

U.S. Municipal Bond Market

An Improved Macroeconomic Backdrop Compels Us to Raise Our 2024 Issuance Forecast to \$420 billion

- We elevated our 2024 municipal bond issuance forecast up to \$420 billion from the \$330 billion we initially forecast back in November 2023.
- The key reason we upped our forecast is because macroeconomic expectations have vastly improved. Therefore, we are expecting new money to be more plentiful.
- On a monthly basis our revised forecast averages out to about \$35 billion a month versus the \$32 billion a month we saw in 2023.
- Our issuance revision history: We have revised our forecast three times since 2020. We review our forecasts and revisions to help readers understand how close and or far away from reality we typically are during this practice.

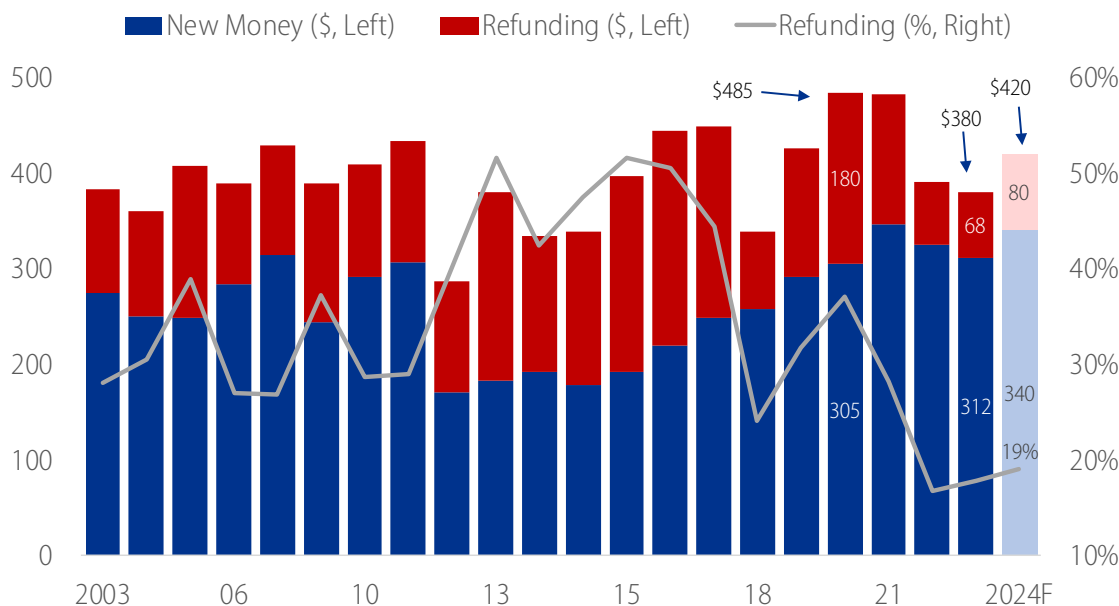
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Very Positive Fourth Quarter U.S. GDP Results Cannot Be Ignored

The fourth quarter U.S. GDP numbers reported yesterday further illustrate the resilience of the U.S. economy. Fourth quarter 2023 GDP grew 3.3% quarter-over-quarter which is well above the 2.0% median forecast per data released yesterday (Thursday, Jan. 25, 2024). Please see [Fourth Quarter GDP Handily Beats Forecasts](#), by Hilltop's Scott McIntyre and Greg Warner for more about the data. When we published our initial 2024 municipal bond issuance forecast back on Nov. 8, 2023 we thought we were on the optimistic side, thinking the economy would not fall into recession, and growth would slightly remain positive in 2024. But, just in the last several weeks growth expectations for 2024 have improved, and this fourth quarter GDP result (combined with those expectations) is compelling us to raise our 2024 issuance forecast quite substantially as a result.

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We Raised Our 2024 Forecast to \$420 Billion, Up From \$330 Billion



Source: Refinitiv and HilltopSecurities.

Please see disclosure starting on page 5.

Macroeconomic Backdrop Improves

We wrote in our recent overview [The Municipal Market in 2024, Hilltop’s Municipal Sector Credit Outlooks](#) (Jan. 22) report at the beginning of this week that, “There is a reluctant optimism amongst market observers as it relates to the macro-economic backdrop taking hold to begin the new year. Calls for a U.S. recession in 2024 have declined.” Yesterday’s U.S. GDP results for the fourth quarter surprised to the upside. While in fact, all the U.S. economy did in 2023 was [surprise to the upside](#). Remember in October 2022 when a Bloomberg [model forecast a 100% chance](#) of recession in 2023? Now, most economists are not expecting a recession this year.

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Other economic data is fueling improving sentiment. [The University of Michigan’s Consumer Sentiment](#) survey continued its climb higher when it recently rose to its highest level since July of 2021. Americans view of the economy as a whole is rising as well. [The Pew Research Center](#) reported that 28% of those polled have a positive view of the economy, up from 19% in April 2023.

Key Assumptions to Our Revised 2024 Forecast

This new macro-economic backdrop is significant enough to materially change our thinking about what 2024 municipal bond issuance is going to look like. The following are now our key assumptions. We now are assuming the likely level of economic growth for 2024 will be 1.9%, which is the level assumed in the Moody’s Analytics Baseline forecast as of their January 2024 analysis. This is up from the 0.9% we were assuming based on our [Nov. 8, 2023 analysis](#). This sizeable change will move new money issuance up to about \$340 billion in 2024, compared to \$312 billion in 2023. We are still only expecting interest rates to slightly decline, and so we are not expecting much of a change on the refunding side.

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Key Assumptions Driving Our REVISED 2024 Issuance Forecast

Indicator	2020	2021	2022	2023	2024
	Actual	Actual	Actual	Actual	Est
U.S. GDP	-2.8%	5.9%	1.9%	2.5%	1.9%
Fed Funds Rate	0.25%	0.25%	2.02%	5.23%	4.80%

Source: U.S. Dept. of Commerce, Fed Reserve, Moody’s Analytics and HilltopSecurities.

One of the tables that we have included in recent years is among the most requested, so we will include an updated version here. We are now expecting issuance to average almost \$7 billion a month more in 2024, compared to our initial 2024 forecast. We are expecting an average of about \$35 billion a month, which incidentally is a little over the 10-year average of \$34 billion a month. It should be highlighted that while the 2023 monthly average was only \$32 billion there was a significant difference in the average over the first nine months when issuance averaged only \$31 billion and the last three months which was \$33 billion. Issuance sure did surprise to the upside at the end of the year, and this was especially the case in October (\$39 billion) and November (\$37 billion.)

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Summary of HTS Issuance Detail for Revised 2024 Forecast

Ten Year Average, 2014-2023	Month	2021 Actual Issuance	2022 Actual Issuance	2023 Actual Issuance	Actual 2022 to Act. 2023, % Change	Issuance Required for \$450B in 2024	HTS Initial Forecast for 2024	HTS Revised Forecast for 2024	Actual 2023 to Revised 2024F, % Change
27	January	28	26	24	-10%	37.5	20	35	47%
28	February	37	32	22	-30%	37.5	20	30	36%
35	March	48	46	34	-26%	37.5	30	35	3%
34	April	37	40	33	-17%	37.5	25	35	5%
34	May	35	37	30	-18%	37.5	25	35	17%
41	June	50	38	40	5%	37.5	35	45	14%
32	July	38	28	28	-1%	37.5	30	30	8%
38	August	45	42	39	-6%	37.5	35	40	2%
34	September	45	27	31	13%	37.5	30	40	30%
44	October	42	29	39	35%	37.5	35	50	28%
33	November	37	26	37	38%	37.5	25	20	-45%
33	December	41	20	24	18%	37.5	20	25	5%
413	Total	483	391	380	-3%	450	330	420	11%
34	Avg/Mth	40	33	32	-3%	37.5	28	35	11%

Source: Refinitiv and HilltopSecurities.

We are expecting this improving sentiment to continue to deliver issuance that should be consistently reaching \$30 billion to \$50 billion a month this year. We did not expect a single month was going to be higher than \$35 billion in our November 2023 forecast. The election could impact issuance trends again in 2024 like it did in 2020.

We Still Do Not Expect Fiscal Policy Materializes Into Meaningful Municipal Bond Issuance

We have indicated in the past and maintain the opinion that public finance entities will not meaningfully increase bond issuance because of fiscal policy such as the CARES Act (2020), American Rescue Plan (2021), the [Infrastructure Investment and Jobs Act](#) (2021), and the [Inflation Reduction Act](#) (2022). The categories of spending and amounts do not lend themselves to material increases in annual municipal bond issuance. [A recent GAO analysis](#) helped support our contention when it reported the majority of Rescue Plan Act money was spent on revenue replacement (68%) and negative economic impacts (12%).

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Select Meaningful Legislation Passed Since Biden Became President

Amount (\$ in billions)	Title of Legislation	Note	Status
\$738	Inflation Reduction Act of 2022	Via budget reconciliation (no bi-partisan support)	Signed into law Aug. 16, 2022
\$280	Chips and Science Act of 2022	-	Signed into law Aug 9, 2022
\$550	Infrastructure Investment and Jobs Act of 2021	-	Signed into law Nov. 15, 2021
\$1,900	American Rescue Plan Act of 2021	Via budget reconciliation (no bi-partisan support)	Signed into law March 11, 2021
\$3,468	Total		

Source: HilltopSecurities.

A Review of Revisions to The HilltopSecurities Issuance Forecasts

This is not the first time that we have revised our issuance forecast. We have never revised a forecast more than once during a year, and hopefully we do not have to this year. We have revised our forecast in years past when the landscape significantly changed or shifted. For 2021 we expected a severe decrease, but then the 2021 Rescue Plan Act propped up credits, and revenues did not end up decreasing as much as we expected. For 2022 we initially expected a record level of municipal bond issuance. Almost no one, including us expected the U.S. Federal Reserve to begin to raise their interest rate target as high and as quickly as they did. Again, our revision was much more accurate. We expect this revision for 2024 will make our forecast much more in-line with what transpires in 2024.

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Summary of HilltopSecurities Municipal Bond Issuance Forecasts & Revisions, 2020 to 2024

For Year	New/ Revision	Our Forecast Amt. (\$)	Actual Iss. (\$)	Date	Title	Notes
2024	Revised	\$420B	TBD	1/26/2024	This report	Much higher GDP forecasts, means more new money
2024	New	\$330B	TBD	11/8/2023	<u>We Predict \$330 Billion of Municipal Bond Issuance for 2024, the Lowest Since 2018</u>	We expected issuance to drop because of lower economic growth and declining sentiment
2023	New	\$350B	\$380B	11/1/2022	<u>Anticipating Municipal Issuance Will Remain Challenged Again in 2023: Our Forecast</u>	Higher rates and lower economic growth compared to 2022 means lower issuance
2022	Revised	\$410B	\$391B	6/13/2022	<u>REVISED: Our 2022 Municipal Bond Issuance Forecast</u>	Fed Reserve raised rates, much lower than expected economic growth
2022	New	\$495B	\$391B	11/22/2021	<u>Our 2022 Municipal Bond Issuance Forecast</u>	We expected record issuance b/c of elevated economic growth expectations, low int. rates
2021	Revised	\$460B	\$482B	7/15/2021	<u>Our Revised 2021 Municipal Issuance Forecast: \$460 Billion</u>	Substantial fiscal policy, municipal credit did not deteriorate
2021	New	\$375B	\$482B	11/19/2020	<u>Infrastructure Gap Barely Dented by Record 2020 Bond Sales- We Expect Lower Issuance in 2021</u>	Forecast was made before almost \$3 trillion of fiscal policy bolstered balance sheets
2020	New	\$450B	\$485B	12/11/2019	<u>2020 Volume Forecast Preview</u>	Our expectation was that interest rates would remain lower than the market consensus

Source: Refinitiv, The Bond Buyer and HilltopSecurities.

Recent HilltopSecurities Municipal Commentary

- [The Municipal Market in 2024, Hilltop's Municipal Sector Credit Outlooks](#), Jan. 22, 2024
- [Fed Shifts Outlook, Municipal Yields Dropping, Yet Still Relatively Attractive](#), Dec. 14, 2023
- [U.S. Municipal Water Authorities Targeted With a Different Kind of Cyberattack](#), Dec. 5, 2023
- [Policy Solutions are Taking Shape for Mass Transit, as Expected](#), Nov. 29, 2023

Readers may view all of the HilltopSecurities Municipal Commentary [here](#).

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