U.S. Municipal Bond Market

Revised Again: Strong GDP Growth Boosts Our 2024 Issuance Forecast to $480 Billion

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- We are raising our 2024 municipal bond issuance forecast to $480 billion from $420 billion due to stronger-than-expected economic growth.
- Key Assumptions: Our second revised forecast of the year is being driven by increased GDP growth expectations (2.6% for 2024, up from 1.9% in January), and we made minimal changes to our interest rate assumptions.
- Monthly issuance averaged $42 billion through August 2024, and we expect the monthly pace to remain just above the 10-year average of $34 billion, with a peak of $55 billion in October.
- No significant political uncertainty is expected from the Nov. 5 elections. We anticipate financial markets will process election results smoothly.
- Preview for 2025: We have not finalized a 2025 issuance forecast yet, but if GDP growth in 2025 is close to or surpasses 2024 and interest rates are lower, U.S. municipal bond issuance could reach the 2020 record of $484 billion, or even set a record in 2025.

Higher GDP Growth Fuels Our Second Revised Forecast

Economic growth prospects are on the rise again, prompting us to revise our 2024 municipal bond issuance forecast higher for the second time this year. Stronger-than-expected economic growth, with second quarter 2024 GDP growth revised to 3.0% and the Atlanta Fed's GDPNow model predicting 2.1% growth for third quarter of 2024, supports this more optimistic outlook. We now anticipate 2.6% growth for 2024, compared to the assumption we used in our January forecast of 1.9%.

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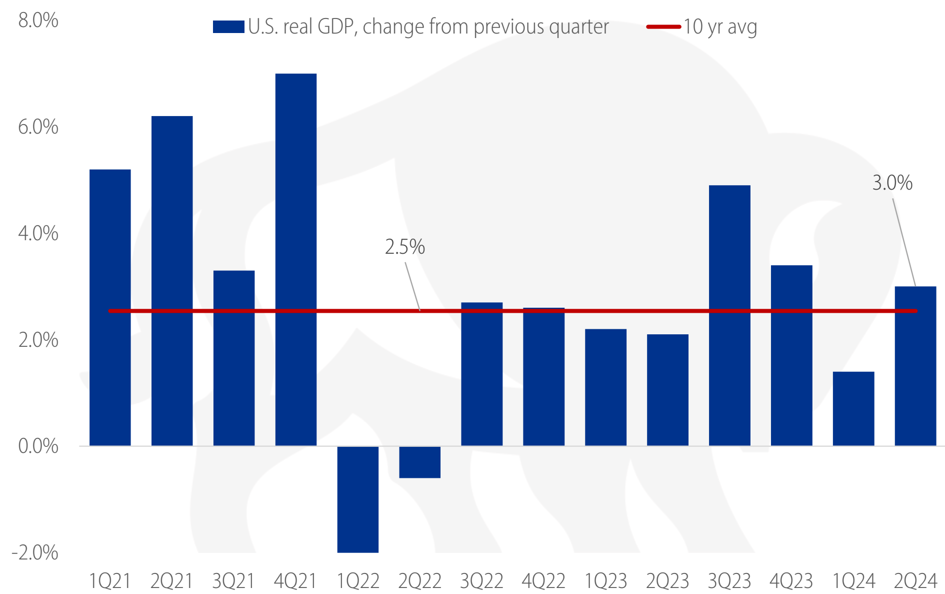
2Q 2024 GDP Growth was Revised to 3.0% Last Week



Source: Bureau of Economic Analysis and Hilltop Securities.

Still very strong credit conditions in the U.S. municipal bond sector are positively contributing to the favorable landscape as well. While the massive 2021 federal fiscal policy may not be substantively directly impacting issuance trends, the fact that federal funds are propping up balance sheets of most tax-backed credits allows them to be more aggressive issuers of debt.

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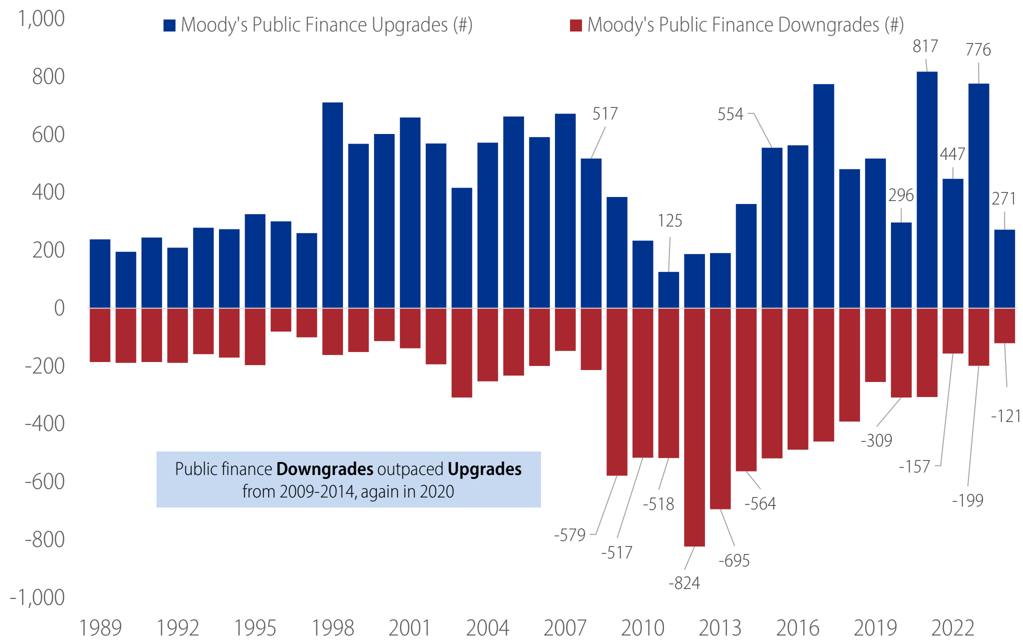
Moody's upgraded 271 public finance issuers and only downgraded 121 in the first half of 2024. Rating upgrades have outpaced downgrades since 2021. The upgrades remain concentrated in the tax-backed sectors. Sectors such as health care and higher education are still experiencing credit strains, therefore we are not as enthusiastic about credit quality in those sectors still.

Still Strong Credit Backdrop- Public Finance Upgrades Outpaced Downgrades in 1H2024



Source: Moody's and HilltopSecurities.

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Closer Look at 2024 Issuance Trends

Issuance has averaged about $42 billion a month through the end of August so far this year. There have only been a small handful of weeks, mostly in the beginning of the summer, where it was difficult for the market to absorb the higher-than-average level of issuance we have seen through August. We have mostly seen that weekly fund flows and investor appetite for municipals have been just strong enough to absorb primary market calendars. Looking ahead to the remaining months in 2024 we expect issuance to remain above its monthly 10-year average of $34 billion. We expect another big month of issuance in October at $55 billion as issuers speed ahead of the Nov. 5 election day, the Nov. 7 FOMC meeting and holidays. It is likely the monthly average drops in the last four months of the year to something close to about $36 billion.

We don't anticipate higher-than-average political uncertainty from the November elections. We expect financial markets to process the results smoothly, even if delays

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like those in 2020-2021 materialize like when run-off elections in Georgia were needed to decide the make-up of the U.S. Senate. In addition, both presidential candidates are well-known politically, though details on Vice-President Harris' economic agenda remain limited.

Summary of HTS Issuance Detail for SECOND Revised 2024 Forecast
(Updated Sept. 5, 2024)

Ten Year Average, 2014-2023	Month	2021 Actual Issuance	2022 Actual Issuance	2023 Actual Issuance	HTS Initial Forecast for 2024	HTS Revised Forecast for 2024 (Jan.)	2024 Actual/ Revised Forecast (2nd) for Sept-Dec 24	% Change, Actual 2023 to 2nd Revised '24 Forecast
27	January	28	26	24	20	35	**32**	34%
28	February	37	32	22	20	30	**33**	51%
35	March	48	46	34	30	35	**38**	13%
34	April	37	40	33	25	35	**45**	34%
34	May	35	37	30	25	35	**47**	58%
41	June	50	38	40	35	45	**49**	23%
32	July	38	28	28	30	30	**41**	48%
38	August	45	42	39	35	40	**49**	25%
34	September	45	27	31	30	40	**40**	30%
44	October	42	29	39	35	50	**55**	41%
33	November	37	26	37	25	20	**20**	-45%
33	December	41	20	24	20	25	**30**	26%
413	**Total**	**483**	**391**	**380**	330	420	**480**	**26%**
34	Avg/Mth	40	33	32	28	35	**40**	26%

Source: Refinitiv and HilltopSecurities.

Key Assumptions to Our Second Revised 2024 Forecast

The primary difference in the key assumptions driving our second revision lies with the increased level of GDP growth we are now expecting. We are again using the Moody's Analytics Baseline Scenario as our guide and assuming that we will now see GDP growth of about 2.6% in 2024. This is up from the 1.9% we assumed in our January revision. The interest rate side of our forecast is not changing by much.

Key Assumptions Driving Our 2nd 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%	2.6%
Fed Funds Rate	0.25%	0.25%	2.02%	5.23%	5.20%

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

Economic Sentiment Rising in U.S.

Another reason to be upbeat on the economy is because one of its key drivers, the U.S. consumer, is showing improved confidence. The American consumer has helped drive the resilience of the U.S. economy, and recently the consumer (and voter) became even more confident still. The University of Michigan's Index of Consumer Sentiment has ticked higher in August month-over-month. Notable also are the results from The Wall Street Journal's poll of 1,500 voters conducted at the end of August which reported that 34% said their feelings about the economy improved, up from 26% in early July. Those polled who reported the economy worsened dropped to 48% from 54%. This positive feeling could translate to state and local government and school officials taking more aggressive views on budget and debt issuance because they are feeling an increased level of confidence.

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The Impact of Less Restrictive Monetary Policy

Labor market weakness was reinforced in the recent JOLTS data. Friday's (Sept. 6) non-farm payroll data will be important for sure. We are reminding investors that only recently Fed Chair Jerome Powell stated in Jackson Hole, WY that, "The time has come for policy to adjust." While it is likely the FOMC begins to cut their target rate starting at their Sept.18 meeting and would also likely continue their easing stance at their November and December meetings the impact to refunding volume is not likely to be impactful until the middle to late part of 2025. We are not expecting a rise in refunding activity to drive issuance in 2024.

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Preview of What to Expect With 2025 Issuance

We do not have an issuance forecast number to publish yet for 2025. However, we wanted to give readers an idea of what we are thinking heading into the end of the year. If in 2025 GDP growth remains close to what we have seen in 2024 (or is higher) and interest rates are lower we expect overall U.S. municipal bond market issuance could surpass the record $484 billion of issuance we saw in 2020. That is, if a new record isn't set in 2024 first.

Recent HilltopSecurities Municipal Commentary

- Inflation Part II, September 4, 2024
- The Time is Now, August 27, 2024
- Bonds Are Back, August 15, 2024
- Our Optimism Endures from the Growth Surge, Record Housing Prices, Still Appealing Tax-Exempt Yields, & a Fed Poised to Communicate Rate Easing Progress, July 30, 2024

Readers may view all of the HilltopSecurities Municipal Commentary here.

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