



U.S. Municipal Bond Market

Health Crisis Abates, Market Normalizing, & Watching Credit Quality

Summary

- It appears as though the worst of the health crisis could be behind us, but uncertainty remains about how and when the country will open for business.
- The U.S. Labor Department reported Thursday, April 16 that weekly jobless claims were 5.245 million. This raises the loss of jobs to 22 million in recent weeks.
- The Federal Reserve has offered only bits of updated information about the \$500 billion Municipal Liquidity Facility announced last week. House Financial Services Committee Chair Maxine Waters wrote a letter to the Fed asking the program be expanded.
- State and local government credit quality is evolving, mostly lower. We cite the Center on Budget and Policy Priorities forecasts and cite examples such as California, Illinois, and New Jersey.
- After six weeks of outflows, demand finally returned to the municipal bond market as \$833 million flowed into municipal bond mutual funds per Lipper.
- The municipal bond market is continuing to normalize. Municipal Market Data (MMD) benchmark yields were mostly unchanged this week, and the negotiated calendar not only was absorbed by investors, we saw incidents where issues were upsize.

COVID-19 Health Crisis Abating

It appears as though the worst of the coronavirus health crisis could be behind us. The actual results have not come close to the breadth of causalities initially estimated by healthcare professionals. We were warned that the last two weeks were supposed to be grim. At the end of March, the White House's Coronavirus Task Force forecast total U.S. deaths from COVID-19 could be between 100,000 and 240,000.¹ President Trump said the U.S. is, "In the midst of a great national trial unlike any we have ever faced before" and that the last two weeks would be "painful."²

Then last week Dr. Anthony Fauci's (director of the National Institute of Allergy and Infectious Diseases) cut the White House estimate of projected COVID-19 deaths to 60,000.³ This week, Dr. Fauci was quoted as saying that sports may be able to continue this summer as long as there are no fans in the stands and the athlete's health is monitored regularly.⁴ So far, there have been a total of 684,427 coronavirus cases reported in the U.S., 35,463 deaths, and 58,156 recoveries to date.⁵

Status of Regional State Cooperatives, Pacts

Concern about additional spreading of the virus continues. While chatter about opening regional economies continues, actions to reopen or start activity remains mostly just speculation for now. Some organization moves in the formation of regional groups of state governments have sprung up this week. These regional cooperations are, for now, still tilted toward limiting movement and business.

There is a northeastern region collection of governors from the states of New York, New Jersey, Connecticut, Pennsylvania, Rhode Island, Delaware, and later Massachusetts, who announced Monday they would coordinate the reopening of the region's economies and schools.

Please see disclosure starting on page 5.

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We should note that New York Governor Andrew Cuomo and the other east coast states extended their state's stay-at-home order until May 15, fearing spread of the virus after any increased activity.

At the beginning of the week, California, Oregon, and Washington announced a Western States Pact. In a statement from each of the governors' offices, the states pledged that resident health comes first and that health outcomes, and not politics, will guide decisions.

Yesterday, governors from Illinois, Michigan, Ohio, Wisconsin, Minnesota, Indiana, and Kentucky announced they will work together to reopen the Midwest regional economy. The number one priority during this effort is "health and safety of our citizens," read a statement.

Texas Governor Greg Abbott is planning to announce his plan to reopen businesses on Friday, but already warned on Monday, "This is not going to be a 'rush the gates, everybody is able to suddenly reopen all at once.' We have to understand that we must reopen in a way in which we are able to stimulate the economy while at the very same time ensuring that we contain the spread of COVID-19."⁶

As of the beginning of this week, Dallas County Judge Clay Jenkins was hesitant to commit to opening up the county to non-essential activity. He stated that he was not inclined to allow activity to resume while the number of COVID-19 cases continued to increase.⁷

U.S. Labor Market Continues to Significantly Deteriorate

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Updated Details on Fed's Municipal Liquidity Facility

Last week, the U.S. Federal Reserve announced the creation of its \$500 billion Municipal Liquidity Facility. The program will allow the New York Fed to provide short-term liquidity (up to 24-month maturity) to state and some local governments. The Bond Dealers of America (BDA) reported the Fed expects the program will be operational in four to six weeks. The BDA also reported the Fed is focused on facilitating access to smaller local governments.

Potential Expansion of Municipal Liquidity Facility

Yesterday, the House Financial Services Committee Chair (Maxine Waters, D-CA) wrote to Federal Reserve Chairman Jerome Powell asking that the \$500 billion Municipal Liquidity Facility be expanded in several different ways. Key among the requests was to expand the maturity (past 24 months) and Chairwoman Waters requested a larger number of local governments and tribal governments and territories be included. Chair Waters letter to Fed Chair Powell can be seen here.

Watching How State Government Credit Quality Evolves

The shelter-in-place orders and a reduced amount of activity are filtering through to state and local government budgets. Illinois FY20 general fund revenues are down \$2.7 billion and projections are down \$4.6 billion for FY21. The total FY21 budget shortfall could be as much as \$7.4 billion according to the governor's office. We do not have exact numbers out of New Jersey yet, but Governor Phil Murphy has said they are, "falling off a cliff."⁹ The independent legislative analyst office in California, led by Gabe Petek, is projecting a budget shortfall of at least \$35 billion or as much as \$85 billion in future years.¹⁰

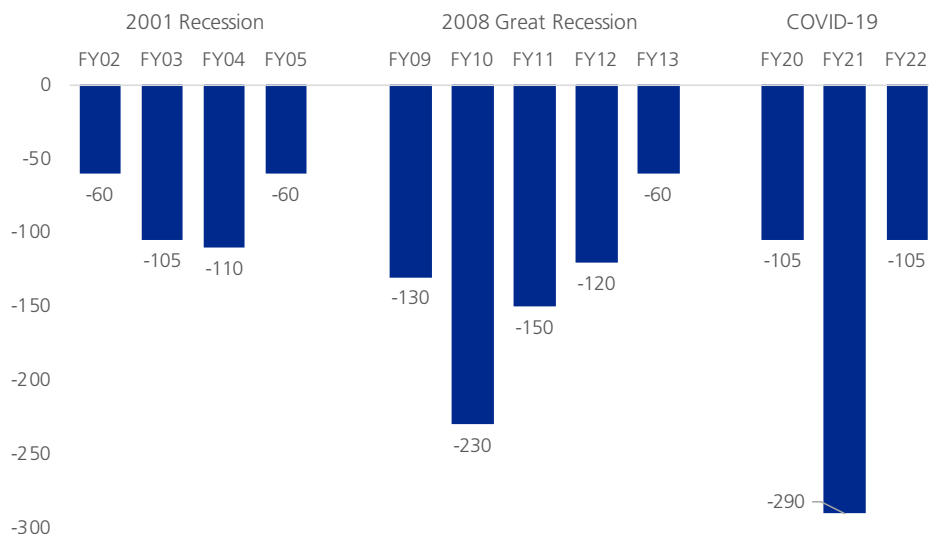
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Not only are state fiscal pressures growing, they are currently projected for FY21 to be worse than what we saw at the lowest point of the Great Recession. The Center on Budget and Policy Priorities (CBPP) is forecasting that the state FY21 budget shortfall

will be \$290 billion, just higher than the \$230 billion shortfall states saw in FY10. In all, the current state budget shortfall the CBPP is projecting amounts to \$500 billion over three fiscal years.¹¹

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COVID-19 State Budget Shortfall Projections
 (Total state budget shortfall in each FY, in \$ billions of 2020)



Source: Center on Budget and Policy Priorities and HilltopSecurities.

The local governments are being hit broadly as well. A survey from the National League of Cities and the U.S. Conference of Mayors is reporting 96% of all budget shortfalls are the result of unanticipated revenue declines. Local government layoffs are anticipated: 39% of municipalities with a population between 200k and 499k and 47% of municipalities with populations 500k+ are expecting to lay off employees at this point.¹²

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Market Topics

Demand Returns - Money Flows into Municipal Funds

After six weeks of outflows, demand finally returned to the municipal bond market as \$833 million flowed into municipal bond mutual funds according to Lipper data released Thursday, April 16. We should note that the six weeks of outflows amounting to \$31 billion negates the positive flows we saw going back to the end of October 2019.

Benchmark AAA MMD yields stayed relatively unchanged this week as market demand remained mostly steady. This week’s calendar was mostly digested, and we also saw cases of upsizing, including the \$1 billion California issue that saw about a 40% increase in par after the preliminary pricing.

MMD Relatively Unchanged this Week

Date	2 Year (%)	10 Year (%)	30 Year (%)
4/13/2020	0.87	1.10	1.93
4/14/2020	0.85	1.07	1.90
4/15/2020	0.85	1.07	1.90
4/16/2020	0.85	1.07	1.90
Change from: 4/13 to 4/16	-0.02	-0.03	-0.03

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Source: Thomson Reuters and HilltopSecurities.

Next week's calendar looks like it is just shy of \$4 billion. Barring any unforeseen hiccups, this should be processed orderly. The day-to-day calendar has fallen to about \$5 billion, down from the \$10-12 billion we saw just a few weeks ago. We have seen some issues fall completely off the calendar and suspect they will target pricings at a later time.

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Municipal to Treasury (M/T) Ratios remained attractive and slightly higher than last week. The 2 year, 10 year, and 30 year M/T Ratios all rose slightly through Thursday.

M/T Ratios Rise Slightly this Week

Date	2 Year M/T Ratio (%)	10 Year M/T Ratio (%)	30 Year M/T Ratio (%)
4/13/2020	355	146	139
4/14/2020	378	142	135
4/15/2020	415	167	149
4/16/2020	419	175	157

Source: Thomson Reuters and HilltopSecurities.

High Profile Rating Agency Actions

Moody's

- New York MTA was downgraded to A2 from A1, outlook remains "Negative," April 16.

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S&P Global

- Lowered outlooks mostly to "Negative" on 60+ Non-Profit 501c3 issuers, April 10.

Fitch Ratings

- Downgraded Illinois to BBB- from BBB and assigned "Negative" outlook, April 16.

¹ Oprysko, Caitlin; [Coronavirus task force presents a bleak landscape with 100k deaths as best-case scenario](#); Politico; March 31, 2020.

² Ibid.

³ Miller, Kathleen and Jennifer Jacobs; [Fauci Slashes U.S. Death Rate Projection, Raising Hope for Re-Opening](#); Bloomberg; April 9, 2020.

⁴ [Dr. Anthony Fauci promotes fan-free return for sports](#); ESPN; April 16, 2020.

⁵ Please see [Worldometers.info/coronavirus](#) for data updated hourly, last accessed 4/17/20 11:01am central time.

⁶ [Report: Abbott will reveal plan to reopen Texas amid coronavirus pandemic Friday](#), Click2Houston.com; April 16, 2020.

⁷ Sweat, Candace; [Public Health Experts will Guide Businesses' Reopening, Jenkins Says](#); NCBDFW; April 13, 2020.

⁸ Cox, Jeff; [Weekly jobless claims hit 5.245 million, raising monthly loss to 22 million due to coronavirus](#); CNBC; April 16, 2020.

⁹ Young, Elise; [NJ Governor Wants Bonds to Offset Billions in Lost Revenue](#); Bloomberg; April 15, 2020.

¹⁰ Marois, Michael; [California Faces Budget Shortfall that Could Top \\$35 billion](#); Bloomberg; April 16, 2020.

¹¹ McNichol, Elizabeth, Michael Leachman, and Joshua Marshall; [States Need Significantly More Fiscal Relief to slow the emerging Deep Recession](#); Center on Budget and Policies Priorities; April 14, 2020.

¹² See a summary of the survey results here – [The Economy and Cities: What America's Local Leaders Are Seeing](#).

Recent HilltopSecurities COVID-19 Municipal Commentary

- [Governments on Deadline for \\$150 Billion of Cares Act Relief](#), April 13
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- [Private Higher Education - Impact from Social Distancing](#), March 31, 2020
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- [Four Weeks in March](#), March 27, 2020

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- [Notes on the April Bloomberg Economists Survey](#), April 14
- [2020 Q1 Economic Recap and Rate Outlook](#), April 9, 2020
- [Stocks Gain on Broadening Fed Support](#), April 9, 2020
- [March Payrolls Plunge](#), April 3, 2020
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