

Bloomberg Barclays Municipal Indices Monthly

March 2021

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Key Performance Highlights

Bloomberg Barclays Municipal Indices

- Bloomberg Barclays Municipal Index, a flagship measure of the US municipal tax-exempt investment grade bond market, entered positive territory in March (0.62%) after posting negative returns in February (-1.59%). This brings its year to date (YTD) return to -0.35%, and compares to -0.63% YTD return in the same period last year (March 2020). Its volatility continued its upward trend in March, after staying low for several recent months. See Figure 2.
- Every US state and territory posted positive returns in March, and is a sharp reversal from last month, when most of the US states and territories posted negative returns. While Vermont (1.86%) posted the highest returns, Puerto Rico (0.13%) posted the lowest returns in March. The largest three components, California, New York and Texas (which collectively account for over 40% of the Municipal Index), posted 0.69%, 0.63% and 0.51% respectively in March, which is a reversal from negative returns of -1.82%, -1.69% and -1.60% respectively in February.
- On a sector basis, General Obligation (GO), Revenue and Prerefunded bonds were in positive territory and returned 0.63%, 0.65% and 0.13% in March, bringing their YTD returns to -0.54%, -0.29% and -0.12% respectively. Every subsector underlying the Revenue sector posted positive returns in March, with Education posting the highest return (0.79%).
- The Bloomberg Barclays Municipal High Yield (HY) Index, a flagship measure of US municipal tax-exempt high yield bond market, returned 1.08% in March, bringing its YTD return to 2.11%. It significantly outperformed both the US Corporate HY (0.15%) and Global HY (-0.93%) in March.
- All sectors within Municipal HY recorded positive returns in March, with Education (1.93%) posting the highest returns and Water & Sewer (0.40%) positing the lowest.

Figure 1

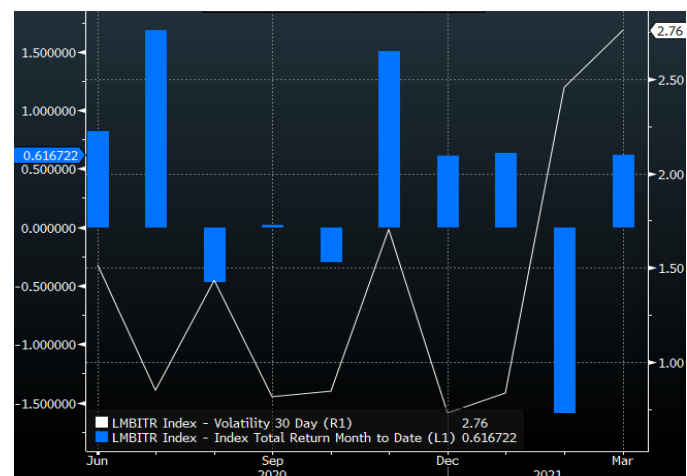
March 2021 returns of Bloomberg Barclays Municipal Index

Index Name	Ticker	1D Rtn	MTD Rtn	YTD Rtn	Members
Municipal Bond family					
Main Indices					
Municipal Bond Index	LMBITR	-0.02%	0.62%	-0.35%	55,546
Maturity					
Purpose Type					
GO Bond Index	100739US	-0.01%	0.63%	-0.54%	18,373
Revenue Bond Index	100749US	-0.02%	0.65%	-0.29%	33,680
Prerefunded Index	100758US	-0.07%	0.13%	-0.12%	3,493
Quality					
Aaa	LMA3TR	-0.04%	0.52%	-0.90%	11,115
Aa	LMA2TR	-0.02%	0.58%	-0.65%	28,621
A	LMA1TR	-0.02%	0.66%	0.06%	12,750
Baa	LMB1TR	0.05%	0.90%	1.28%	3,060
Quality Intermediate	100780US	-0.03%	0.43%	-0.45%	27,898
Managed Money					
State					
Custom					
Muni High Yield (non-Investment Grade)	122329US	-0.01%	1.08%	2.11%	4,929
Maturity					
Sector					
HY GO	114031US	0.06%	1.00%	2.72%	417
HY Electric	114032US	-0.01%	1.21%	1.19%	16
HY Hospital	114033US	-0.01%	0.95%	1.41%	1,565
HY Housing	114033US	-0.07%	0.74%	1.26%	134
HY IDR/PCR	114034US	-0.04%	1.06%	2.86%	473
HY Transportation	114037US	-0.06%	1.45%	1.63%	58
HY Education	114038US	-0.02%	1.93%	3.29%	1,039

Source: Bloomberg Index

Figure 2

Monthly Returns and 30-Day Volatility (Jun 2020-Mar 2021)



Source: Bloomberg Index

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- The Bloomberg Barclays Municipal Taxable Bond Index, a flagship measure of the US municipal taxable investment grade bond market, continued to post negative returns in March (-1.54%), bringing its YTD return to -3.47%. While it outperformed the Bloomberg Barclays Global Aggregate (-4.46%), it lagged behind the Bloomberg Barclays US Aggregate (-3.37%), the Bloomberg US Aggregate Equity Index (6.46%) and the Bloomberg Commodity Index (6.92%) YTD.

Index Rebalance Highlights

- The market value and bond count of the Municipal Index increased slightly from \$1.65tn and 55,546 respectively in February, to \$1.67tn and 55,850 respectively in March.
- The Yield to Worst (YTW) of the Municipal Index declined to 1.18% in March, from 1.27% in February. While its yield was below the US Aggregate (1.61%), it was above the Global Aggregate (1.16%). On a sector basis, yields decreased across the spectrum with GO, Revenue and Prerefunded sectors yielding 1.00%, 1.32% and 0.33% in March, compared to 1.10%, 1.43% and 0.35% respectively in February. Across the states and territories, while Virgin Islands (5.14%) posted the highest yield, Kansas (0.86%) posted the lowest yield.
- The Municipal High Yield Index increased from \$144bn and 4,929 bonds in February, to \$148bn and 4,982 bonds in March. Its yield decreased to 3.64% in March, from 3.76% in February. Among sectors, Resource Recovery (6.70%) continued to post the highest yield, while Water & Sewer (1.85%) posted the lowest yield.

Figure 3

Key analytics associated with Muni Indices (March 2021)

Index Name	Ticker	YTW	Mod Dur
Municipal Bond family			
Main Indices			
Municipal Bond Index	LMBITR	1.18	4.80
Maturity			
Purpose Type			
GO Bond Index	I00739US	1.00	4.79
Revenue Bond Index	I00749US	1.32	5.02
Prerefunded Index	I00758US	0.33	2.37
Quality			
Aaa	LMA3TR	0.96	4.82
Aa	LMA2TR	1.04	4.70
A	LMA1TR	1.34	4.78
Baa	LMB1TR	1.84	5.41
Quality Intermediate	I00780US	0.72	4.11
Managed Money			
State			
Custom			
Muni High Yield (non-Investment Grade)	I22329US	3.64	5.65
Maturity			
Sector			
HY GO	I14031US	2.87	4.70
HY Electric	I14032US	3.77	1.62

Source: Bloomberg Index

For further details on the sub-indices within the Bloomberg Barclays Municipal Indices, please refer to IN <GO> on the Bloomberg Terminal (screenshot of February performance of the Municipal Index is in Figure 1 and February analytics in Figure 3). The monthly returns and 30-day volatility is using G <GO> (Figure 2) on the Terminal.

Eric Kazatsky - US Municipals, Strategist

Bloomberg Economics

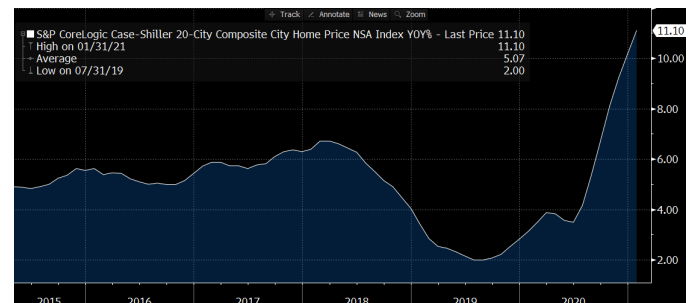
After an almost 30 bps rise in US Treasury yields in February, March did not provide much of a relief for safe haven investors with the 30 Year US Treasury rates rising almost 26bps in March and the 10 Year US Treasury rate climbing by 34bps.

Various narratives have contributed to the rising rate story in March, with some of those being continued Inflationary concerns, the actual passage of the \$1.9 trillion American Rescue Plan Act of 2021 and lastly the temporary blockage of the Suez Canal which could have delayed ramifications on global trade and supply lines over the next several weeks and months.

One area where rising interest rates could tweak the economy could be in the impacts to the mortgage market. Low-rates have contributed to an exorbitant growth in home prices, rising to an almost 15-year high in early 2021. Rising home prices are big wins for local tax collections. However, a spike in rates could slow down purchasing and help cool the growth in pricing.

Figure 4

Case Shiller 20-City Composite Pricing



Source: S&P, Bloomberg

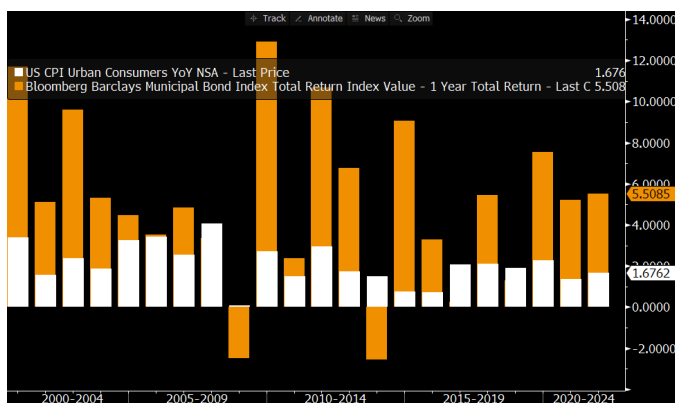
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Last month we discussed how inflation breakevens were trending higher, and March did not serve as a road block to that continued momentum. One way to look at the repercussions of potentially higher inflation is how it would affect municipals from a credit perspective. As the costs of goods rise, this could cause a drag on the expense side of the equation for state and local governments. Along with inflation, the accompanying rise in rates would further increase the expense profile of issuers. However, the new stream of stimulus can help offset some costs. With \$350 billion going to state and local governments, \$170 billion for education and \$20 billion for public transit, there is something for everybody in the municipal-bond market to love about the American Rescue Plan Act of 2021. The muni market didn't immediately jump upon the act's signing, but it does provide even more technical tailwinds to an already heated sector.

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Further, even as U.S. Treasury yields begin to rise, steady municipal inflows have proven to outweigh underlying credit conditions to a large degree this year. Positively, looking at historical data, municipal bonds have provided a solid buffer from inflation, based on figures from the past 20 years. One sector of municipals that will feel weakness from rising US Treasury rates is that of taxable munis, with total returns for the BTMNT index of -3.47% through March 31 of this year.

Figure 5
US CPI and LMBITR 1YR Returns



Source: Bureau of Labor Statistics, Bloomberg

While Figure 4 uses Case Shiller 20-City Composite Pricing Index, Figure 5 uses US CPI and Bloomberg Barclays Municipal Total Return Index. Both the graphs are created using G<GO> on the Terminal.

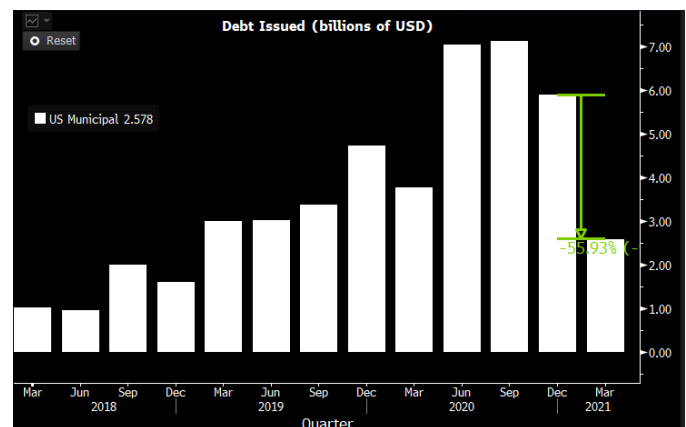
Simone Andrews - ESG Analyst

Infrastructure May Pave Path for Green Bonds

Though U.S. municipal green-labeled debt plummeted in 1Q, we expect 2H will be livelier amid the prospects of additional federal aid for sustainable infrastructure. President Joe Biden's \$2.3 billion "American Jobs Plan" and higher-than-projected revenue for some state and local governments could entice borrowers to ramp up green financing. Green muni sales totaled \$2.6 billion in 1Q, a 56% drop in issuance volume, likely due to stimulus uncertainty. By comparison, 1Q U.S. green corporate and other governmental bond sales totaled \$10.2 billion, a 230% increase vs. the prior quarter.

Top issuers for the quarter were Denver's Regional Transportation District, New York's Metropolitan Transportation Authority and the California Statewide Community Development Authority.

Figure 6
Green Municipal Sales Volume: Quarterly



Source: Bloomberg Index

Green-bond sales may not pick up until 2H, as only 1% of early April new-deal flow fell in that category. The pipeline for muni green-designated debt was off to a slow start for state and local governments -- particularly utilities and transportation authorities -- that may have been waiting for federal stimulus and infrastructure aid before increasing green-capital expenditures. Use CDRA <GO> to find the most recently priced green, fixed-rate municipal securities by clicking on the "bond purpose" field and selecting "green purpose." As of April 1, only five of 613 muni deals were labeled as green.

Newly priced municipal green bonds include the Union Township Board of Education, Washington State Convention Center, Easton Area Joint Sewer Authority and the Massachusetts Bay Transportation Authority

Figure 7
New Green Muni Bonds Sales Calendar

Date	Time	BP	Issuer Description	State	Amt (MM)
		All			
11) 03/29/2021			UNION TWP BOE	NJ	5.035
12) 03/29/2021			WA ST CONV CENTR P...	WA	341.500
13) 04/05/2021			BOONE-REV-REF	IA	5.860
14) 04/05/2021			CA EDU FACS AUTH -V...	CA	160.000
15) 04/05/2021			MA BAY TRANSPRTN A...	MA	39.015
16) 06/28/2021			EASTON AREA JT SWR...	PA	10.000
17) 03/29/2021			ACADEMY ISD -REF-T...	TX	14.964
18) 03/29/2021			ACADEMY ISD-REF-TX...	TX	
19) 03/29/2021			ALSEA SD #7J	OR	2.100
20) 03/29/2021			ARCADIA RURAL FIRE	NE	.265
21) 03/29/2021			ARMSTRONG SD -REF...	PA	11.020
22) 03/29/2021			ASHLAND -BANS REF	OH	1.000
23) 03/29/2021			ASHLAND-REF	OH	3.340
24) 03/29/2021			AVONDALE	MO	.455
25) 03/29/2021			AZ BRD OF RGTS-REF...	AZ	38.435
26) 03/29/2021			BALDWIN WTR & SWR...	GA	7.330

Source: Bloomberg Index

Green muni credit represented about 2.8% of securities on the Bloomberg Barclays Tax-Exempt Bond Index (LMBITR) and 2.9% of the weight of the index as of April 2. By using MEMB <GO>, clients can find the weighting of the members of the index and use the "green bond indicator" field to sum

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up the weights of those issues. Out of 55,617 securities in LMBITR, the number of green securities slightly increased to 2.8%, despite the drop in 1Q sales. The majority of green municipal bonds are issued as tax-exempt, with investors in high-cost states like California and New York looking to capture both tax savings and sustainability objectives. California and New York looking to capture both tax savings and sustainability objectives.

At a weighting of 2.3%, taxable green municipal credit remains a small fraction of the Bloomberg Barclays Taxable Bond Universe (BTMNTR), lagging behind the tax-exempt universe.

Figure 8

LMBITR and BTMNTR Green Weighting: (March 2021)

	Municipal Bond Index	Taxable Municipal Index
Total # of Securities	55617	8255
Total # of Green Securities	1557	232
Green Securities (%)	2.8%	2.8%
Green Weight of Index (%)	2.9%	2.3%

Source: Bloomberg Index

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