate Pandemic Fallout](#), March 11, 2020
- [Untying the Knot](#), March 10, 2020
- [Runaway Markets Ignore Massive Payroll Number](#), March 6, 2020
- [Bracing for Zero](#), March 5, 2020

<sup>1</sup> Please see [Worldometers.info/coronavirus](http://Worldometers.info/coronavirus) for data updated hourly, last accessed 3/20/20 12:06pm central time.

<sup>2</sup> Russell, Roger; [Tax payments deferred until July 15](#); AccountingToday; March 17, 2020.

<sup>3</sup> Iannelli, Nick; [Amid coronavirus concerns, Maryland delays tax payments](#); WTOPNews; March 18, 2020.

<sup>4</sup> [Oklahoma Tax Commission To Allow Deferred Tax Payments Due to Coronavirus](#); News 9; March 19, 2020.

<sup>5</sup> Flatley, Daniel; [Fed Could Snap Up Municipal Debt Under New Senate Proposals](#); Bloomberg Law; March 20, 2020.

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