

Ratio and Spread Changes Municipals vs US Treasuries

Further to our note of last week, we have been asked by some of you for an update on the municipal market, our strategies, and where municipals stand today as we approach month end.

The below chart compares where MMD and US Treasury levels were on March 2 and March 27 which includes the general sell off in financial assets (except UST) and the initial stages of the Federal Reserve intervention. Net, net, the relationship between MMD/UST has moved from being a “ratio” (MMD/UST) to a “spread,” much like corporates. Given their high credit quality in conjunction with the tax-exemption, municipal yields are generally lower than corresponding UST yields which creates the “ratio.” This can be considered the “normal” condition with municipals. Ratios tend to exceed 100% during times of significant flights to quality brought upon by exogenous events. On March 2, across the yield curve, the MMD/UST ratio was well below 100%. As of today, MMD trades around 60 or 70 basis points over US Treasuries of comparable maturities. In ratio terms, the 10-year ratio is 186% which is about the peak of the 2008 financial crises.

MONDAY MARCH 2ND, 2020					FRIDAY, MARCH 27TH, 2020					CHANGE V MARCH 2, 2020			
YEAR	TREASURY YIELD	MMD	MUNI/TREAS RATIO	SPREAD TO TREAS	YEAR	TREASURY YIELD	MMD	MUNI/TREAS RATIO	SPREAD TO TREAS	TREAS YIELD CHG.	MMD YIELD CHG	RATIO CHANGE	SPREAD CHANGE
2 yr	0.90	0.69	77%	(21)	2 yr	0.24	1.06	433%	82	-0.66	0.37	357%	103
5 yr	0.94	0.69	73%	(25)	5 yr	0.40	1.09	276%	70	-0.55	0.40	203%	95
10 yr	1.16	0.93	80%	(23)	10 yr	0.68	1.26	186%	58	-0.48	0.33	106%	81
30 yr	1.72	1.52	88%	(20)	30 yr	1.27	1.84	145%	57	-0.45	0.32	57%	77

Source: Bloomberg and MMD

MARKET OUTLOOK

So what is our view? We think that selectively, this is a good buying opportunity. By selectively, we prefer the following parts of the yield curve and certain types of credits:

- Maturities inside of 10-years
- General Obligation credits where the municipality is not particularly subject to tourism or oil and gas as examples
- Essential service credits like water and sewer and public power

LONG RELATIVE VALUE STRATEGY COMPOSITE

With respect to our client strategies, as of Friday, the Long Relative Value composite is +0.96% on the year. This compares favorably to most mutual funds and ETFs which are still negative on the year and certainly to the broader equity market where the S&P 500 is negative 20% or so.

We would be happy to discuss this or other municipal related topics at your leisure.

Disclosure

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