

## Municipal Bonds

# Sky High Supply



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Supply in 2021 is likely to exceed 2020's record \$474 billion in new issuance.

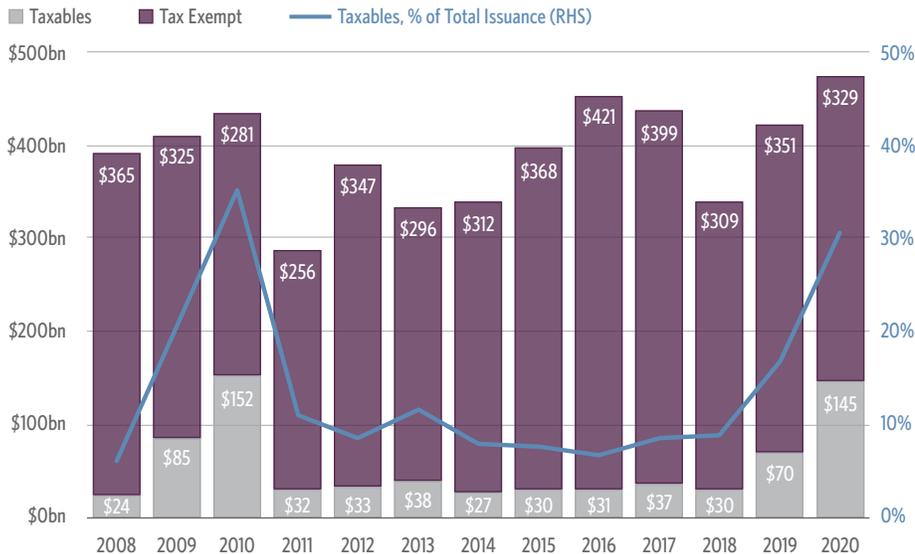
2020 was a banner year for municipal market supply with approximately \$474 billion of total new issuance, an increase of 13 percent year over year. Taxable bonds accounted for 31 percent of total issuance, compared to an average of 11 percent for the prior three years (see chart, top right). The surge in taxable supply was met by appetite from crossover buyers such as banks and insurance companies looking for attractive risk-adjusted relative value versus similarly rated corporate bonds. With expectations for a prolonged low-rate environment, municipal market dealers widely forecast another record-setting supply year for 2021.

Accommodative monetary policy and optimism for more fiscal stimulus drove performance in 2020, with the Bloomberg Barclays Municipal Bond Index returning 5.21 percent for the year. As of January 2021, 10-year and 30-year municipal bond yield ratios rallied to new record lows of 64.4 percent and 78.3 percent, respectively, only nine months after spiking to near-record highs in March 2020 (see chart, bottom right). Despite outflows of \$43 billion in March 2020 alone, the municipal market ended the year with \$38 billion of cumulative net inflows. Policy uncertainty has been reduced with Democrats now in control of the White House and Congress, with the prospect of increased federal fiscal support for municipal issuers underpinning the market's bullish tone to start 2021. Moreover, the possibility of higher income taxes should increase demand for tax-exempt investment products.

Despite economic challenges brought by the pandemic and new credit paradigms, municipal bond valuations have returned to near pre-COVID levels. While credit quality has suffered across fixed-income asset classes, many municipal issuers' intrinsic essentiality and durability have been illuminated. Understanding that full economic recovery will neither be a short nor easy road, we continue to emphasize security selection. While the initial Coronavirus Aid, Relief, and Economic Security Act and its sequels provide vitally needed relief for municipal issuers, we do not view one-time liquidity injections as a panacea for the long term. Rather than relying on policymakers to apply funding Band-Aids, we focus on structural creditworthiness that can endure this pandemic as well as future exogenous events.

### Investor Demand Absorbs Surging Taxable Muni Bond Issuance

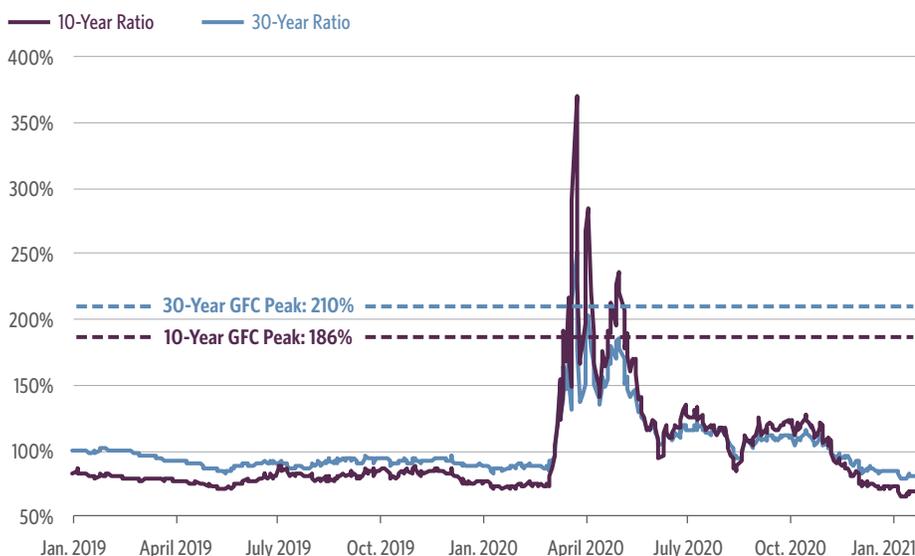
Annual New Issuance



Source: Guggenheim Investments, Bond Buyer. Data as of 12.31.2020.

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### Muni Yield Ratios Spiked Above Financial Crisis Levels, Then Rallied to New Lows



Source: Guggenheim Investments, Thomson Reuters, Bloomberg. Data as of 1.19.2021.

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Investing involves risk. In general, the value of fixed-income securities fall when interest rates rise. High-yield securities present more liquidity and credit risk than investment grade bonds and may be subject to greater volatility. Asset-backed securities, including mortgage-backed securities, may have structures that make their reaction to interest rates and other factors difficult to predict, making their prices volatile and they are subject to liquidity risk. Investments in floating rate senior secured syndicated bank loans and other floating rate securities involve special types of risks, including credit risk, interest rate risk, liquidity risk and prepayment risk. Guggenheim Investments represents the following affiliated investment management businesses of Guggenheim Partners, LLC: Guggenheim Partners Investment Management, LLC, Security Investors, LLC, Guggenheim Funds Investment Advisors, LLC, Guggenheim Funds Distributors, LLC, GS GAMMA Advisors, LLC, Guggenheim Partners Europe Limited and Guggenheim Partners India Management. ©2021, Guggenheim Partners, LLC. No part of this article may be reproduced in any form, or referred to in any other publication, without express written permission of Guggenheim Partners, LLC.