

Bloomberg Barclays Municipal Indices Monthly

October 2020

Jasvinder Singh - Index Product Manager
 Mike Alagna - Head of Municipal Data Product Strategy
 Nick Gendron - Head of Fixed Income Index Product

Key Performance Highlights Bloomberg Barclays Municipal Indices

- The Bloomberg Barclays Municipal Index, a flagship measure of the US municipal tax-exempt investment grade (IG) bond market, returned -0.30% in October following a 0.02% return in September. This brings the year-to-date (YTD) return to 3.02%, which compares to a YTD return of 6.94% during the same period last year and 7.54% for the full year of 2019.
- Among the US states and territories, Puerto Rico bonds posted the highest returns on month-to-date (MTD) basis, while Wyoming bonds posted the highest returns YTD. Puerto Rico returned 1.57% in October, while Wyoming returned 5.01% YTD. New Hampshire posted the lowest returns on both MTD and YTD basis, with returns of -0.91% in October and 0.27% YTD. The largest three components, California, New York and Texas (which collectively account for over 40% of the Municipal Index), posted negative returns of -0.28%, -0.33% and -0.39% respectively in October and are now up 3.12%, 1.72% and 3.96% respectively on YTD basis.
- On a sector basis, the General Obligation (GO), Revenue and Prerefunded bonds returned -0.29%, -0.31% and -0.21% respectively in October, which compares to returns of -0.07%, 0.05% and 0.11% respectively in September. Revenue bonds posted negative returns across sub-sectors. The least negative returns were posted by Tobacco sub-sector with return of -0.03% in October, and the most negative returns were posted by Lease sub-sector with -0.51% return.
- The Bloomberg Barclays Municipal High Yield (HY) Index, a flagship measure of the US municipal tax-exempt high yield bond market, returned 0.18% in October. This brings its YTD return to 0.54%, and compares to its YTD return of 9.92% in the same period last year and 10.68% in 2019. While the Municipal HY (YTD return: 0.54%) outperformed the Global HY (-0.51%), its return was lower than both the Municipal IG (3.02%) and the US Corporate HY (1.13%).

Figure 1
 October 2020 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	-0.01%	-0.30%	3.02%	55,774
Maturity					
Purpose Type					
GO Bond Index	100739US	-0.04%	-0.29%	3.61%	18,379
Revenue Bond Index	100749US	0.00%	-0.31%	2.82%	33,952
Prerefunded Index	100758US	-0.03%	-0.21%	2.41%	3,443
Quality					
Aaa	1M43TR	-0.03%	-0.38%	3.84%	11,150
Aa	1M42TR	-0.01%	-0.33%	3.37%	29,217
A	1M41TR	0.02%	-0.19%	2.63%	12,460
Baa	1M41TR	-0.10%	-0.24%	0.75%	2,947
Quality Intermediate	100780US	-0.01%	-0.24%	3.33%	27,967
Managed Money					
State					
Alabama	113974US	-0.01%	-0.23%	3.76%	418
Alaska	113975US	-0.05%	-0.22%	2.35%	134
Arizona	113976US	-0.04%	-0.30%	3.00%	900
Arkansas	113977US	-0.02%	-0.19%	3.25%	142
California	100767US	0.00%	-0.28%	3.12%	8,025
Colorado	113978US	-0.02%	-0.33%	3.74%	1,213
Connecticut	113979US	-0.06%	-0.19%	3.72%	1,010
Delaware	113980US	-0.04%	-0.35%	3.41%	256
Dist. Of Columbia	113981US	-0.01%	-0.43%	3.55%	732
Florida	113982US	-0.02%	-0.32%	3.13%	3,039
Georgia	113983US	-0.01%	-0.22%	3.67%	1,188
Guam	113984US	0.03%	0.21%	3.63%	34
Hawaii	113985US	-0.06%	-0.39%	3.48%	623
Idaho	113986US	-0.03%	0.25%	3.46%	57

Source: Bloomberg Index

Figure 2
 October 2020 returns of Municipal High Yield Indices

Index Name	Ticker	1D Rtn	MTD Rtn	YTD Rtn	Members
Municipal Bond family					
Main Indices					
Muni High Yield (non-Investment Grade)	I22329US	-0.03%	0.18%	0.54%	4,796
Capped					
Composites					
Maturity					
HY 10 Year (8-12)	114027US	-0.03%	0.03%	-1.75%	686
HY 15 Year (12-17)	114028US	0.01%	0.13%	-0.52%	824
HY 20 Year (17-22)	114029US	0.01%	0.24%	-0.04%	687
HY 5 Year (4-6)	114025US	-0.02%	0.22%	0.17%	327
HY 7 Year (6-8)	114026US	-0.04%	0.19%	0.99%	372
HY 3 Year (2-4)	114024US	0.00%	0.26%	1.11%	247
HY Long (22+)	114030US	-0.05%	0.20%	1.59%	1,549
HY 1 Year (1-2)	114023US	0.01%	0.16%	1.97%	104
Sector					
HY Hospital	114053US	-0.02%	0.12%	-3.25%	1,543
HY Transportation	114037US	-0.04%	-0.42%	-2.42%	55
HY Airline	114035US	0.09%	0.64%	-1.70%	54
HY Housing	114033US	-0.02%	-0.05%	-1.61%	128
HY GO	114031US	-0.07%	-0.48%	0.28%	386
HY Education	114038US	-0.01%	0.19%	0.88%	970
HY IDR/PCR	114034US	-0.04%	0.22%	1.63%	498
HY Special Tax	113955US	-0.01%	0.53%	2.52%	1,030
HY Water & Sewer	114039US	0.00%	0.74%	3.06%	52
HY Leasing	114041US	-0.04%	-0.49%	3.49%	113
HY Electric	114032US	0.00%	0.30%	4.09%	18
HY Resource Recovery	114040US	-0.01%	0.35%	4.30%	3
HY Puerto Rico	130774US	0.00%	0.76%	5.08%	64
HY Tobacco	114036US	-0.09%	0.18%	8.44%	166

Source: Bloomberg Index

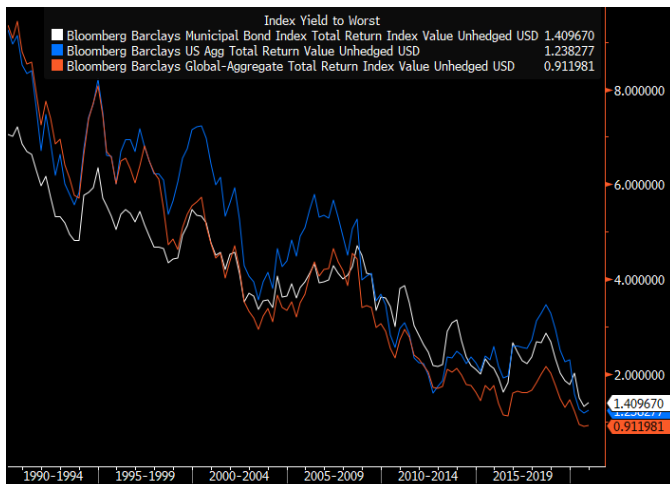
Bloomberg Barclays Municipal Indices

- On a sector basis, Municipal HY Hospital and HY Transportation are noticeable due to their large negative YTD returns of -3.25% and -2.42% respectively. They significantly underperformed versus the Global HY (-0.51%) and US HY Corporate (1.13%); though, they outperformed the Emerging Markets USD HY (-4.02%). The other Municipal HY sectors with negative YTD returns are Airline and Housing, with returns of -1.70% and -1.61% respectively.
- The Bloomberg Barclays Municipal Taxable Bonds Index, a flagship measure of the US municipal taxable investment grade bond market, returned -1.54% in October and 7.29% on year-to-date (YTD) basis. Despite the strong negative return in October, it continued to outperform the Bloomberg Barclays US Aggregate (Fixed Income), Bloomberg Aggregate Equity and Bloomberg Commodity indices YTD. See Figure 4 for comparative returns across certain indices in 2020.

Index Rebalance Highlights

- Market value of the Municipal Index grew slightly to \$1.66tn in October, from \$1.65tn in September. Its bond count increased to 56,088 from 55,774 last month.
- Yield to Worst (YTW) of the Municipal Index continued on its path of modest recovery from its historical low in July. It yielded 1.41% at the end of October, compared to 1.32% at September month end and 1.2% at July month end. Even at this low point, its yield was greater than the yields of both the US Aggregate and the Global Aggregate, which posted 1.24% and 0.91% respectively at October month end. On a sector basis, the GO, Revenue and Prerefunded sectors yielded 1.16%, 1.61% and 0.37% respectively. Across the states and territories, Virgin Islands bonds continued to provide the highest yield at 4.85% followed by Puerto Rico at 3.44%, while Kansas bonds provided the lowest yield at 0.96%.

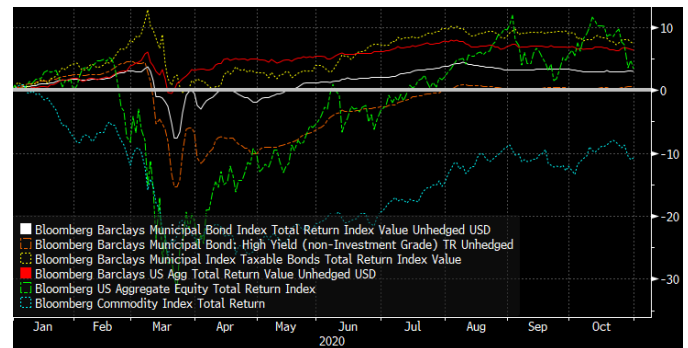
Figure 3
YTW of Municipal Index, US Aggregate and Global Aggregate (1990-2020)



Source: Bloomberg Index

Figure 4

Comparison of YTD returns of Bloomberg Barclays Municipal Indices (Investment Grade, High Yield and Taxable) to Bloomberg Barclays US Aggregate, Bloomberg US Aggregate Equity and Bloomberg Commodity Indices



Source: Bloomberg Index

- The Municipal High Yield Index grew slightly to \$135bn in October from \$134bn in September. Its bond count grew to 4,856 from 4,796 during this period.
- The YTW of the high yield bonds remained unchanged at 4.54% at October month end. The Resource Recovery and the Transportation bonds continued to provide the highest yields among the Revenue sub-sectors, with yields at 5.46% and 6.63% respectively at end of October.

Figure 5
Key analytics associated with Muni Indices (October 2020)

Index Name	Ticker	YTW	Mod Dur	OAD	OAS	Membe...	Mkt Val
Municipal Bond family							
Main Indices							
Municipal Bond Index	LMBITR	1.41	4.87			56,088	1.66T
Maturity							
Purpose Type							
GO Bond Index	100739US	1.16	4.84			18,541	458.03B
Revenue Bond Index	100749US	1.61	5.11			29,326	854.32B
Prerefunded Index	100758US	0.37	2.41			3,504	100.72B
Quality							
Aaa	LMA3TR	1.00	4.93			11,185	259.40B
Aa	LMA2TR	1.17	4.73			29,326	854.32B
A	LMA1TR	1.75	4.94			12,571	405.08B
Baa	LMB1TR	2.66	5.41			3,006	137.85B
Quality Intermediate	100780US	0.81	4.16			28,111	697.25B
Managed Money							
State							
Alabama	113974US	1.26	4.83			445	16.20B
Alaska	113975US	1.64	4.42			132	2.10B
Arizona	113976US	1.26	4.89			907	26.45B
Arkansas	113977US	1.36	4.05			139	2.37B
California	100767US	1.24	5.11			8,043	280.07B
Colorado	113978US	1.51	5.28			1,226	35.60B
Connecticut	113979US	1.14	4.36			1,013	26.85B

Source: Bloomberg Index

For further details on the sub-indices within the Bloomberg Barclays Municipal Indices, please refer to the IN <GO> on the Bloomberg Terminal (screenshot of October performance of the Municipal Index is in Figure 1, performance of the Municipal High Yield in Figure 2, and October analytics in Figure 5). The graph of the YTW is using GP <GO> on the Terminal (Figure 3) and the comparison of index returns is using COMP <GO> (Figure 4).

Bloomberg Barclays Municipal Indices

Eric Kazatsky - US Municipals, Strategist

Bloomberg Economics

October brought many spooky surprises to investors, but none was quite as scary as an official punt on another round of fiscal stimulus, especially for those most in need. While Republicans and Democrats did narrow the gap on their ideas/dollar amounts for further stimulus, remaining sticking points centered around additional help for state and local governments. It did not help matters that Senate attention was diverted toward the confirmation hearings of new Supreme Court Justice, Amy Coney Barrett.

On the GDP front, third quarter growth measured at a 33.1% annualized rate, showing the the economy has scratched back much of the losses over the previous months. While the 33.1% looks impressive, it does come after a record setting decline for Q2, and sets the stage for an uncertain future as we head into colder months in the US. Investor sentiment in terms of stocks turned negative toward the end of the month as COVID case counts surged higher in many areas of the US, especially in the mid-western regions. Hospitalizations, which had been more muted have begun to rise to concerning levels in areas such as El Paso, TX and several spots in Utah. Attention should remain on COVID developments in areas of the UK and Europe, which we have followed, historically, by several weeks. Exponential growth in the UK has now resulted in a fresh month long lock-down and German Chancellor Angela Merkel, has announced new efforts to reduce socialization, shuttering restaurants and cafes for all but takeaway business.

Figure 5
US GDP and COVID Case/Death Counts



Source: Bureau of Economic Analysis, Bloomberg, John Hopkins

Eric Kazatsky - US Municipals, Strategist

Bloomberg Intelligence

October has not been a historically strong month for municipal performance, driven in part by a lack of high principal and interest redemptions to help bolster reinvestment appetite. The monthly losses posted by the municipal bond agg (LMBITR Index), echo this theme, but issues may have more to do with macro matters than technical issues at this point. Fund flows into municipals continue to be strong and serve as a positive tailwind to the sector. However, the election uncertainty and slippage of the promise of stimulus has weighed on investors minds.

Bloomberg

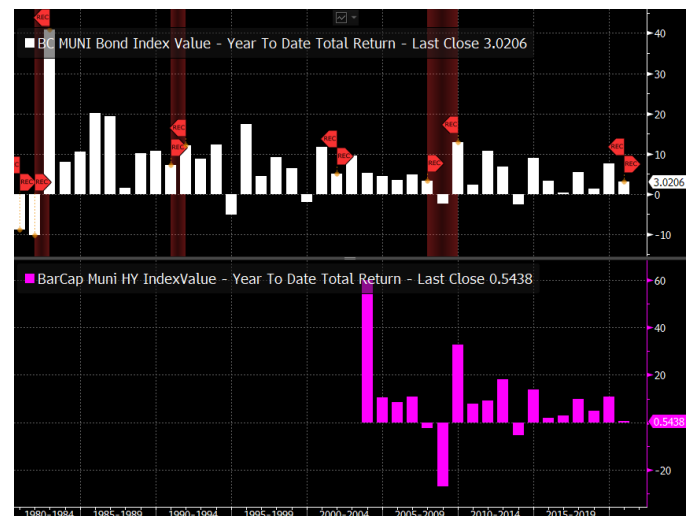
Despite credit risks still on the horizon, high yield munis had a much better October than their investment grade counterparts, with monthly returns of 0.54% and -0.30%, respectively. While high yield won the monthly battle, the year to date war is still firmly showing a victory for higher rated munis with almost 250bps of outperformance in 2020. High yield sub sectors of Puerto Rico and Airlines were standouts in October.

Unlike September, where the Bloomberg AAA municipal scale was basically untouched, municipals tracked directionally with US Treasuries in October, but to a lesser degree. The biggest theme in rates for October, was the steepening of the yield curve.

Since March, the curve slope between 2- and 10-year AAA muni yields has increased from the lowest levels on record to the steepest levels since 2018. The curve movement may incentivize buyers to look out longer on the yield curve.

The upward pressure on longer rates has been a factor in the weak monthly performance data.

Figure 6
Returns associated with certain Municipal Indices (October 2020)



Source: Bloomberg

Figure 5 is generated using {GDP CQQQ Index GP <GO>, NCOVUSCA Index and NCOVUSDE Index <GO>} (Source: Bloomberg), and Figure 6 using {IN <GO>} and {G <GO>} on the Bloomberg Terminal.

Bloomberg Barclays Municipal Indices

BLOOMBERG is a trademark and service mark of Bloomberg Finance L.P. BARCLAYS is a trademark and service mark of Barclays Bank PLC, used under license. Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited, as administrator of the BLOOMBERG BARCLAYS INDICES (collectively, "Bloomberg"), or Bloomberg's licensors own all proprietary rights in the BLOOMBERG BARCLAYS INDICES. Neither Bloomberg nor Barclays Bank PLC or Barclays Capital Inc. or their affiliates (collectively "Barclays") guarantee the timeliness, accuracy or completeness of any data or information relating to BLOOMBERG BARCLAYS INDICES or make any warranty, express or implied, as to the BLOOMBERG BARCLAYS INDICES or any data or values relating thereto or results to be obtained therefrom, and each of Bloomberg and Barclays expressly disclaims all warranties of merchantability and fitness for a particular purpose with respect thereto. It is not possible to invest directly in an index. Back-tested performance is not actual performance. Past performance is not an indication of future results. To the maximum extent allowed by law, Bloomberg and its licensors, and their respective employees, contractors, agents, suppliers and vendors shall have no liability or responsibility whatsoever for any injury or damages - whether direct, indirect, consequential, incidental, punitive or otherwise - arising in connection with BLOOMBERG BARCLAYS INDICES or any data or values relating thereto - whether arising from their negligence or otherwise. This document constitutes the provision of factual information, rather than financial product advice. Nothing in the BLOOMBERG BARCLAYS INDICES shall constitute or be construed as an offering of financial instruments or as investment advice or investment recommendations (i.e., recommendations as to whether or not to "buy," "sell," "hold" or enter into any other transaction involving a specific interest) by Bloomberg or its affiliates or licensors or a recommendation as to an investment or other strategy. Data and other information available via the BLOOMBERG BARCLAYS INDICES should not be considered as information sufficient upon which to base an investment decision. All information provided by the BLOOMBERG BARCLAYS INDICES is impersonal and not tailored to the needs of any specific person, entity or group of persons. Bloomberg and its affiliates express no opinion on the future or expected value of any security or other interest and do not explicitly or implicitly recommend or suggest an investment strategy of any kind. In addition, Barclays is not the issuer or producer of the BLOOMBERG BARCLAYS INDICES and has no responsibilities, obligations or duties to investors in these indices. While Bloomberg may for itself execute transactions with Barclays in or relating to the BLOOMBERG BARCLAYS INDICES, investors in the BLOOMBERG BARCLAYS INDICES do not enter into any relationship with Barclays and Barclays does not sponsor, endorse, sell or promote, and Barclays makes no representation regarding the advisability or use of, the BLOOMBERG BARCLAYS INDICES or any data included therein. Customers should consider obtaining independent advice before making any financial decisions. ©2020 Bloomberg. This document and its contents may not be forwarded or redistributed without the prior consent of Bloomberg.

The BLOOMBERG TERMINAL service and Bloomberg data products (the "Services") are owned and distributed by Bloomberg Finance L.P. ("BFLP") except (i) in Argentina, Australia and certain jurisdictions in the Pacific islands, Bermuda, China, India, Japan, Korea and New Zealand, where Bloomberg L.P. and its subsidiaries distribute these products, and (ii) in Singapore and the jurisdictions serviced by Bloomberg's Singapore office, where a subsidiary of BFLP distributes these products.

Bloomberg Intelligence is a service provided by Bloomberg Finance L.P. and its affiliates. Bloomberg Intelligence shall not constitute, nor be construed as, investment advice or investment recommendations (i.e., recommendations as to whether or not to "buy", "sell", "hold", or to enter or not to enter into any other transaction involving any specific interest) or a recommendation as to an investment or other strategy. No aspect of the Bloomberg Intelligence function is based on the consideration of a customer's individual circumstances. Bloomberg Intelligence should not be considered as information sufficient upon which to base an investment decision. You should determine on your own whether you agree with Bloomberg Intelligence.

Bloomberg Intelligence is offered where the necessary legal clearances have been obtained. Bloomberg Intelligence should not be construed as tax or accounting advice or as a service designed to facilitate any Bloomberg Intelligence subscriber's compliance with its tax, accounting, or other legal obligations. Employees involved in Bloomberg Intelligence may hold positions in the securities analyzed or discussed on Bloomberg Intelligence.