

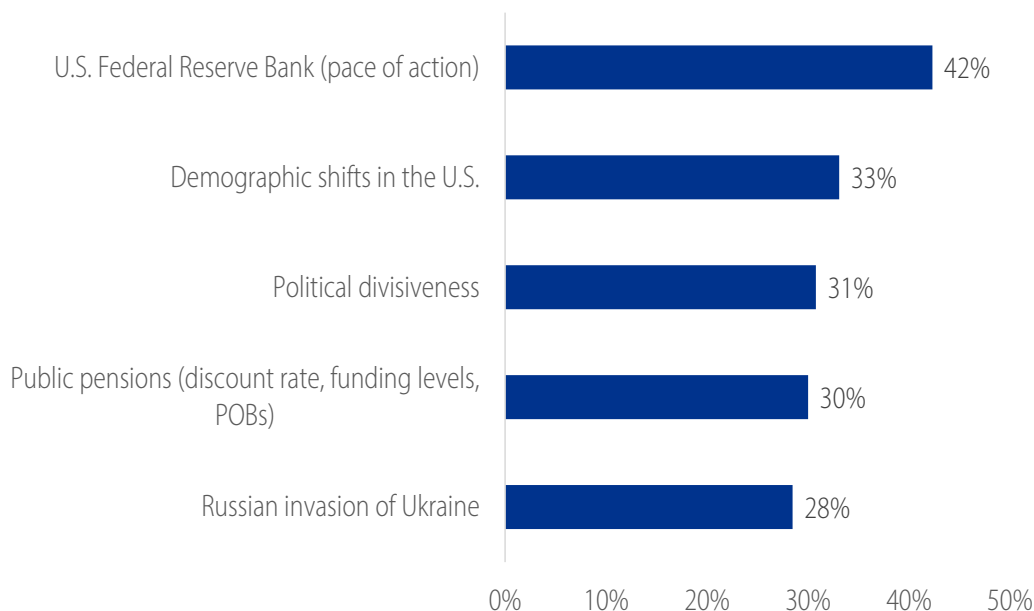
U.S. Municipal Bond Market

## 2022 Municipal Bond Analyst Survey

- For the second year in a row no individual issue or trend was named by over half of analysts as influencing the municipal bond market.
- This year the U.S. Federal Reserve’s pace of action (42%) was named as the most important issue or trend influencing the municipal bond market right now.
- The top five issues in this year’s survey include: The Fed (42%), Demographic shifts in the U.S. (33%), Political divisiveness (31%), Public pensions (30%), and the Russian invasion of Ukraine (28%).
- Last year COVID-19 did not even receive votes from half of analysts. Only 47% of analysts thought COVID-19 was an important issue or trend impacting the market.
- In 2020 92% of analysts polled identified COVID-19 as the central issue impacting the market. Before the COVID crisis there was an annual consensus among analysts that public pensions was the leading issue or theme.
- Infrastructure (25%) fell out of the top five and was the tenth most important in 2022.
- Opinions about both state and local government credit quality remained close to where they were in 2021, most analysts reported credit is Strong and Very strong.
- A little over half of analysts (54%) expect that Public Finance sector rating Upgrades will significantly outpace downgrades or Upgrades will outpace downgrades.
- Most analysts surveyed (87%) believe remote-work related themes will impact public finance in the medium to long term.
- We had 130 municipal bond analysts participate in the survey this year and 62% of those participating are considered buy-side participants.

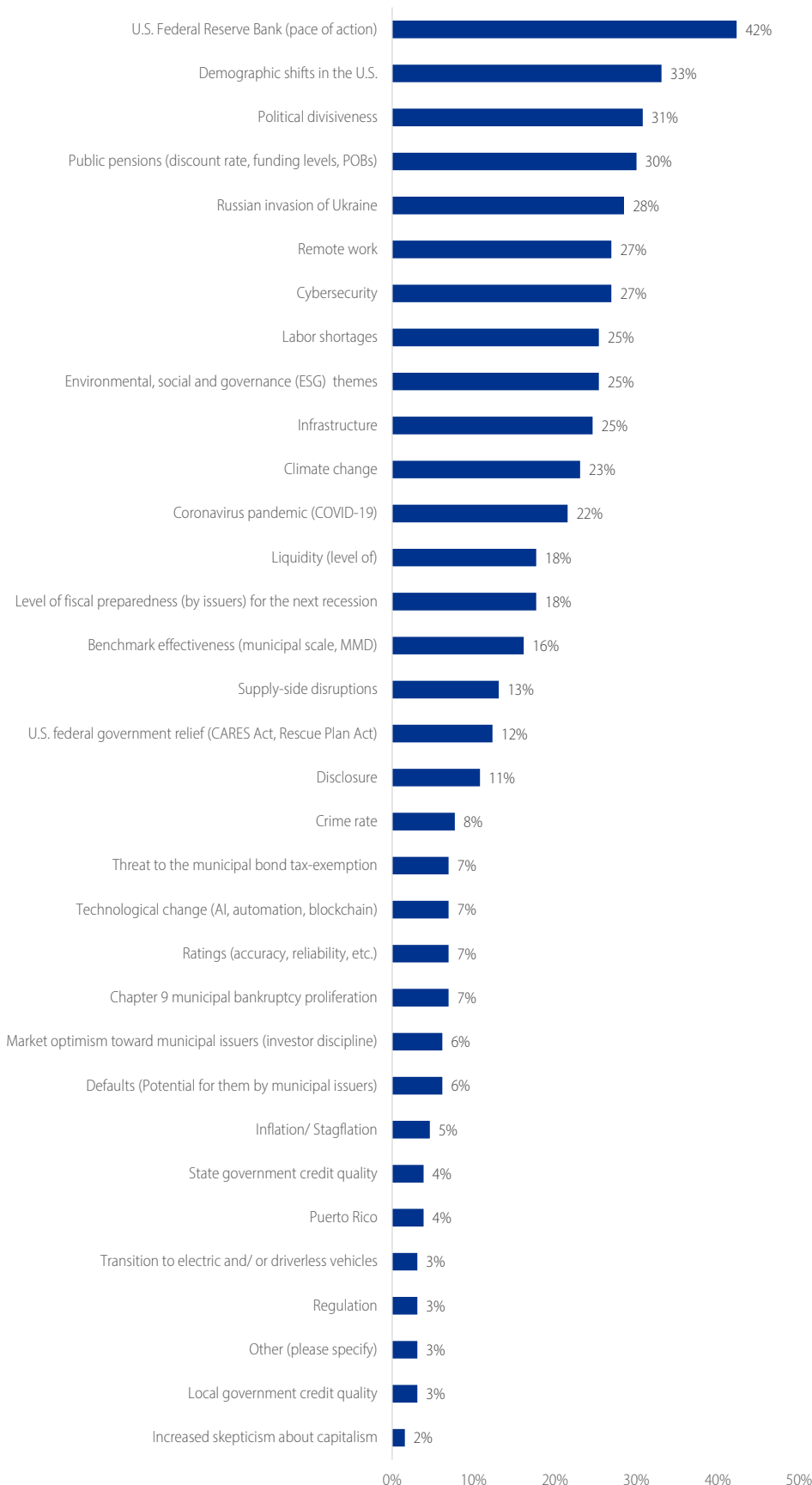
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### Top Five Most Important Issues/Trends Facing the 2022 Municipal Bond Market



Source: HilltopSecurities.

# 1. What do you think are the five most important issues/trends influencing the municipal bond market today, March-April 2022? (Please choose five)

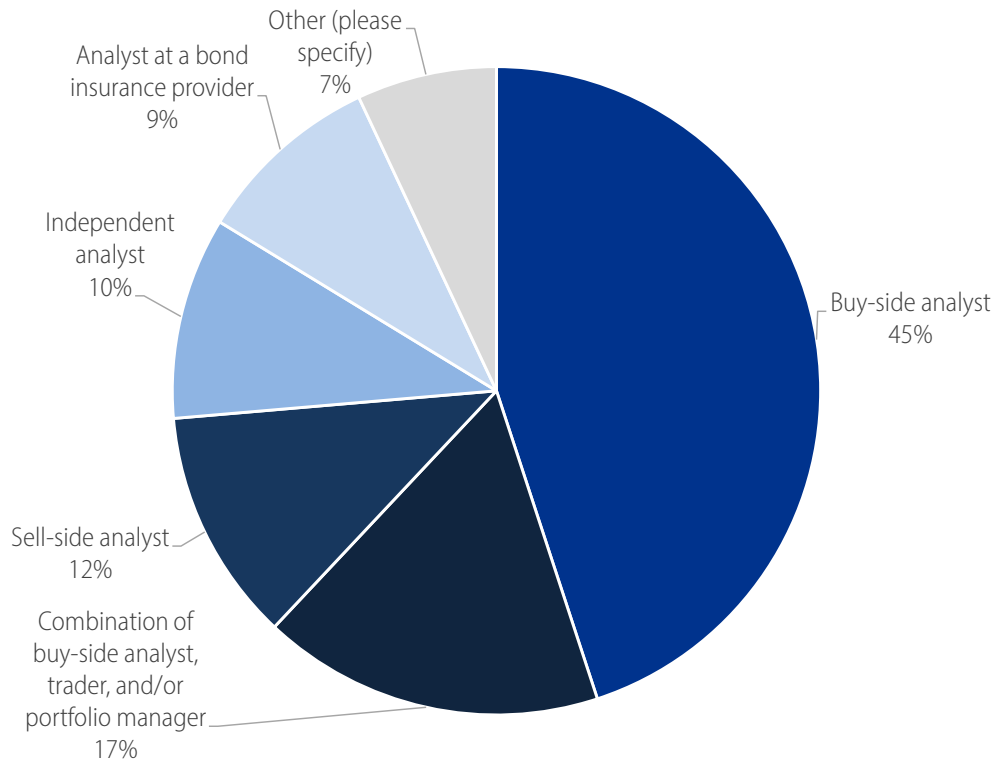


*The U.S. Federal Reserve's pace of action (42%) was named as the most important issue or trend influencing the municipal bond market right now.*

*The top five issues include: The Fed (42%), Demographic shifts in the U.S. (33%), Political divisiveness (31%), Public pensions (30%), and the Russian invasion of Ukraine (28%).*

*Last year the coronavirus (COVID-19) pandemic was named by 47% of those surveyed, and it still ranked as the top issue. In April 2020, 92% of analysts indicated COVID-19 as a top-five issue or trend. This year, only 22% named COVID-19, and it fell to number 22.*

## 2. How would your role as a municipal bond market analyst be best described?



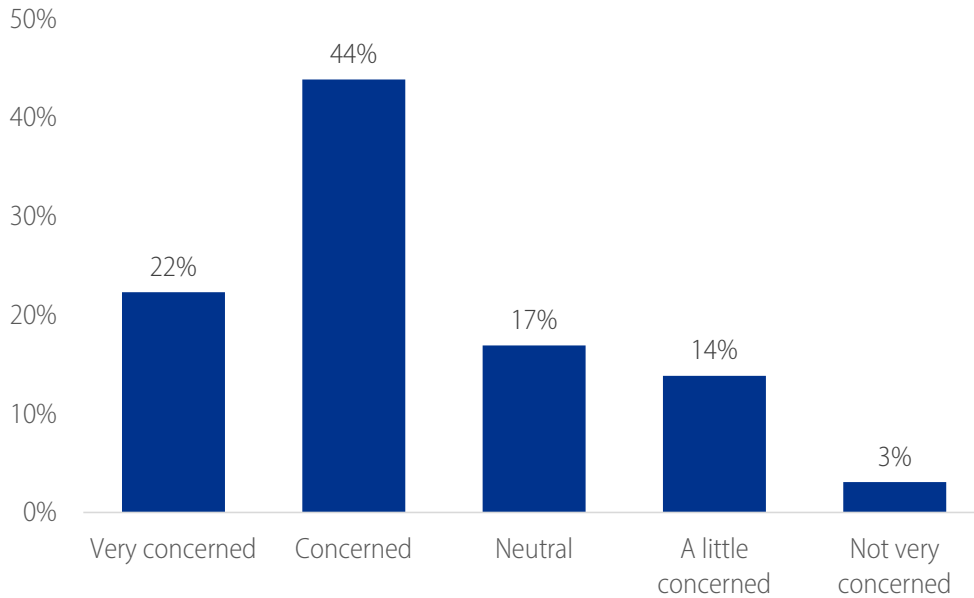
Source: HilltopSecurities.

*We had 130 municipal bond analysts participate in the survey this year and 62% of those participating are considered buy-side participants..*

*Public pensions (30%) and Political divisiveness (31%) both remained as important topics to analysts in 2022.*

*Infrastructure (25%) fell out of the top five and was the tenth most important in 2022.*

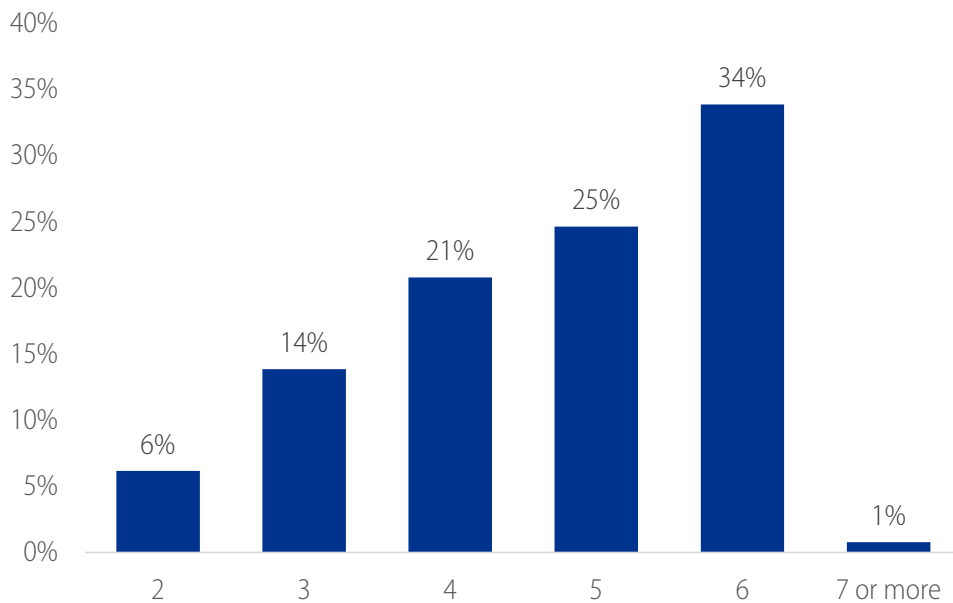
### 3. How concerned are you about how the potential impact U.S. Federal Reserve activity (or non-activity) could have on the municipal market in 2022?



*Many analysts (total of 66%) are Very Concerned and Concerned about the impact Fed activity could have on the municipal market in 2022.*

Source: HilltopSecurities.

### 4. The U.S. Federal Reserve is meeting six more times this year. How many more rate hikes are you expecting in 2022?

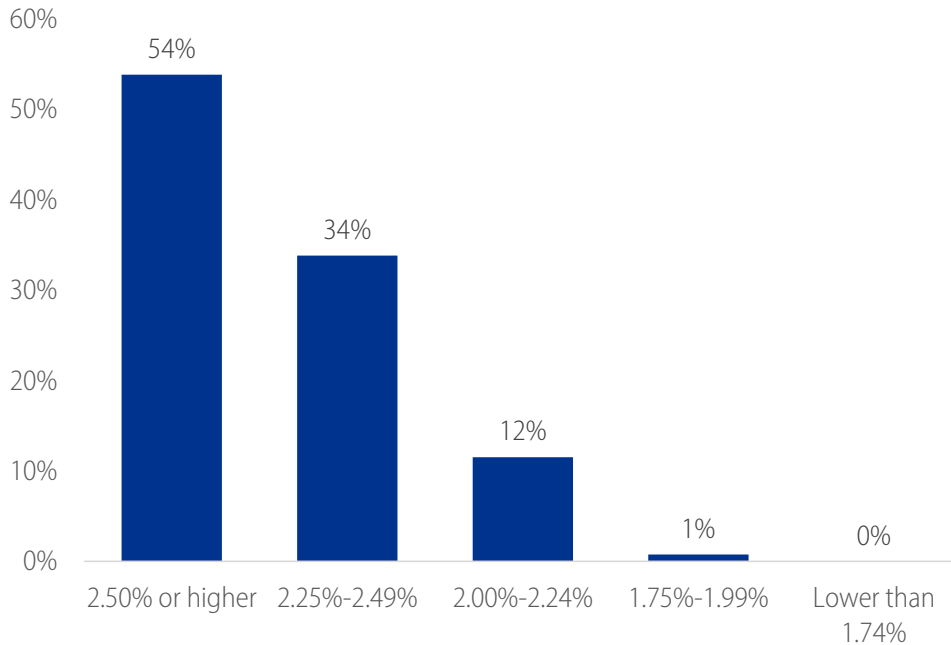


*A total of only 17% of analysts are A Little Concerned or Not Very concerned about the role Fed activity could play on municipals in 2022.*

Source: HilltopSecurities.

*80% of municipal bond analysts expect the Fed to raise rates four times or more.*

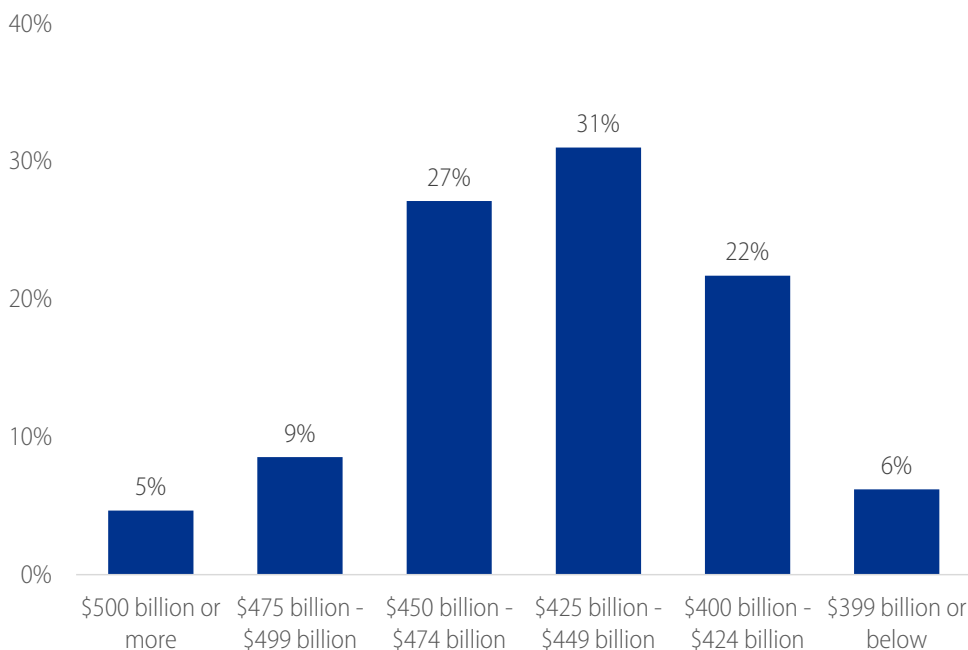
5. The yield on the 10-year U.S. Treasury Note was a 2.16% (March 15, 2022), after beginning the year at a 1.63% yield (Jan. 3, 2022). Where do you think the 10-Year Note yield will be at the end of 2022?



*A little over half of analysts surveyed expect the 10-year U.S. Treasury Note will finish 2022 at 2.50% or higher.*

Source: HilltopSecurities.

6. How much primary market municipal bond issuance do you expect in 2022? In Jan. and Feb. 2022 we saw a total of \$52 billion, numbers that were just below the nine-year average of Jan. and Feb. issuance. Total 2021 issuance was \$475 billion, according to Refinitiv data.

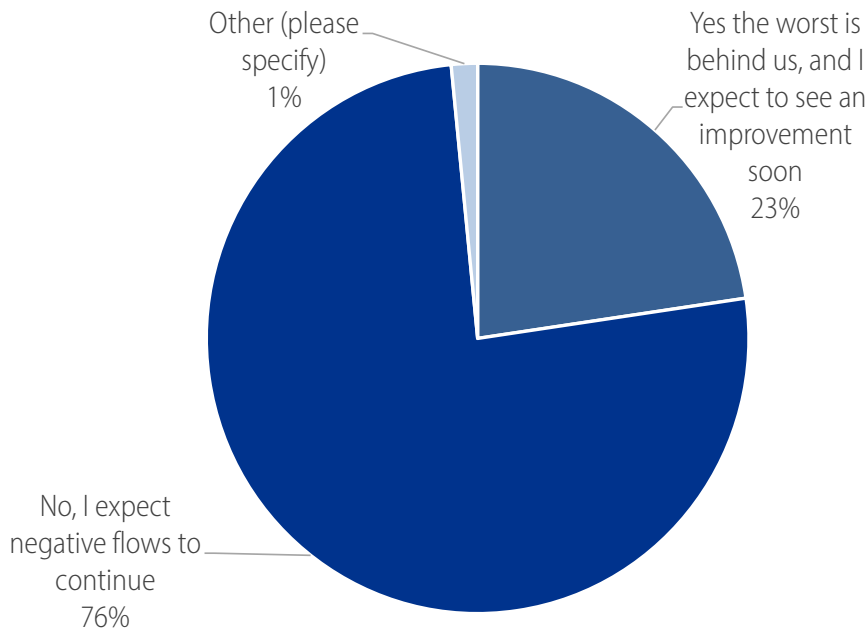


*The average sell-side estimate for primary market issuance in 2022 was about \$450 billion at the end of 2021.*

*Now, almost 60% of analysts believe issuance in 2022 will be below \$449 billion in 2022.*

Source: HilltopSecurities.

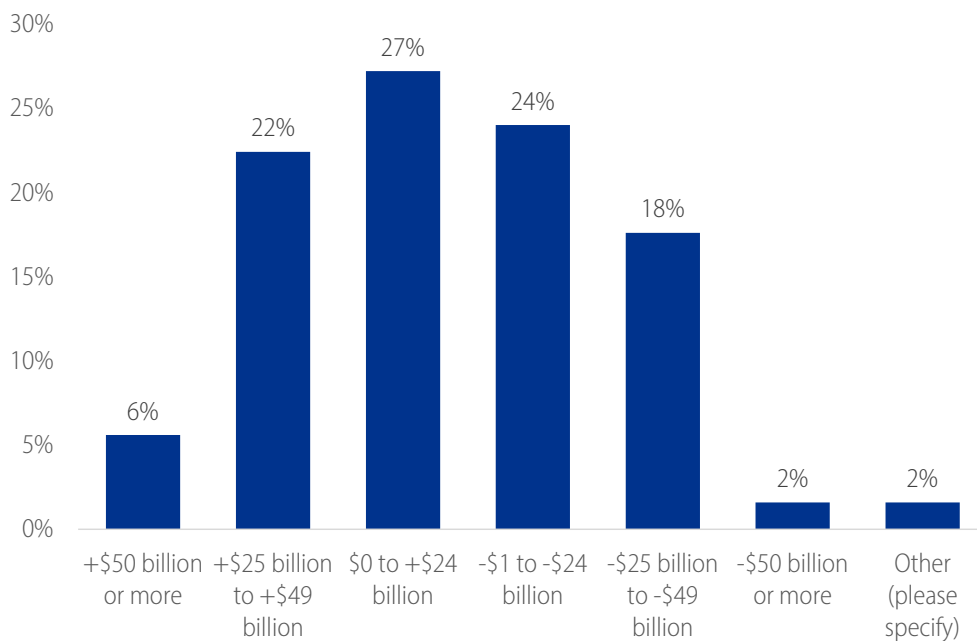
**7. Is the worst of the municipal fund flow activity behind us? A net \$9.2 billion has flowed out of municipal mutual funds through the first 10 weeks of the year.**



*Investment dollars have been flowing out of municipal mutual funds for much of 2022. Most analysts (76%) expect this is going to continue.*

Source: HilltopSecurities.

**8. Where do you think net municipal fund flows end 2022? A total of \$65.7 billion flowed into municipal funds in 2021 per Lipper data.**

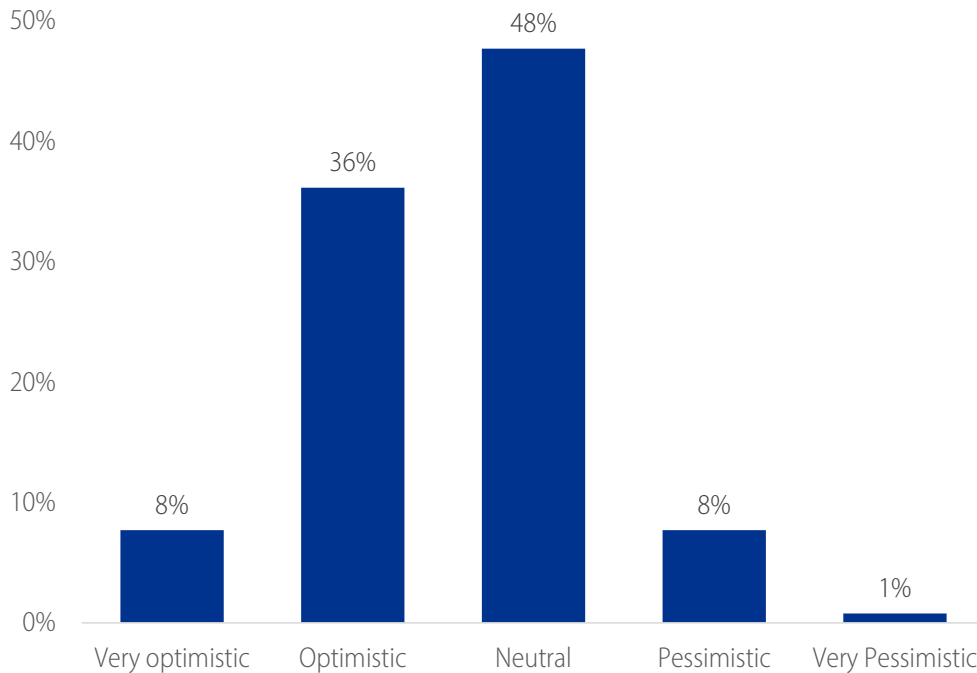


*The municipal analyst community opinion about net fund flows for 2022 is split, however. A little more than half (55%) are expecting positive net flows for 2022.*

Source: HilltopSecurities.

*A little less than half of analysts are expecting net flows to be negative in 2022.*

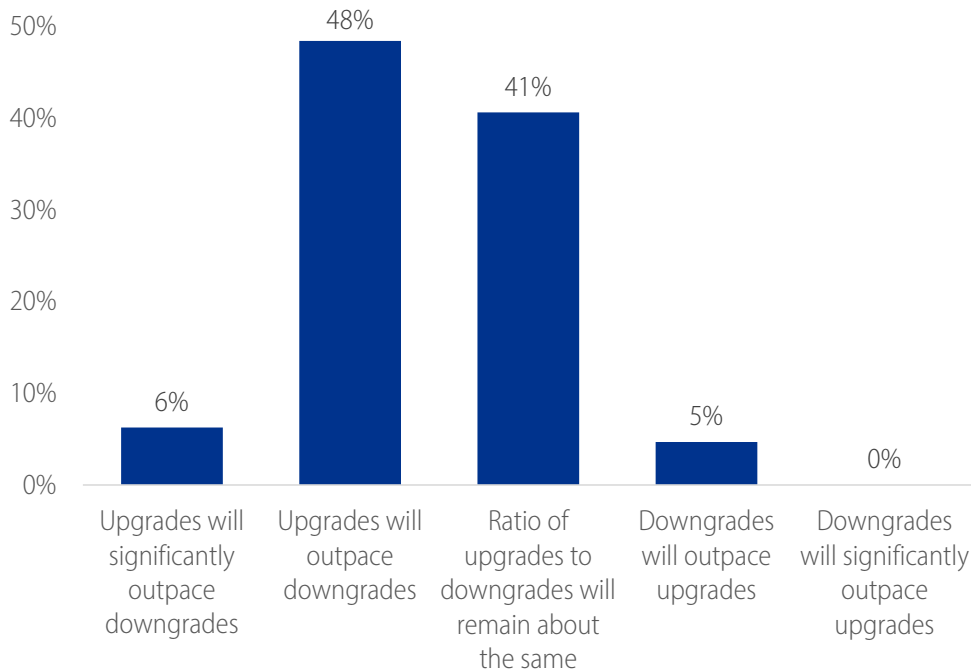
### 9. How would you describe your expectation for how you believe public finance or municipal credit quality will generally evolve during the rest of 2022?



*Analyst sentiment is optimistic about credit quality for 2022 as 44% of analysts are Very optimistic or Optimistic about credit quality currently.*

Source: HilltopSecurities.

### 10. How do you think public finance ratings will behave in 2022?

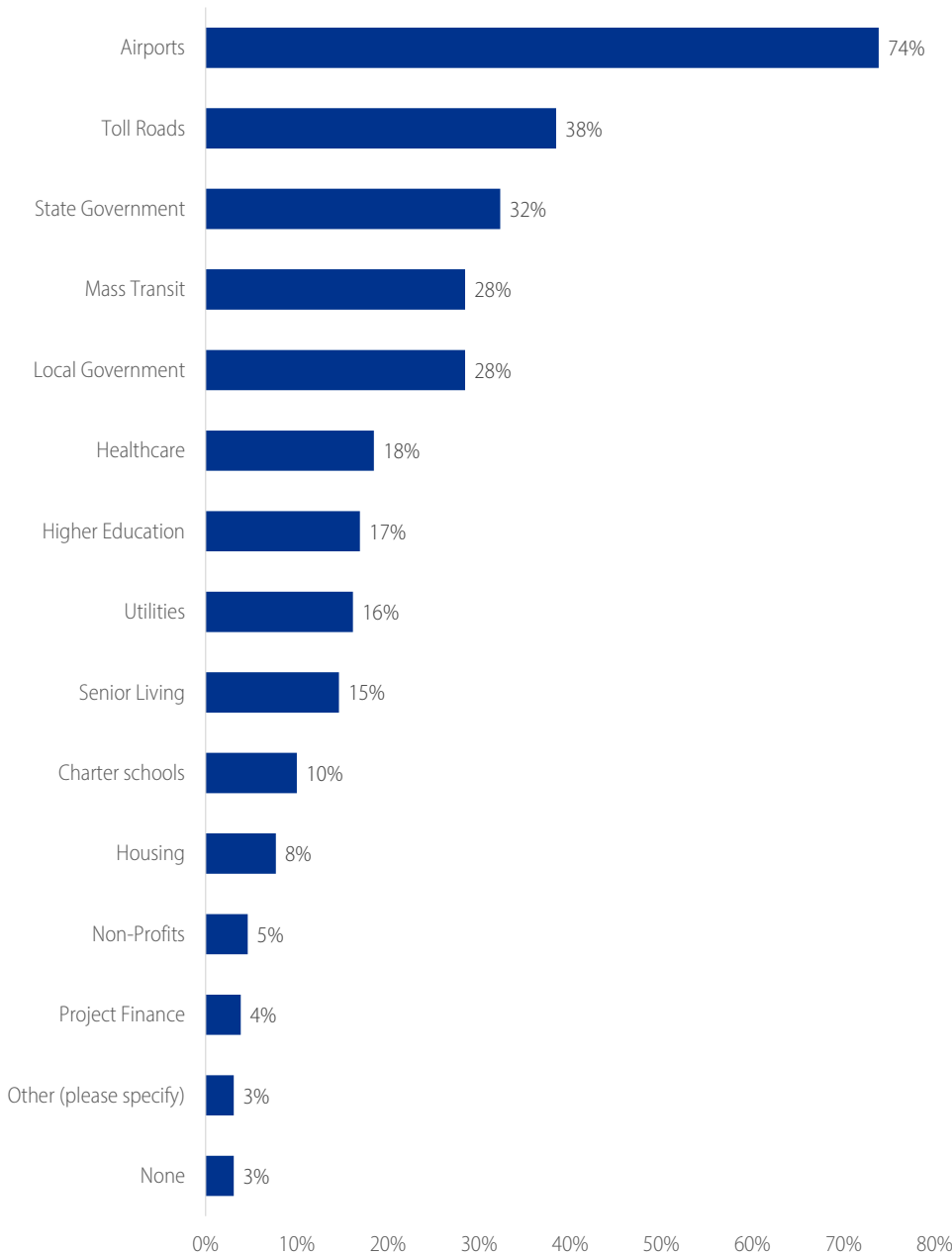


*Only 9% of analysts surveyed reported they are Pessimistic or Very Pessimistic about credit quality in 2022.*

*A little over half of analysts (54%) expect that Public Finance sector rating Upgrades will significantly outpace downgrades or Upgrades will outpace downgrades.*

Source: HilltopSecurities.

**11. What municipal sectors are most likely to IMPROVE in credit quality in 2022?  
(Please choose three)**



Source: HilltopSecurities.

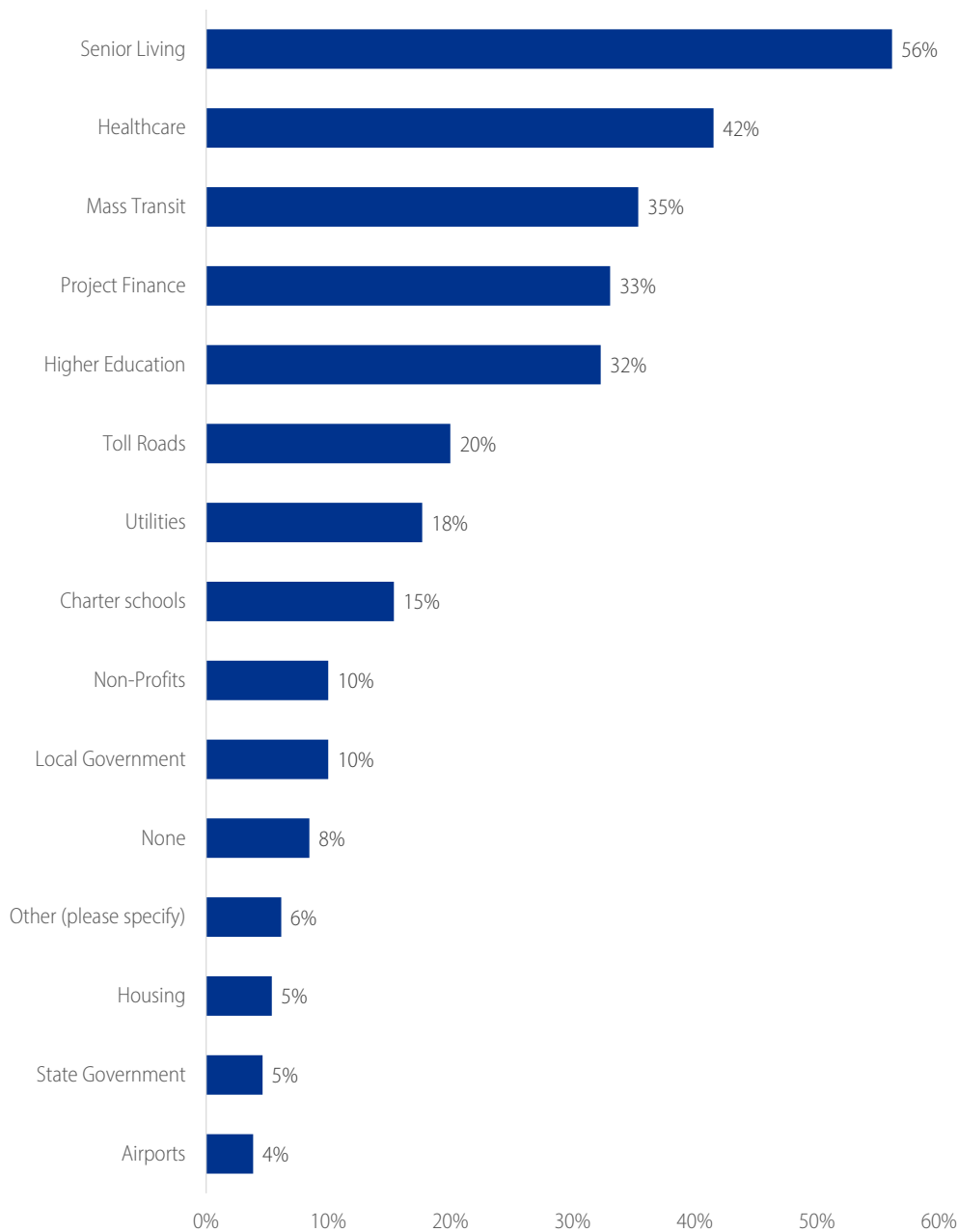
*Analysts have generally been more supportive of tax backed credits over revenue backed obligation from a credit perspective.*

*Municipal analysts believe that the airport (74%) and toll road (38%) sectors are among those most positioned to improve in credit quality.*

*The state government (32%), mass transit (28%) and local government (28%) sectors are also likely to improve in credit quality next year according to the municipal analysts who participated in our survey.*



## 12. What municipal sectors are most likely to DECLINE in credit quality in 2022? (Please choose three)



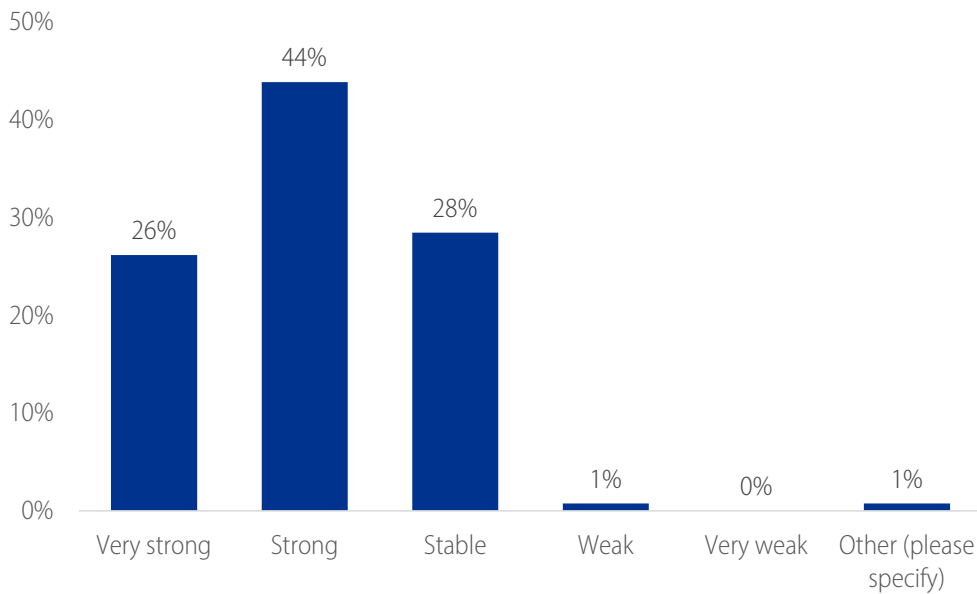
Source: HilltopSecurities.

*Various revenue sectors are less optimally positioned for what is likely to transpire in 2022, according to our analyst survey.*

*Over half of analysts surveyed believe that the senior living sector (56%) is likely to decline in credit quality in 2022.*

*Almost half of analysts believe the healthcare sector (42%) will decline in credit quality in 2022.*

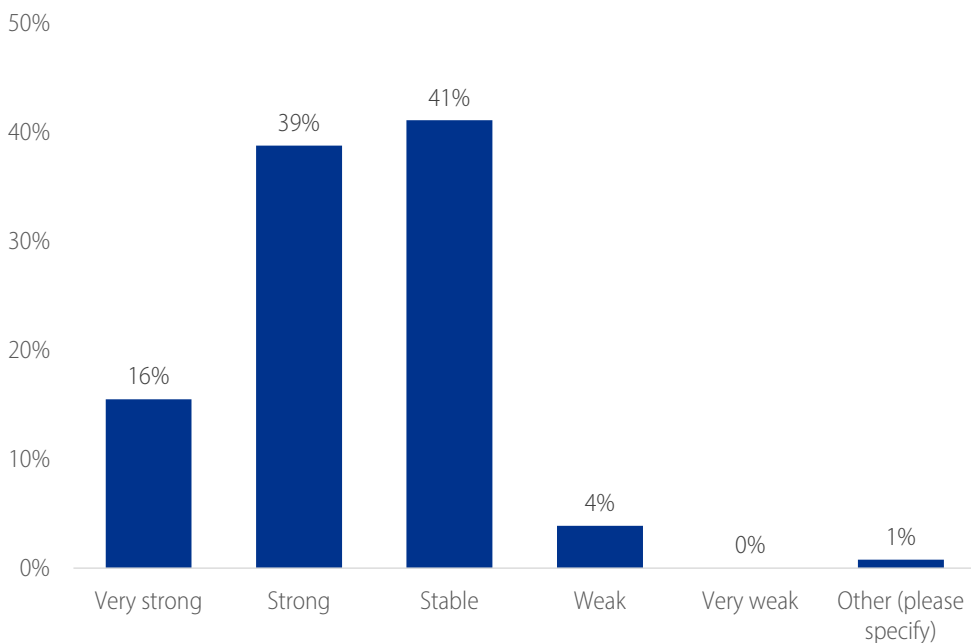
### 13. How would you describe U.S. STATE government credit quality currently?



*Opinions about both state and local government credit quality is very similar to the results reported in our 2021 survey.*

Source: HilltopSecurities.

### 14. How would you describe U.S. LOCAL government credit quality currently?

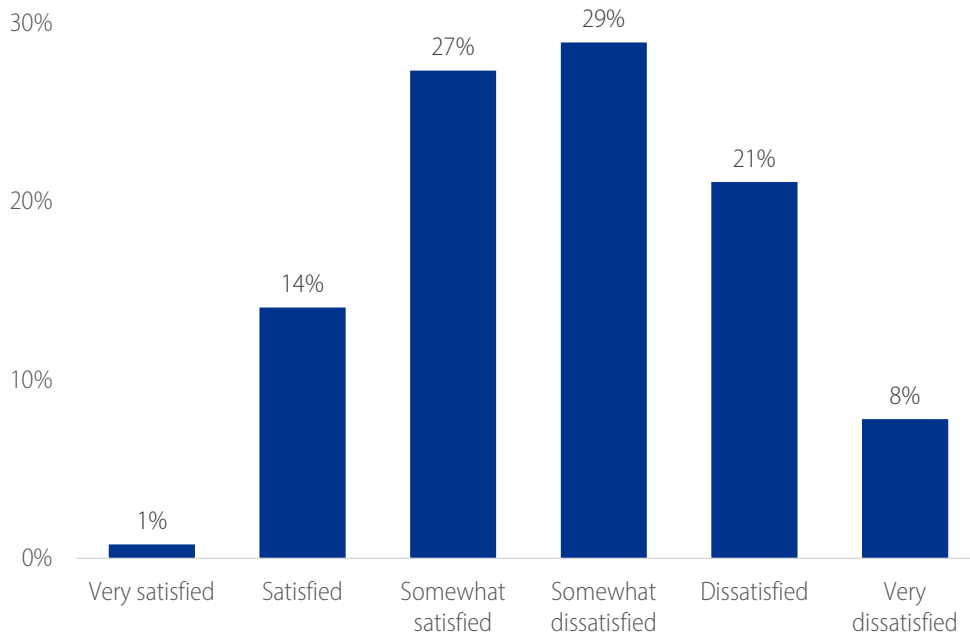


*Almost all (98%) of analysts believe state government credit quality is very strong (26%), strong (44%), or stable (28%). This distribution is very similar to last year.*

Source: HilltopSecurities.

*Opinions about local government credit is again almost as enthusiastic as 96% of analysts surveyed believe local government credit quality is very strong (16%), strong (39%), or stable (41%).*

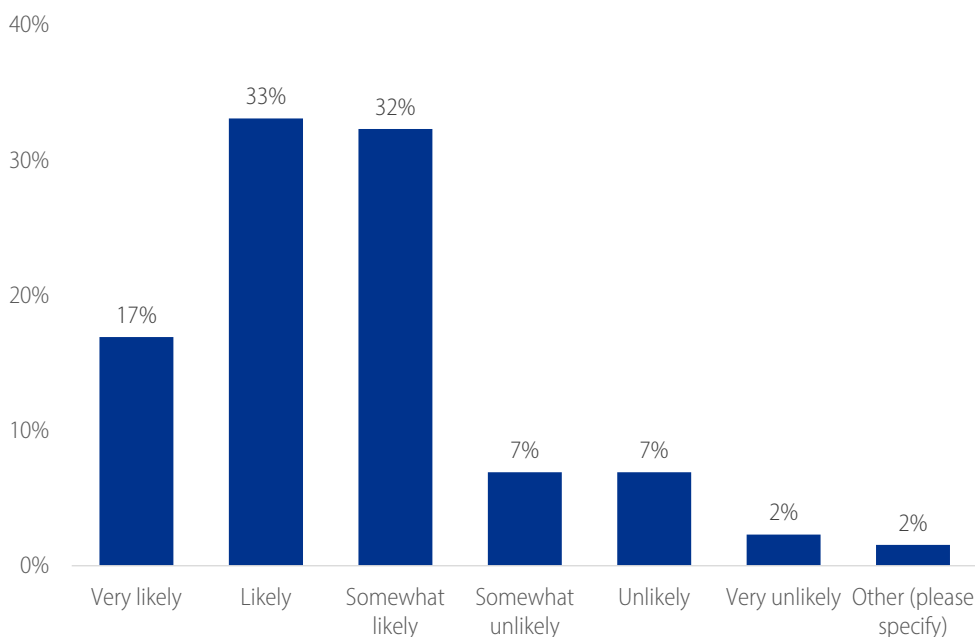
**15. How would you describe your level of satisfaction about aspects such as timing, amount of disclosure in the municipal bond market right now?**



*Under half of analysts are satisfied in some way with municipal bond market disclosure.*

Source: HilltopSecurities.

**16. What is the likelihood that recent events (COVID-19 pandemic, increase in cyber-attacks, questions about climate change) will cause you to ask for or require municipal issuers to disclose additional information on a more regular basis?**

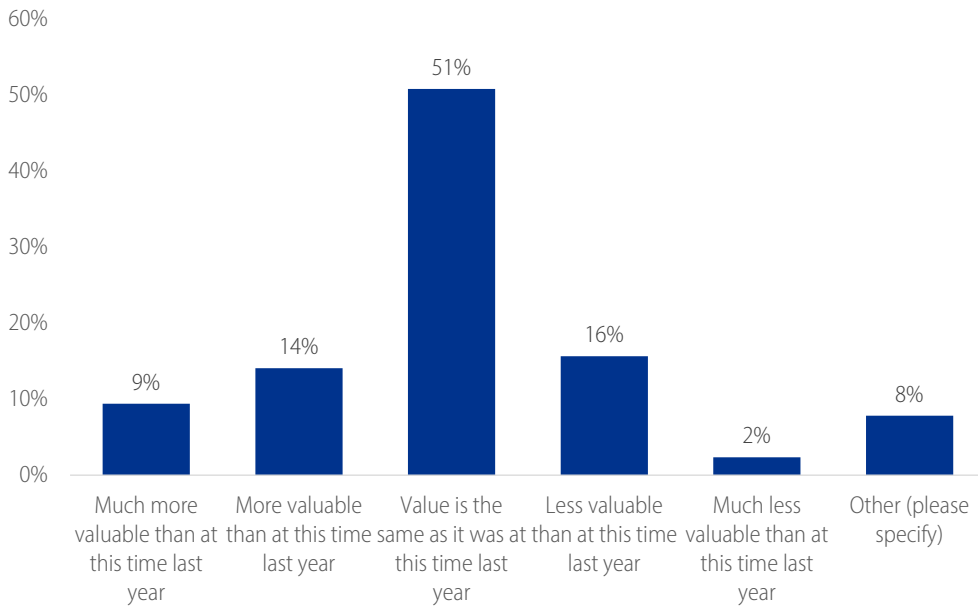


*The survey results shows that only 42% are very satisfied (1%), satisfied (14%), or somewhat satisfied (27%) with municipal bond market disclosure right now.*

*Most analysts (82%) are likely to ask municipal issuers to increase disclosure going forward.*

Source: HilltopSecurities.

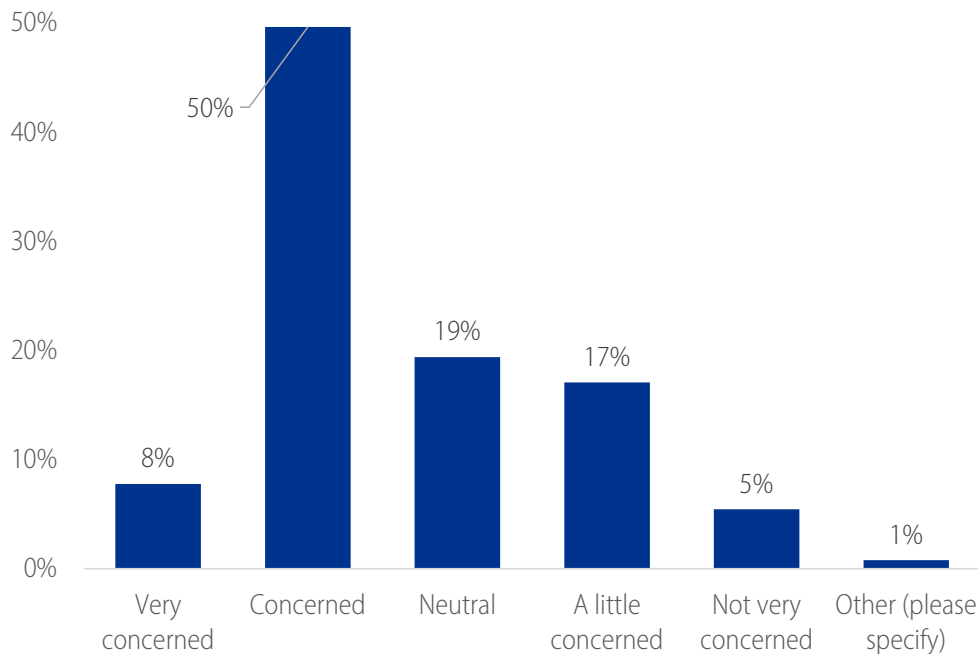
### 17. What value do you place on municipal bond insurance?



*Some analysts (23%) believe that municipal insurance is more valuable this year compared to last.*

Source: HilltopSecurities.

### 18. How concerned are you about the funding status of U.S. public sector pensions as it relates to the potential performance of equity investments in 2022?

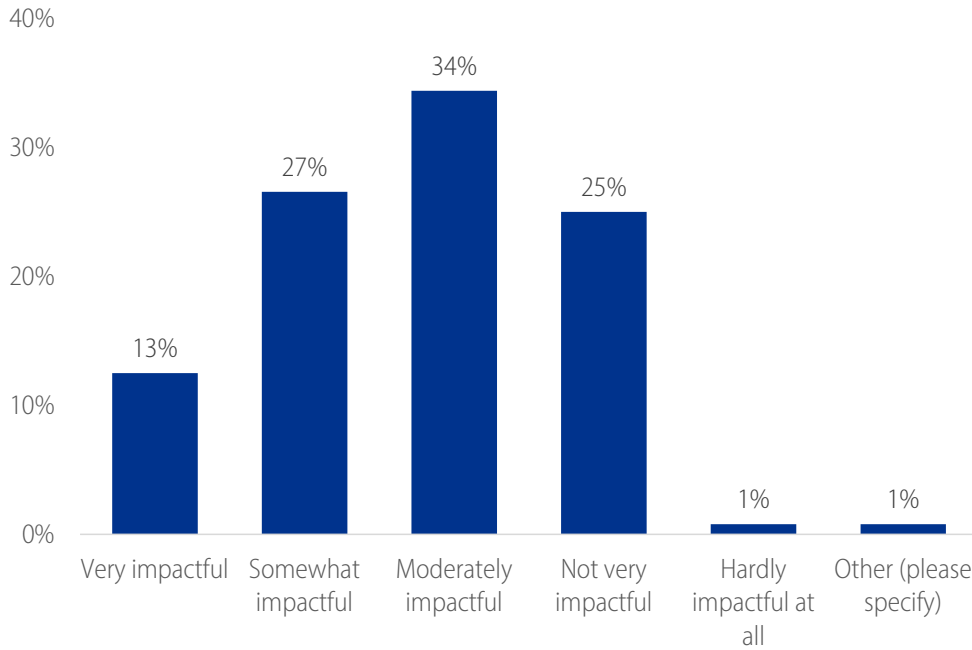


*A smaller amount (18%) report they see it as less valuable compared to last year.*

*Over half of analysts (58%) are Very concerned (8%) or Concerned (50%) about how equity investment performance will impact public pensions.*

Source: HilltopSecurities.

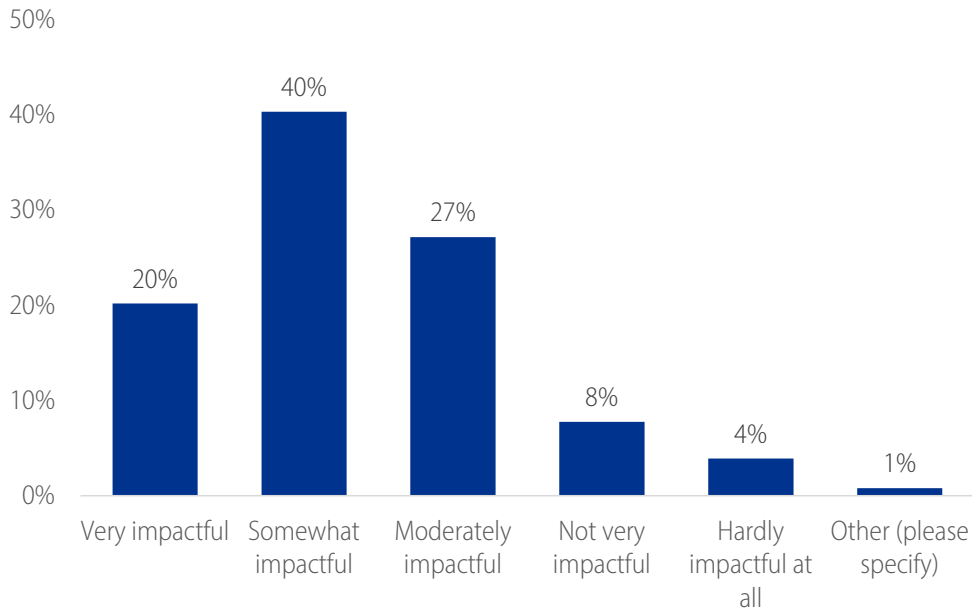
**19. How impactful will results from the 2022 mid-term elections be toward the public finance sector in the near to medium term?**



*Many analysts (74%) expect the 2022 mid-term elections will impact public finance in the near to medium term.*

Source: HilltopSecurities.

**20. How impactful will remote work-related trends be on the public finance sector in the medium to long term?**

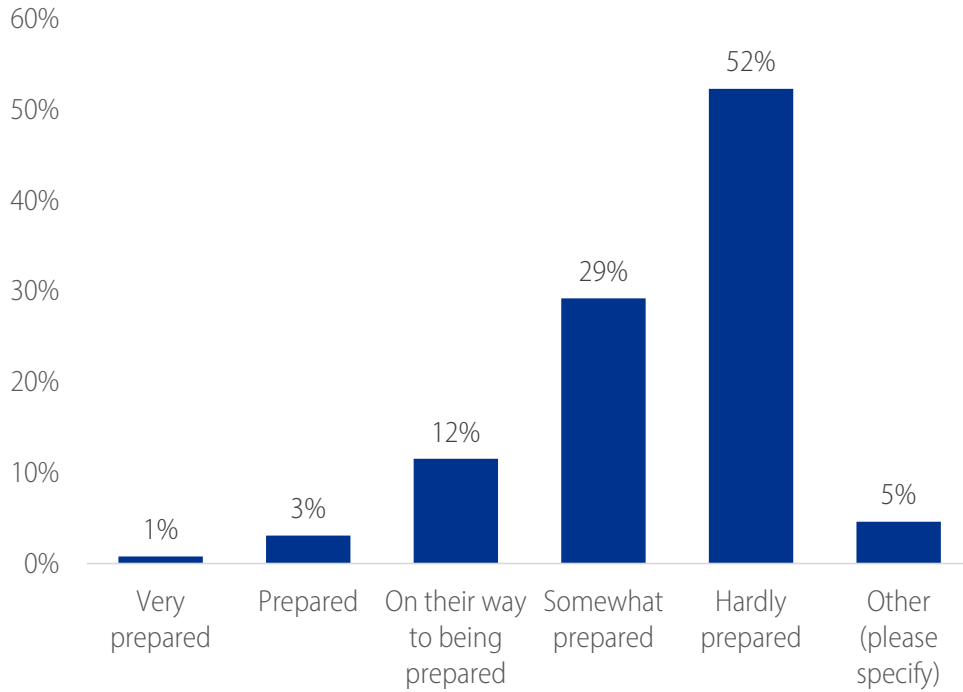


*Analysts seem to be arriving at a consensus about how impactful themes related to remote work will be in public finance going forward.*

Source: HilltopSecurities.

*Most analysts surveyed (87%) believe remote-work related themes will impact public finance in the medium to long term.*

## 21. What is your opinion of how prepared state and local governments and other municipal market participants are currently for CLIMATE CHANGE?

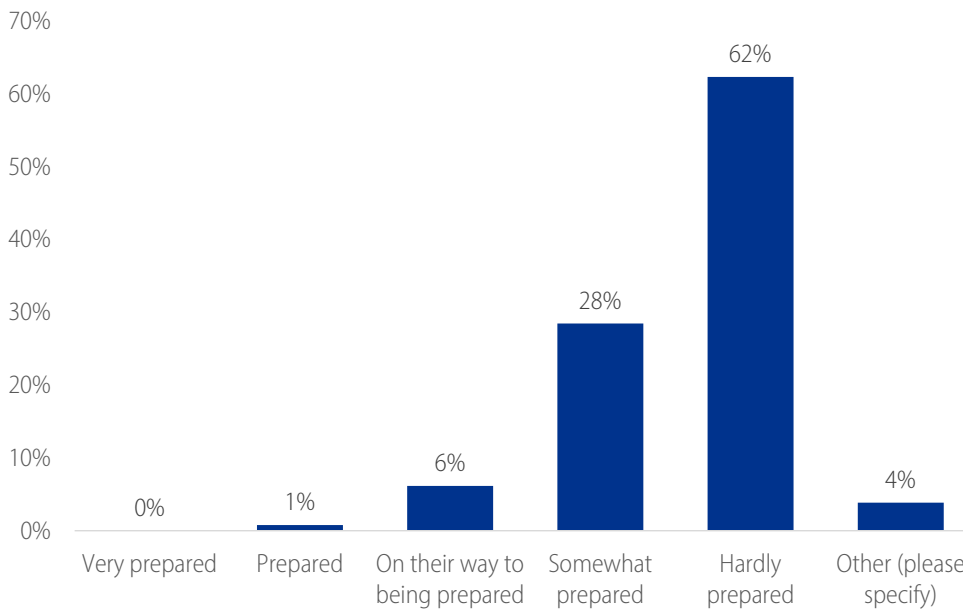


*Most analysts do not think state and local governments are prepared for climate change or cyber-attacks, still.*

Source: HilltopSecurities.

*Only 16% of analysts surveyed believe state and local govts. are very prepared (1%), prepared (3%), or on their way to being prepared (12%) for climate change.*

## 22. What is your opinion of how prepared state and local governments and other municipal market participants are currently for CYBER ATTACKS?



*Only 7% of analysts surveyed believe state and local govts. are very prepared (0%), prepared (1%), or on their way to being prepared (6%) for cyber-attacks.*

Source: HilltopSecurities.

**23. What is your opinion of how the municipal bond credit rating agencies have covered recent events (such as COVID-19, cyber security, ESG, U.S. Federal Reserve, inflation, and the Russian invasion of Ukraine) as they relate to U.S. Public Finance?**

Rating Agency	Very Favorable	Somewhat Favorable	Neutral	Somewhat Unfavorable	Very Unfavorable	Undecided
Moody's	19.05%	30.16%	27.78%	5.56%	1.59%	15.87%
SP Global	12.70%	30.95%	30.95%	7.94%	1.59%	15.87%
Fitch	8.73%	23.81%	34.92%	4.76%	3.17%	24.60%
Kroll	3.97%	15.87%	30.95%	8.73%	3.97%	36.51%

*Analyst opinions about how the rating agencies have handled recent major events is mostly favorable: Almost half of analysts surveyed have a "Very favorable" or "Somewhat favorable" opinion of how Moody's (49%) and S&P (44%) have covered recent events.*

Source: HilltopSecurities.

**24. What is your OVERALL opinion of municipal bond ratings from the following credit rating agencies?**

Rating Agency	Very Favorable	Somewhat Favorable	Neutral	Somewhat Unfavorable	Very Unfavorable	Undecided	Do Not Consider Ratings
Moody's	24.41%	39.37%	23.62%	7.87%	1.57%	0.79%	2.36%
SP Global	17.32%	37.01%	30.71%	7.87%	3.15%	0.79%	3.15%
Fitch	14.96%	32.28%	35.43%	5.51%	0.79%	0.79%	10.24%
Kroll	7.14%	13.49%	30.16%	11.90%	7.14%	0.79%	29.37%

*This year Moody's again received the highest amount of support (64%) in the "Very favorable" and "Somewhat favorable" categories as it relates to analysts' OVERALL opinion of their municipal ratings.*

Source: HilltopSecurities.

**Description and Methodology of the Municipal Bond Analyst Survey, 2022**

The results are based on a survey conducted by HilltopSecurities in March 2022. The above data was collected from 130 municipal bond credit analysts/ specialists. Analysts from the rating agencies were not asked to participate in the survey.

Please email Tom Kozlik at [tom.kozlik@hilltopsecurities.com](mailto:tom.kozlik@hilltopsecurities.com) if you are a municipal bond credit analyst/specialist and would like to participate in the 2023 survey.

We would like to thank everyone who participated in this year's Municipal Bond Analyst Survey, 2022.

*Over half of analysts (54%) put S&P in the "Very favorable" and "Somewhat favorable" categories. Just under half of analysts (47%) reported "Very favorable" and "Somewhat favorable" results for Fitch.*

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- [Impact on U.S. Municipals from the Latest Chapter of the Russian-Ukrainian Conflict](#), March 3, 2022
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