



## U.S. Municipal Bond Market

# Congress Working on \$2+ Trillion of Stimulus; Fed Provides More Targeted Support for Municipals

### Summary, as of Monday, March 23

- There have been a total of 41,526 coronavirus cases reported in the U.S., 501 deaths, and 187 recoveries to date;<sup>1</sup>
- Congress is working toward a \$2+ trillion stimulus package;
- The Federal Reserve announced more extraordinary measures Monday morning, some targeted to the municipal market;
- Update on primary market issuance trends, including what we are seeing with taxable municipals; and
- AAA MMD Yields were unchanged at the end of Monday's trading.

### Congress Working Toward a \$2 Trillion Stimulus Package

New Jersey Senator Bob Menendez introduced the "Municipal Bonds Emergency Relief Act" on Friday, but over the weekend that legislation – in a slightly different form – made its way into the Senate's version of the larger \$2+ trillion Coronavirus Aid, Relief, and Economic Stabilization Act or (CARES Act). Observers were hoping for an early Monday vote (today), but lawmakers are continuing to negotiate. House Speaker Nancy Pelosi announced yesterday she would release her own stimulus plan, indicating the two sides may be further apart than expected. Additionally, lawmakers have pushed back a potential vote to 6 p.m. EDT today. Whether or not that occurs remains to be seen, as it still seems as though details need to be ironed out by each side. The wording included in the Senate's version would allow for the purchase of state and local government debt direct from issuers or in the secondary market.

### Federal Reserve Monday Morning Announcements Support Liquidity (generally) and Municipal Liquidity (specifically)

The Federal Reserve continues to take very aggressive steps to send a message to market participants – and hopefully leave no stone unturned in supporting capital markets – by providing extraordinary measures across different sectors. One of their more meaningful announcements was they will purchase Treasury and mortgage-backed securities "in the amounts needed to support smooth market functioning and effective transmission of monetary policy to broader financial conditions and the economy." They were previously planning to purchase \$700 billion in total. There were also two municipal market related announcements. [See the Fed's full announcement here.](#)

1. The Fed announced they were expanding the Money Market Mutual Fund Liquidity Facility (MMLF) to include additional securities, including municipal variable rate demand obligations/notes/ (VRDOs). We wrote about the experience we were seeing in the VRDO market on Wednesday, March 18. Please see [A Focus on the Significant Pressure in the VRDO Market.](#)
2. The Fed also expanded their Commercial Paper Funding Facility (CPFF) to include "high-quality, tax-exempt commercial paper as eligible securities," expecting this could help short term municipal flow.

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### Municipal Bond Issuance, Trading for the Week

This week's primary municipal bond market calendar is about \$1.8 billion right now, but even as of early Monday afternoon primary market price discovery remains difficult. Even as of today, some issues started to move to the day-to-day side of the calendar. Still, there is at least \$10 billion of issuance that can be considered day-to-day, and this is building. Last week's primary municipal bond market calendar (week of March 16) was about \$5 billion, with less than \$1 billion priced.

*Issuers are waiting for an opportunity to market their bonds, but investor appetite for primary market issuance is challenging for taxable municipals, too.*

### Taxable Municipal Issuance Trends

Taxable municipal issuance was a meaningful part of overall municipal issuance in 2019, with refundings driving this trend. Out of last year's total issuance of \$421 billion, about 17%, or \$70 billion, was taxable. There was only \$30 billion of taxable municipal issuance in 2018 by comparison.

Currently, there is a little over \$4 billion of taxable municipal issuance that is categorized as day-to-day on the primary market calendar. Issuers are waiting for an opportunity to market their bonds, but investor appetite for primary market issuance is challenging for taxable municipals, too. Last week only a very small handful of taxable municipal deals priced. The largest was only \$10 million, and the others were under \$5 million each.

### AAA MMD Final Market Read (Monday, March 23)

The final read from The Municipal Market Monitor (TM3) indicated that AAA municipal yields were unchanged compared to Friday, March 20. On Friday, AAA municipal yields were 40-50 basis points higher compared to Thursday, with the 2 year AAA Municipal Market Data (MMD) yield ending at a 2.52%, the 10 year AAA MMD yield at 2.79%, and the 30 year AAA MMD yield at 3.37%.

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### Recent HilltopSecurities COVID-19 Municipal Commentary

- [Tax Deferrals, Market Needs Help With Liquidity, Federal Government Support](#), March 20, 2020
- [\\$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

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

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