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U.S. Municipal Bond Market

Labor Market Stunted, Recovery Halted, Negotiations Paused, and Strong Demand for Municipals Continues

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Summary

- Weekly jobless claims reported today are still elevated despite the number being better than expected, indicating labor market weakness continues.
- The Dallas Fed's national Mobility and Engagement Index is falling out of its recent range, which is not a good sign for upcoming economic and labor market activity.
- There has still been no meaningful progress made on a fifth round of COVID-19 relief in Washington, D.C. The Senate is scheduled to adjourn tomorrow.
- Municipal bond market supply has been deceptively high through July 2020.
- Today, Lipper reported another $1.6 billion flowed into municipal funds for the week ending Wednesday, August 5. This is the 13th consecutive week investors placed money in municipal bond mutual funds for a total of $19 billion.
- Ohio governor Mike DeWine tested positive for COVID-19 and is showing no symptoms.

Jobless Claims Still Very High, yet Lower than Consensus Forecast

Weekly U.S. jobless claims totaled 1.186 million, compared to the 1.423 million consensus forecast, per Labor Department data released this morning. Continuing claims fell by a little under 1 million to 16.1 million. Recent data shows 31.3 million Americans are receiving unemployment aid, a number that rose in July indicating that some employment actions once described as furloughs may now be more accurately described as permanent. Relative to any other time period, these numbers are all very elevated even if there is still noise inherent within them.

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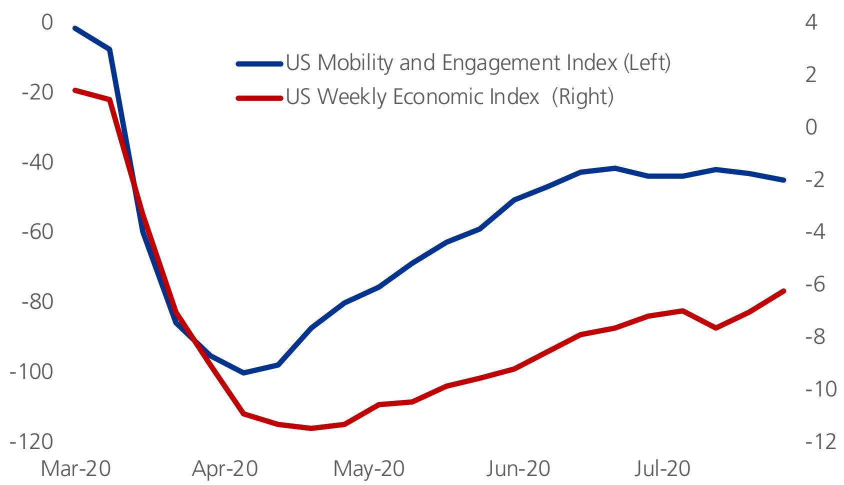
Dallas Fed's National Mobility Index Falling Again



Source: Safegraph, Homebase, Federal Reserve Bank of Dallas, Federal Reserve Bank of New York, Lewis, Daniel J., Mertens, Karel, and Stock, James H., and HilltopSecurities.

Please see disclosure starting on page 3.

Mobility Index Falling Now, an Indicator Economic Activity Could Follow

From the time the reopening rollback began to just last week, the Dallas Federal Reserve's national Mobility and Engagement Index (MEI) had been coming in between the range of -42 and -44. The index fell just below that band to -45.04, as of the data released this week. The fact that the MEI is not improving is a concerning issue, in addition to the fact that the index may be falling outside its recent plateau could be indicating that economic activity could be following.

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Still No Fifth Phase Agreement, Day Before Senate is Scheduled to Leave Washington

The potential that existed at this time last week that fiscal stimulus may spark the labor market is beginning to lessen. Unemployment benefits, a key negotiation item, have expired. Lawmakers have barely been able to agree that a fifth round of COVID-19 relief is even needed still two weeks after returning to the beltway. Right now, it is difficult to gauge whether an agreement is realistically going to occur soon, if at all. It is almost impossible to gauge the extent to which lawmakers are likely to support the labor market, the economy, and state and local governments in any way.

Currently, the Democrats are not going to agree to a short-term agreement and they believe a deal could be pushed to the middle of next week. Republicans do not seem as optimistic. The Senate is scheduled to adjourn tomorrow. However, leaders from each party are expected to continue to negotiate, even though there has been only a minimal amount of progress made in the last two weeks. The Senate could be called back to vote on an agreement if one is made. Currently, Congress is not officially expected to return to Washington until the Tuesday after the Labor Day holiday, which is Tuesday, Sept. 8, 2020.

The negative impact from the reopening rollback that began at the end of June is continuing to take its toll on the labor market and economy overall. The condition of the U.S. economy is at risk without another round of fiscal relief. There is only so much support the Federal Reserve can provide, and Executive Orders from the Executive Branch cannot effectively act as a replacement for substantive fiscal policy relief.

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Fiscal Policy Examples, Historical

During economic downturns policymakers often consider options that could be effective countercyclical or pro-growth measures to provide relief and then help to stimulate the economy back to growth. The timing of these types of measures is tricky. But, first acknowledging what type of policy is necessary, if any is needed at all, is usually a good preliminary step. While we have seen gridlock in Washington in recent years,[1] there are also examples of fiscal policy initiatives that were meant to boost economic activity that occurred during historical times of need. Generally, federal lawmakers consider combinations of individual and business relief, tax incentives, relief and rebates, direct payments to households, unemployment incentives and support, and government spending initiatives. Also, let's not forget that Congress has already approved about $3.5 trillion in just the last six months to help minimize the spread of the impact from the COVID-19 recession.

- The American Recovery and Reinvestment Act of 2009 was an $831 billion stimulus package, which was created as a temporary relief package, was meant to save and create jobs, and also provided investment in housing, infrastructure, education, and renewable energy. There was almost $282 billion of Recovery Act funds that were administered by state and local governments, according to the U.S. Government Accountability Office.
- The 2008 Car Allowance Rebate System, or what was known as "cash for clunkers" was a $3 billion program that provided incentives for drivers to turn in less fuel efficient cars for more fuel efficient cars. The concept was promoted by economist Alan Blinder's New York Times op-ed, A Modest Proposal: Eco-Friendly Stimulus.

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Supply and Demand Dynamic in the Municipal Bond Market

The supply and demand dynamic is always an important driver of the municipal bond market and that remains true even a little over five months into the new COVID-19 reality. That being said, the supply side is a little misleading. It may seem like there are a lot of bonds out there because overall bond issuance numbers are high.

July 2020 was a very big month for overall volume with a total of $42 billion of issuance. In addition, year to date we have seen about $248 billion of issuance, or about $50 billion more than through the same period last year. However, refundings have been driving overall issuance this year. Through the first seven months of 2020 only about 60% of issuance have been new money. And we believe that new money supply could fall even further if there is not some type of state and local government fiscal aid agreed upon soon.

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Demand for municipals continued this week as Lipper data released today showed $1.6 billion flowed into municipal funds. This is the 13th consecutive week of positive fund flows into municipal funds. We are now net positive by a little over $4 billion for the year. This is a meaningful feat for a market that lost about $31 billion over a six-week period between the beginning of March and the beginning of April.

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Ohio Governor Tested Positive for COVID-19

The first U.S. governor to test positive for COVID-19 was Oklahoma governor Kevin Stitt in the middle of July. Today, Ohio Governor Mike DeWine announced he tested positive for COVID-19 but has no symptoms.[2]

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[1] We highlight the rating impact from Washington gridlock in: Rating Agencies' Questions About U.S. Governance and Policy Gridlock; HilltopSecurities; Aug 3, 2020.
[2] DeWine, Governor Mike. Twitter Post. August 6, 2020, 11:35am

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