

Municipal Bond Investor Weekly

High Net Worth Wealth Solutions and Market Strategies // Fixed Income Solutions



CAMILLE HERNANDEZ

Director
High Net Worth

THE WEEK AHEAD

1. Markets will remain “hostage” to geopolitical risk from Ukraine – bias to flight to quality.
2. Muni funds flows turned net negative last week – low new issue volume expected this week may provide some price stability.
3. Good news for state/local governments – sales tax revenue reportedly increased 20% YoY December 2020-21 -- increasing credit resiliency.



DREW O'NEIL

Director
Fixed Income Strategy

MONDAY'S COMMENTARY

Lower Your Taxes With This Timely Strategy

Page 2

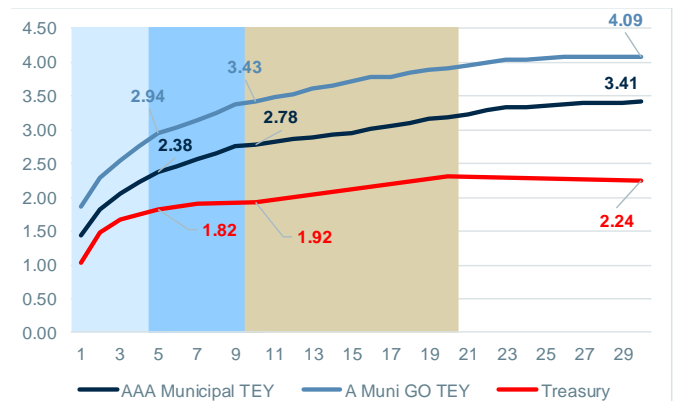
THE NUMBERS THIS WEEK

Municipal yields moved higher last week, despite the dip in Treasury yields. The benchmark AAA municipal curve saw yields rise, with more substantial moves on the short to intermediate part of the curve. From 1 to 5 years, yields were 4-5 basis points higher, 10-15 year yields were only 2-3 basis points higher, and 20+ year yields were 0-1 basis points higher. Higher municipal yields combined with lower or flat Treasury yields increased the relative value of tax-exempt municipals, as highlighted by the 10-year muni-Treasury ratio which increased to ~86% last week.

Year		Treasury	Municipal (AAA)	Municipal (A)	Municipal TEY* (AAA)	Municipal TEY* (A)	Muni (AAA)/Tsy Ratio	Muni TEY* (AAA)/Tsy Ratio
1	2023	1.03	0.85	1.10	1.44	1.86	83%	140%
2	2024	1.47	1.08	1.35	1.83	2.28	74%	124%
5	2027	1.82	1.41	1.74	2.38	2.94	77%	131%
10	2032	1.92	1.65	2.03	2.78	3.43	86%	145%
20	2042	2.30	1.89	2.31	3.19	3.91	82%	139%
30	2052	2.24	2.02	2.42	3.41	4.09	90%	152%

*Taxable equivalent yield @ 40.8% tax rate

Traditional ladder strategies (table on right) highlight limited opportunities on the short end of the curve. Duration focused strategies can extract additional yield available with longer maturities, while potentially mitigating risk with shorter calls. **Yield curve highlights taxable equivalent yields.**



Maturity Range	Avg. Maturity	Duration	Yield to Worst	TEY*
1 to 5	3.0	2.80	1.32%	2.23%
5 to 10	7.5	6.41	1.74%	2.93%
10 to 20	15.0	8.15	2.06%	3.48%

*Taxable equivalent yield @ 40.8% tax rate. Assumes a 10-year call.

LOWER YOUR TAXES WITH THIS TIMELY STRATEGY

One advantage of owning individual bonds is that every decision is custom-fit to the specific needs of your portfolio. This is especially important when evaluating how a transaction will affect your tax situation. While most municipal bond investors buy with the intent of holding to maturity –buy and hold – there may be swap opportunities that can enhance your overall portfolio. Here we consider reducing taxes with a municipal tax loss swap.

A municipal tax loss swap involves selling a bond below the **amortized purchase price** and buying a bond with similar, but not identical characteristics. In the example below, we illustrate selling a NY St Dorm bond with an adjusted purchase price of \$122.085 and a current price of \$112.801. We sell it to realize a loss of \$9,284 – the sale of \$100,000 would realize a loss of \$9,284 – that we use to offset tax liabilities.

Proposed Sell:

CUSIP Asset	Curr Face Held	Mdy/S&P (Underlying)	Issue Description	Coupon Maturity	Mkt Px Duration	Px To	Date	Yield	ATY	TEY	Principal Accrued Int	Net Money Settlement	Acq Date Acq Px / YTW	Tot Adj Cost Adj Cost Px	Est G/L % Adj Cost
64990FL69	100	-AA+	NEW YORK ST DORM AUTH ST PERSINCOME TAX REV	4.000% 03/15/2044	112.801		Next Call 03/15/2032 Maturity 03/15/2044	2.549% (w) 3.187% 3.546%	2.549% 3.187%	4.305% 5.383%	\$112,801.00 \$733.33	\$113,534.33	12/27/2021 122.400 / 1.613%	\$122,085.00 122.085	(\$9,284.00) (7.60%)
Muni															
Callable 03/32@100 - Material Events															

Another objective of this swap is to maintain tax-exempt cash flow. To do this, we buy a NY City TFAs with the same coupon but make sure to avoid a wash sale (see definition below) by purchasing a bond from a different issuer. We lock in the same amount of cash flow, \$4,000, by purchasing a bond with the same face value and coupon.

Proposed Buy:

CUSIP Asset	Curr Face	Mdy/S&P (Underlying)	Issue Description	Coupon Maturity	Mkt Px Duration	Px To	Date	Yield	ATY	TEY	Principal Accrued Int	Net Money Settlement
64971XL63	100	Aa1/AAA	NEW YORK N Y CITY TRANSITIONAL FIN AUTH REV	4.000% 02/01/2047	112.442		Next Call 02/01/2032 Sink Fund 02/01/2045 Maturity 02/01/2047	2.573% (w) 3.228% 3.267% 3.557%	2.573% 3.228% 3.267%	4.346% 5.452% 5.518%	\$112,442.00 \$244.44	112,686.44 02/23/2022
Muni												
Callable 02/32@100 - Material Events - Sinking Fund 02/45@100												

The proposed buy has similar characteristics, i.e., the same face value and coupon, similar call date and a maturity date that is three years longer than the proposed sell. Since we buy the NY City TFA at a lower price, no new money is required for this swap.

	Proposed Sell	Proposed Buy	Change
	New York St Dorm PITS	New York City TFA	
	-AA+	Aa1/AAA	
Face Value	\$100,000	\$100,000	\$0
Cash Flow	\$4,000	\$4,000	\$0
Coupon	4.00%	4.00%	0 bp
Call date	10.08 yrs	10 yrs	- 1 month
Duration	8.34	8.29	-0.05
Maturity	22 yrs	25 yrs	+3 yrs
Market Value	\$112,801	\$112,442	(\$359)
Price	\$112.80	\$112.44	(\$0.36)
Gain (loss)	(9,284.00)		

This swap would convert a “paper” loss into a real loss that your client can use to offset a taxable gain. At the same time, the client maintains the same cash flow with a similar duration and slightly longer maturity.

Why discuss tax-loss swaps in February? Tax-exempt municipal yields are trending higher – 10-year yields are near the highest in the past two and a half years (excluding March/April 2020). AAA 10-year muni yields are currently at 1.65% according to both Bloomberg and MMD data. That is a taxable equivalent yield of 2.77% using a top federal tax rate. Higher yields mean lower prices (the seesaw analogy). If rates stay elevated, there will be time to execute this strategy, however if rates decline, this opportunity could disappear.

Most individual bond buyers understand that bonds are subject to price volatility, but if held to maturity, the bonds maintain precise cash flow and a known date for the return of face value. It does not matter what the market did over the past five years or what the market will do over the next five years. A portfolio of individual bonds will perform as intended in any market environment. Even so, there might be opportunities to improve overall portfolio return at times like this. Those able to take advantage of this swap can capture a capital loss to reduce taxes while maintaining tax-exempt cash flow and the structure of their bond portfolio.

Things Investors Need to Consider:

- **Swap strategies** - not all investors need to maintain cash flow. There are other bond swap strategies such as swapping for quality, yield, duration, cash flow, change in tax bracket, etc.
- **Bonds purchased at a discount** - the coupon payments of tax-exempt municipal bonds are exempt from federal income taxes, however a municipal bond purchased below par and priced at a discount to the adjusted issuance price is generally subject to the de minimis or market discount rule resulting in some taxation at maturity or when sold.
- **Short vs. long-term losses** – most bonds with paper losses in today’s market were purchased over the past 2.5 years, so many unrealized losses are short-term. Short-term and long-term gains/losses receive different treatment for tax purposes.
- **Wash rule** - if an investment is sold at a loss and then repurchased within 30 days, the initial loss cannot be claimed for tax purposes. In our example above, if an investor repurchased the same NY Dorm bond within 30 days, they could not claim the loss. However, buying a bond from a different issuer, a different maturity or credit quality would avoid the wash rule limitation. (Please note: We do not provide tax advice. We recommend that you discuss with your tax advisor questions you may have about market discount, short-term losses, the wash rule, etc.)

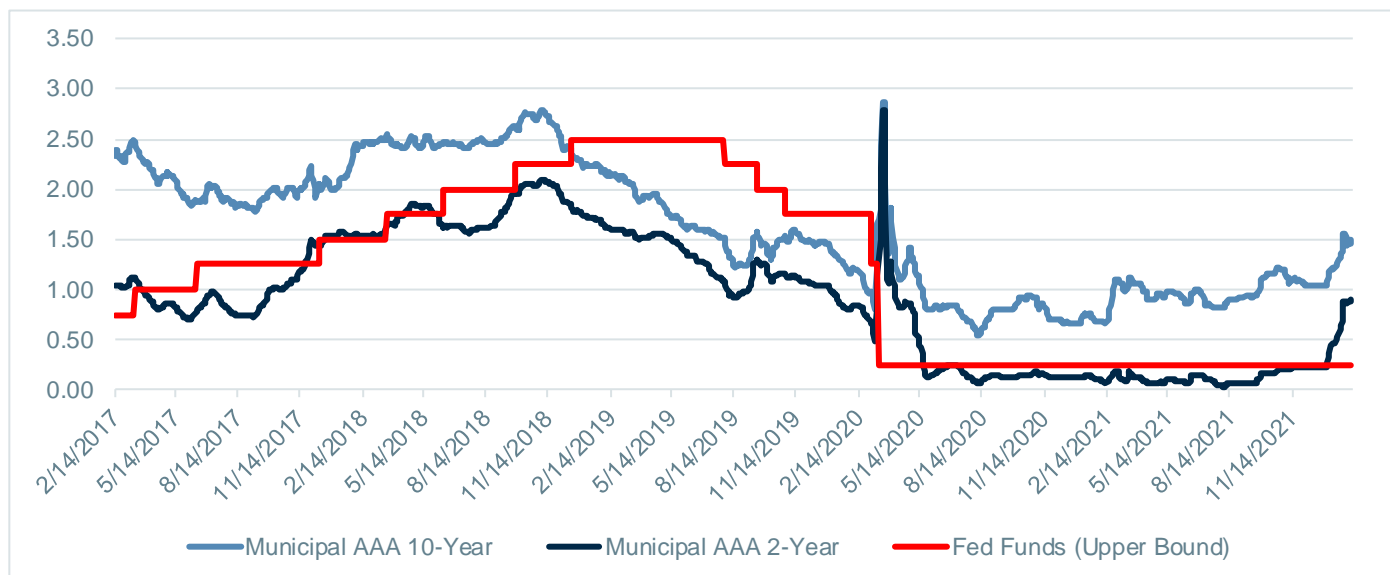
When you own individual bonds, you know what you own, why you own them and when your money is scheduled to be returned to you. You are in control --- as you should be when it comes for your hard earned investments! Your financial advisor and our team of fixed income municipal bond professionals are here to help you navigate the world of tax-efficient investments.

This does not constitute tax advice. Please consult a tax-professional prior to making any tax-related investment decisions.

NAVIGATING TODAY’S MARKET

New issuance is expected to be just shy of \$5 billion in this holiday-shortened week, according to The Bond Buyer. Some of the larger deals expected to come to market include: the Virginia Small Business Financing Authority (Baa1/-) is selling \$1.1 billion of taxable subordinate lien revenue refunding notes; Wisconsin (Aa1/AA+) is bringing a \$237 million taxable general obligation refunding deal to market; the District of Columbia Water and Sewer Authority (Aa2/AA+/AA) is issuing \$367 million in bonds across a range of series; the State of New York Mortgage Agency (Aa1/-) is selling \$172 million of social homeowner mortgage revenue bonds; and the Georgetown Independent School District, TX (Aaa/AAA) is issuing \$104 million of taxable unlimited tax refunding bonds in a PSF backed deal. See table below for additional new issuance.

HISTORICAL YIELDS



Date	Amount	Issuer	ST	Description	Moody's/S&P/Fitch	Maturity
2/22	\$351MM	Hillsborough County Aviation	FL	Tampa International Airport Taxable	A1 /NR /A+	10/1/23-44
2/22	\$8MM	City of Rockport	TX	Tax Notes	/AA- /	02/15/2023-2029
2/22	\$12MM	City of Rockport	TX	General Obligation Refunding Bonds	/AA- /	02/15/2023-40
2/23	\$19MM	Township of Lower Paxton	PA	General Obligation Bonds, Series 2022	Aa2 /NR /NR	2022-2047
2/23	\$1MM	RIO ESD	CA	General Obligation Bonds Election of	/AA / (/A+ /) BAM	08/01/2023-29
2/23	\$20MM	RIO ESD	CA	General Obligation Election of 2018,	/AA / (/A+ /) BAM	08/01/2024-47
2/23	\$10MM	Mississippi Development Bank	MS	Taxable Special Obligation Bonds	/AA- /	03/01/23-37
2/23	\$392MM	Maryland Stadium Authority	MD	Built to Learn Revenue Bonds, Series	A1 /AA /A+	6/1/23-52
2/23	\$107MM	Hillsborough County Aviation	FL	Tampa International Airport, Revenue	Aa3 /NR /AA-	10/1/23-52
2/23	\$253MM	Hillsborough County Aviation	FL	Tampa International Airport, Revenue	Aa3 /NR /AA-	10/1/23-52
2/23	\$14MM	Duncanville Independent School	TX	Unlimited Tax Refunding Bonds, 2022A	Aaa /AAA / (Aa3 /AA- /)	08/15/22 & 02/15/32-
2/23	\$107MM	Duncanville Independent School	TX	Taxable, Unlimited Tax Refunding Bonds,	Aaa /AAA / (Aa3 /AA- /)	02/15/22-45
2/23	\$1MM	CCSD No. 46 Lake County	IL	Taxable General Obligation Refunding	/AA+ /	11/01/2026-29
2/23	\$9MM	CCSD No. 46 Lake County	IL	General Obligation Limited Tax School	/AA+ /	11/01/2022-41
2/24	\$18MM	State of New York Mortgage Agency	NY	Homeowner Mortgage Revenue Bonds	Aa1 //	10/01/2022-27
2/24	\$38MM	State of New York Mortgage Agency	NY	Homeowner Mortgage Revenue Bonds	Aa1 //	10/01/2037,41
2/24	\$56MM	State of New York Mortgage Agency	NY	Homeowner Mortgage Revenue Bonds	Aa1 //	10/01/2023-28
2/24	\$115MM	State of New York Mortgage Agency	NY	Homeowner Mortgage Revenue Bonds	Aa1 //	04/01/2027-34,37 42
2/24	\$198MM	New York City Housing	NY	Multi-Family Housing Revenue Bonds	Aa2 /AA+ /	11/01/2022-
2/24	\$121MM	Liberty Hill Independent School	TX	Unlimited Tax School Building Bonds	Aaa // (A1 //) PSF	02/01/2023-56
2/24	\$167MM	Duneland SBC (Chesterton, IN)	IN	Ad Valorem Property Tax First Mortgage	/AA+ / (/AA- /)	07/15/2023-42
2/24	\$23MM	Cullman City Board of Education	AL	Special Tax School Warrant, Series 2022-	Aa3 //	3/1/23-51

There is no assurance any of the trends mentioned will continue or forecasts will occur. Investing involves risk and investors may incur a profit or a loss. Past performance may not be indicative of future results. Prior to transacting in any security, please discuss the suitability, potential returns, and associated risks of the transaction(s) with your Raymond James Financial Advisor.

This communication is not an offer to sell or a solicitation to buy any securities mentioned herein. High grade and High yield securities mentioned herein may not be suitable for all investors. A credit rating of a security is not a recommendation to buy, sell or hold securities and may be subject to review, revisions, suspension, reduction or withdrawal at any time by the assigning rating agency. All expressions of opinion reflect the judgment of the Fixed Income Municipal Department of Raymond James & Associates (RJA) at the time of publication and may be subject to change without notice.

Information has been obtained from sources considered reliable, but we do not guarantee that the foregoing report is accurate or complete. Other departments of RJA or its affiliates may have information that is not available to the Fixed Income Municipal Department about companies or Issuers mentioned in this report. Further information on the securities mentioned herein is available upon request. Interest on Municipal Bonds is generally exempt from federal taxation and may also be free of state and local taxes for investors residing in the state and/or locality where the bonds were issued. However, bonds may be subject to federal alternative minimum tax (AMT), and profits and losses on tax-exempt bonds may be subject to capital gains tax treatment. Bonds are subject to risk factors including: 1) Default Risk - the risk that the issuer of the bond might default on its obligation 2) Rating Downgrade - the risk that a rating agency lowers a debt issuer's bond rating 3) Reinvestment Risk - the risk that a bond might mature when interest rates fall, forcing the investor to accept lower rates of interest (this includes the risk of early redemption when a company calls its bonds before maturity) 4) Interest Rate Risk - this is the risk that bond prices tend to fall as interest rates rise. 5) Liquidity Risk - the risk that a creditor may not be able to liquidate the bond before maturity. High-yield bonds are not suitable for all investors. The risk of default may increase due to changes in the issuer's credit quality. Price changes may occur due to changes in interest rates and the liquidity of the bond. When appropriate, these bonds should only comprise a modest portion of a portfolio.

Sourced from Bloomberg: Treasuries: US Fed H15 CMT Curve - The H15 curve is comprised of the constant maturity treasury rates as published daily by the Federal Reserve in the H15 report. Municipal (AAA): BVAL Municipal AAA Yield Curve (Callable) - The curve is populated with high quality US municipal bonds with an average rating of AAA from Moody's and S&P. The yield curve is built using non-parametric fit of market data obtained from the Municipal Securities Rulemaking Board, new issues, and other proprietary contributed prices. The curve represents 5% couponing. The 3 month to 10 year points are bullet yields, and the 11 year to 30 year points are yields to worst for a 10-year call. Municipal (AA): US General Obligation AA Muni BVAL Yield Curve - The BVAL curve is populated with pricing from uninsured AA General Obligation bonds. Municipal (A): US General Obligation A+ A A- Muni BVAL Yield Curve - The BVAL curve is populated with pricing from uninsured A+, A, and A-rated General Obligation bonds. Fed Funds (Upper Bound): The federal funds rate is the short-term interest rate targeted by the Federal Reserve's Federal Open Market Committee as part of its monetary policy. US Treasury securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance.

US Treasury securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value. The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ. The NASDAQ Composite is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance.

Investment products are: not deposits, not FDIC/NCUA insured, not insured by any government agency, not bank guaranteed, subject to risk and may lose value.

RAYMOND JAMES®

INTERNATIONAL HEADQUARTERS: THE RAYMOND JAMES FINANCIAL CENTER
880 CARILLON PARKWAY // ST. PETERSBURG, FL 33716 // 800.248.8863 // RAYMONDJAMES.COM

© 2022 Raymond James & Associates, Inc., member New York Stock Exchange/SIPC.
© 2022 Raymond James Financial Services, Inc., member FINRA/SIPC. All rights reserved.
Raymond James® is a registered trademark of Raymond James Financial, Inc.

M21-3985225 through 12/15/2023