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U.S. Municipal Bond Market

Municipal Issuers Rushing to Market Before Election "Month"

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Summary

- We saw $1.005 billion flow into municipal funds per Lipper data released last week. This was the 18th consecutive week of flows into municipal mutual funds.
- We are expecting heavy primary market issuance this week of over $10 billion.
- It seems issuers are rushing to complete financings before Election Day, Nov. 3, 2020.
- Fareed Zakaria says the media should prepare observers for an election "month" because results may not be final on election night.
- It is possible that the 2020 election could create a municipal market dynamic that combines elements from 2000 and 2016.
- It took weeks after Election Day in 2000 before the Supreme Court finally helped name George W. Bush as president.
- A month after the 2016 election municipal bond market demand weakened, and the 10-year AAA MMD benchmark rose by almost 90 basis points.

Investment Dollars Flowed Into Municipal Funds for 18th Consecutive Week

We saw $1.005 billion flow into municipal funds per Lipper data released last week (Thursday Sept., 10). This was the 18th straight week of flows into municipal mutual funds. A total of $25.3 billion has moved into municipals during this 18-week period, beginning May 13. During the first week of September we only saw $139 million deposited into municipals, the lowest amount during this 18-week run. Also, during that time there have been only three times that fund flows have been under $1 billion. A net $10 billion has flowed into municipal funds for 2020 through September 9, 2020.

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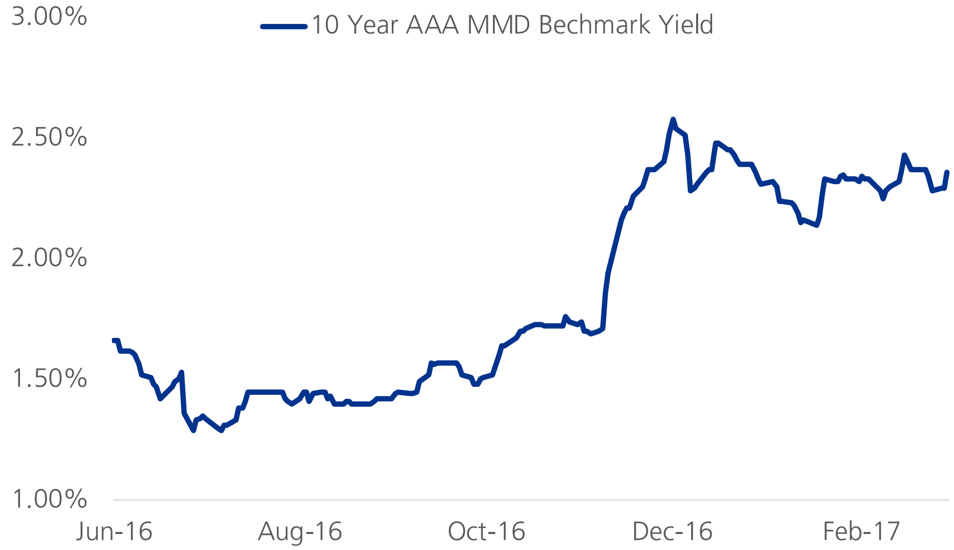
10-yr AAA Municipal Benchmark Rose Almost 90 Basis Points After 2016 Election



Source: Refinitiv and HilltopSecurities.

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Heavy Municipal Issuance Continues

We are expecting another $10+ billion of primary municipal bond market issuance this week. Last week we saw about $8 billion, which was a heavy slate of issuance for a holiday-shortened week. Issuance has been heavy over the last three months–in fact, it has averaged $46 billion per month (June to Aug.). This is likely because of a combination of backlogged financings that were delayed because of COVID-19 shutdowns and uncertainty, but also because issuers seem to now be rushing to market to complete financings before Election Day on Nov. 3, 2020. There was a similar burst of bonds sales leading up to the 2016 election. We saw an average $46 billion of monthly issuance Aug.-Oct. 2016.

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Municipal Issuers Rushing to Complete Financings Before Election "Month"

In a year of unforeseen uncertainty, state and local governments and other municipal bond issuers are trying to lock in as much certainty as they can, so they are rushing to complete financings before what could be the most contested U.S. presidential election since 2000. They are also smartly trying to lock in debt at attractive interest rates relative to where they may rise if what happened after the 2016 election is seen as a guide.

Election-related concerns have been building in recent months as most major polls still show President Trump trailing former Vice President Joe Biden. Other obstacles are growing for the president's re-election. This week (Tuesday, Sept. 15), journalist Bob Woodward is releasing his latest book about the Trump administration, titled "Rage." The account is being reported as Woodward's most important book since All the President's Men, and some are forecasting this could damage the president's re-election chances. And, it looks like another round of COVID-19 relief is unlikely to occur before November.

Election "Month," Not Election Night

Anxieties have been building in recent months about a lack of confidence in how election results will be accepted by not only the public and investors, but by the candidates themselves. During a campaign stop over the weekend, President Trump continued to raise doubts about the reliability of the Nov. 3 election results, while also saying that after he wins a second term in office that he would like to negotiate a third term in office.

Zakaria writes that it is very possible that as of 2020 election night, President Trump could appear as the winner. But, days later after additional votes are counted that former Vice President Joe Biden could then be named as the victor.

The media should begin to prepare readers and viewers for the idea that the Nov. 3 election should be viewed as election "month" and not be viewed as election night, according to Fareed Zakaria. In his piece "Prepare for Election Month, Not Election Night," Zakaria writes that it is very possible that as of 2020 election night, President Trump could appear as the winner. But, days later after additional votes are counted that former Vice President Joe Biden could then be named as the victor. In addition, state politics could play a part and the courts, including the U.S. Supreme Court, may need to get involved under certain circumstances, according to Zakaria.

Combination of 2000 and 2016

An increasing amount of municipal issuers appear to be positioning themselves to not have to rely on market circumstances after Nov. 3. It seems issuers could be concerned that the 2020 election could look like a combination of the delay we saw in 2000 and the market volatility following the 2016 election. Issuers are concerned investors could react to instability in November and December of this year like they did in 2016.

During the time between the 2000 election (Nov. 7, 2000) and when President Bush was finally named the president in December, the 10-year AAA benchmark municipal yield fell by about 50 basis points. It ended December 2000 at a 4.37%. The 10-year Municipal Market Data (MMD) benchmark yield was 4.77% on 2000's Election Day. While the municipal market did not excessively react, there was a high amount of uncertainty about the results of the election for weeks following Election Day.

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The municipal market response to 2016 election results were much different. The 2016 election was held on Tuesday, Nov. 8, 2016. On Election Day, the 10-year MMD benchmark yield was 1.71%. A week later it rose 48 basis points (to 2.19%) on concerns related to President-Elect Trump's tax and spending plans among other factors. See more in Municipal Market Braces for Wave of Debt Amid Trump Selloff. As the market post-2016 election soured, the 10-year benchmark peaked at 2.58% in the beginning of December, 87 basis points higher than Election Day.

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