

Daniel Buchholtz

From: Blue Rose Capital Advisors <marketing@blueroseadvisors.com>
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To: Daniel Buchholtz
Subject: The Shield - January 2022 Municipal Market Update



[The Shield - A Monthly Newsletter](#)

January 2022 Municipal Market Update

By: [Brandon Lippold](#), Assistant Vice President

2021 saw a continued demand for - and high issuance of - municipal bonds following record performance in 2020, though higher education issuance was down compared to the prior year, following a decline in taxable issuances. Both absolute yields and credit spreads retracted in the spring to the lows seen prior to the start of the COVID-19 pandemic. Rates have come off those levels leading into the beginning of the year, though the market remains strong for borrowers. As discussed in our October Shield newsletter [\[1\]](#), college and university endowments saw record investment returns, helping offset some of the negative credit pressure applied by the ongoing COVID-19 pandemic. As we turn our focus to the coming year a few market trends we are focusing on at Blue Rose are:

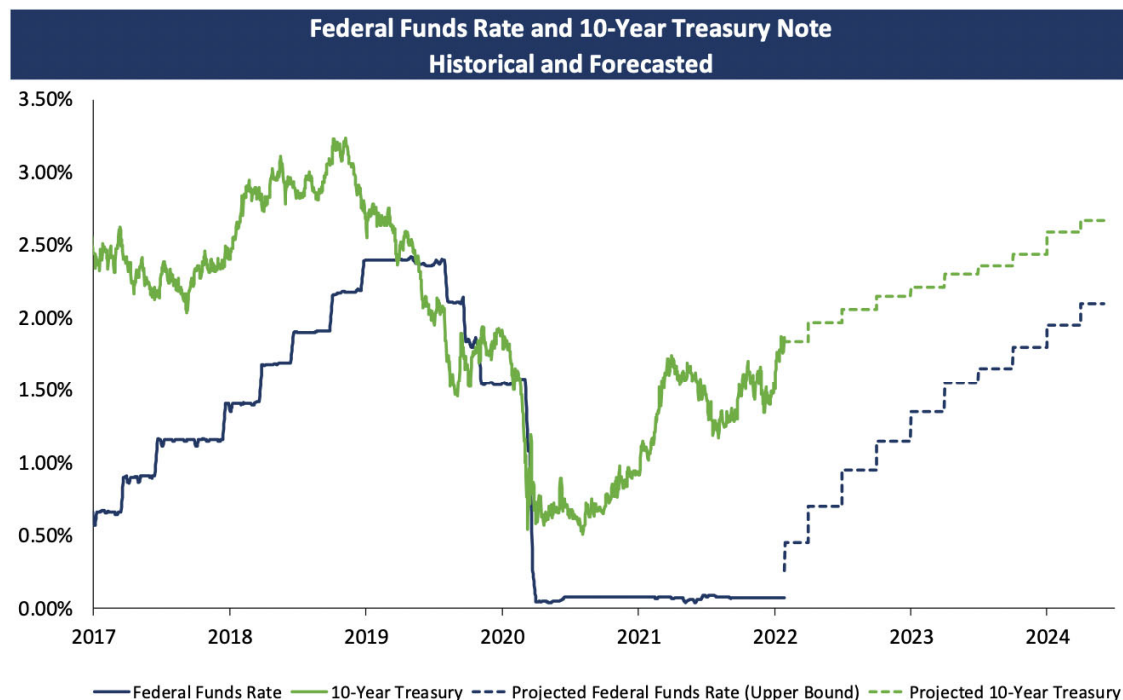
Inflation

The consumer price index (CPI) rose 7% last year, and economists expect it to grow by a more moderate 3% in 2022. [\[2\]](#) Clearly, a variety of factors will impact this projection, though one of the major drivers is

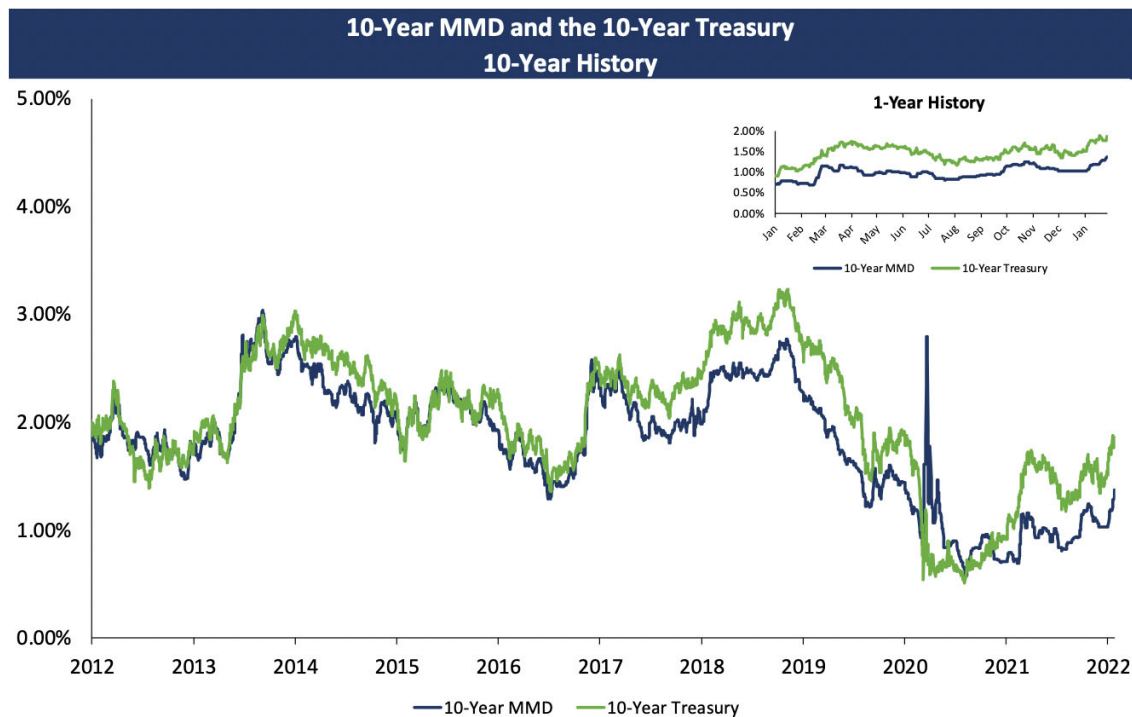
expected to be COVID variants such as Omicron, which have the potential to further disrupt supply chains and spending patterns in 2022. The impacts of high inflation on institutions we serve primarily relate to budgetary pressure, though there is concern that, depending on rate movement, inflation could also have a negative impact on new issuance volume.

Movement of Interest Rates

Since the Fed's overnight target rate fell in response to the COVID-19 pandemic, each market update we've written has included an economist forecast graph like the one below, where the consensus forecast for short and long term rates is shown to project a rising rate environment. Like most predictions, these forecasts aren't 100% accurate, and so far, short-term rates have remained near 0%. However, the Fed has begun to set the stage more definitively for interest rate hikes starting as soon as March as one measure to curb inflation. Conversely, long term rates have increased over the last year and are now nearing pre-pandemic levels, leading some to believe that this interest rate growth may have already been captured by most forecasts. While general market expectations are for some increase in long-term rates, it is not predicted to be as substantial as the projected rise on the shorter end of the yield curve. One major factor that could dampen the pace of interest rate hikes in 2022 would be a continued slide of equity markets, as signs of economic slowdown might cause the Fed to reduce or slow its planned cadence of rate increases.



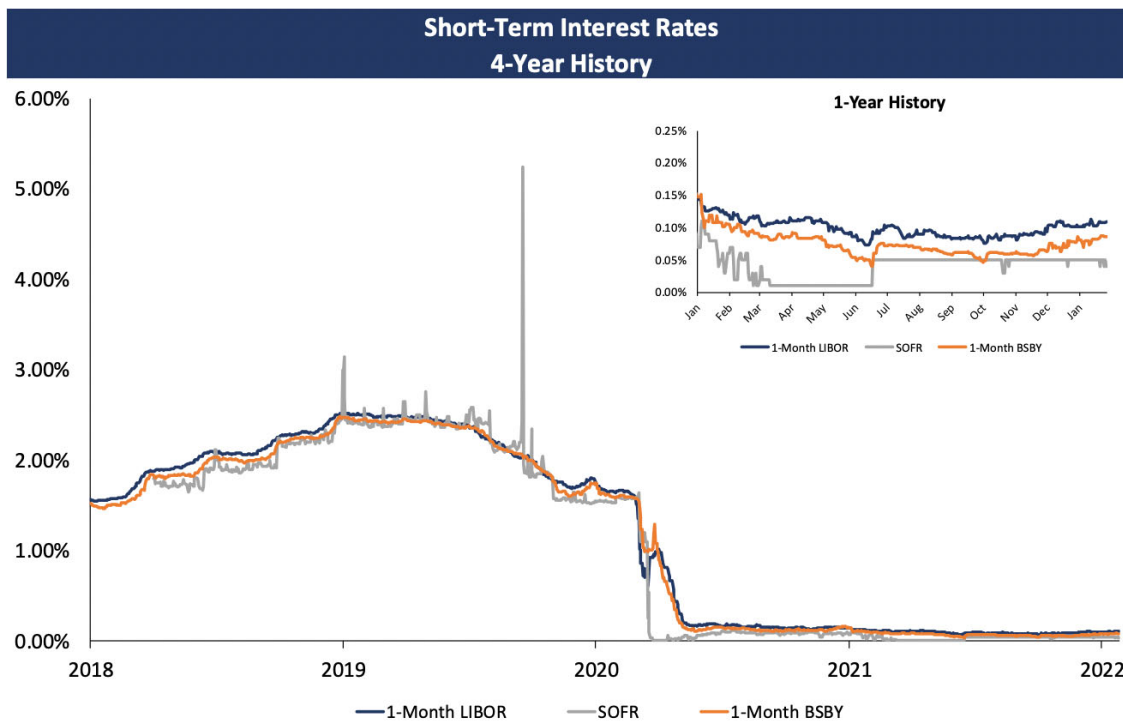
Source: Bloomberg, Bloomberg Weighted Average of Economic Forecasts as of January 26, 2021



Sources: Bloomberg and Thomson Reuters

LIBOR Transition

The transition from LIBOR to alternative reference rates continues, with most banking institutions no longer allowed to transact LIBOR based instruments. Preferred replacement rates vary from bank to bank, though SOFR remains the replacement rate of choice for U.S. governing bodies with other rates like BSBY continuing to gain popularity. We anticipate most borrowers will prefer to use this year to address their legacy LIBOR exposure rather than waiting until 2023, with the ultimate cessation date of LIBOR scheduled for June 30, 2023.



If you have LIBOR exposure or would like to discuss capital plans in the context of these market conditions, then please reach out to your Blue Rose advisor to schedule some time to chat.

[1] <https://www.bluroseadvisors.com/post/the-shield-endowment-growth-trend-and-considerations>

[2] <https://www.bloomberg.com/news/articles/2022-01-12/inflation-in-u-s-registers-biggest-annual-gain-since-1982>

TALK TO THE AUTHOR



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Brandon Lippold joined Blue Rose in 2018 as a Quantitative Analyst, providing modeling, analytics, market data, and research in support of the delivery of capital planning, debt and derivatives advisory, and reinvestment services to our clients. In the role of Associate, he utilized his experience as a Quantitative Analyst in a more client-facing role, while still performing much of the analysis utilized in this capacity. In his role of Assistant Vice President, he will be tasked with growing client management responsibilities, in particular ensuring that our clients' transactions run smoothly through closing.

Comparable Issues Commentary

Shown below are the results of two higher education issues which sold in the month of January. Miami University of Ohio priced its tax-exempt bonds on January 13th. The following week on January 19th, Claremont McKenna College priced its taxable century bond. Miami's Series 2022A bonds were issued to execute a forward current refunding of the university's outstanding Series 2012 bonds, which become callable on September 1, 2022. Claremont McKenna's Series 2022 taxable bonds were issued for several purposes, including the advance refunding of \$96.3 million of the College's outstanding Series 2015A bonds, callable on January 1, 2026. Claremont McKenna plans to use the remaining proceeds from its century bond for a variety of capital projects. These projects include the new Robert Day Sciences Center, as well as the development of 75 acres of recently purchased land which will house the College's east campus sports complex.

Both schools' bonds were rated "Aa3" by Moody's, with Miami's bonds also carrying a AA rating from Fitch. However, the structure and amortization of the transactions varied significantly. Miami's tax-exempt issue was fully serialized across the scale from 2022-2034 and utilizes a forward delivery structure, with closing not scheduled until June 2022. The University chose to pursue a forward delivery as opposed to waiting to execute a standard current refunding in order to lock in guaranteed savings in a potentially rising interest rate environment. Miami used exclusively 5% coupons on the issue, which carries a 9-year call date, matching that of its Series 2021A bonds issued last summer. In contrast, Claremont McKenna's issue was a taxable century bond featuring a single bullet maturity in 2122 and carrying an interest rate of 3.775%. This structure will allow Claremont to normalize debt service at approximately \$18 million per year until the 2051 bullet maturity of its Series 2019 bonds, after which debt service will decrease to just over \$11 million per year. Claremont McKenna's century bond is also notable in that it is the first deal of its kind to price in the higher education sector since the onset of the COVID-19 pandemic in early 2020. The sizing of the two transactions was also meaningfully different, with Miami's bonds coming in at just under \$48 million compared to a larger \$300 million transaction for Claremont McKenna.

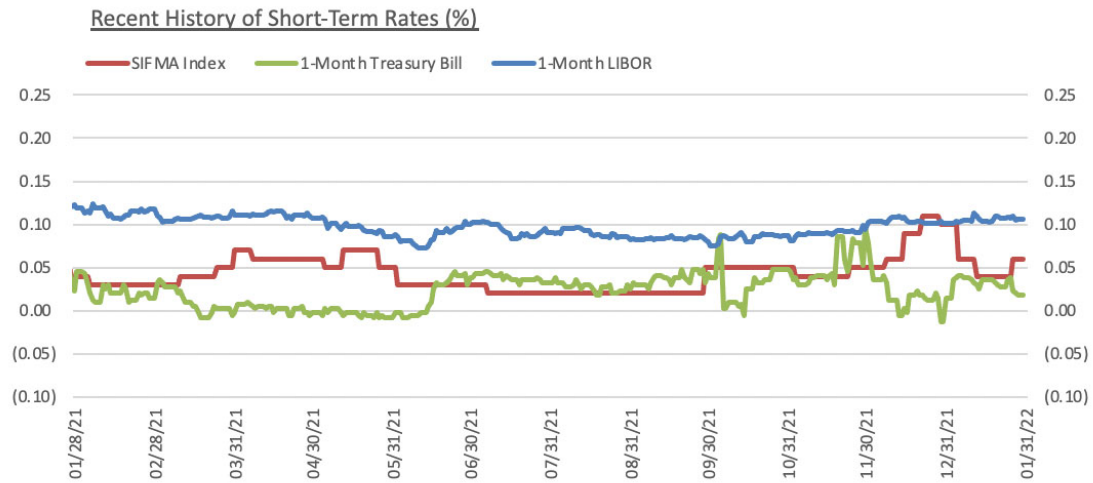
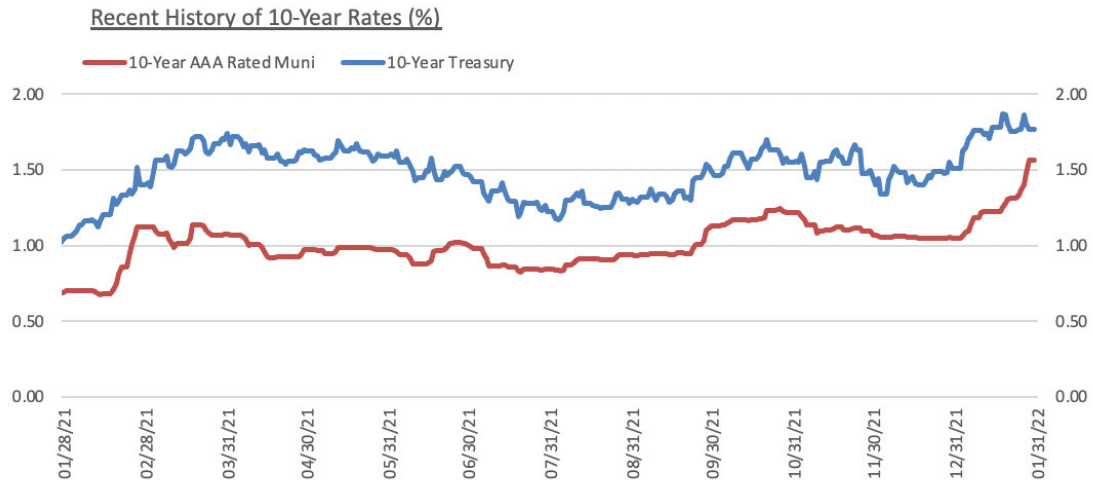
| Recent Bond Sales | | | | | | | | | |
|--|------------|--------|--------|------------------------|-------------------------------|----------|--------|--------|------------------------------------|
| Miami University, OH | | | | | Claremont McKenna College, CA | | | | |
| Issue Detail | Maturity | Coupon | Yield | +/- "AAA" ¹ | Issue Detail | Maturity | Coupon | Yield | Spread to US Treasury ² |
| \$47,935,000 | | | | | \$300,000,000 | | | | |
| Revenue and Refunding Bonds | 09/01/22 | 5.000% | 0.690% | — | Taxable Bonds | | | | |
| Series 2022A | 09/01/23 | 5.000% | 0.700% | 0.37% | Series 2022 | | | | |
| | 09/01/24 | 5.000% | 0.870% | 0.41% | | | | | |
| Aa3 (Moody's) | 09/01/25 | 5.000% | 1.040% | 0.44% | Aa3 (Moody's) | | | | |
| AA (Fitch) | 09/01/26 | 5.000% | 1.190% | 0.48% | | | | | |
| | 09/01/27 | 5.000% | 1.290% | 0.48% | | | | | |
| 1/13/22 Sale | 09/01/28 | 5.000% | 1.420% | 0.47% | 1/19/22 Sale | | | | |
| Negotiated | 09/01/29 | 5.000% | 1.500% | 0.47% | Negotiated | | | | |
| RBC | 09/01/30 | 5.000% | 1.560% | 0.46% | Morgan Stanley | | | | |
| | 09/01/31 | 5.000% | 1.620% | 0.48% | | | | | |
| | * 09/01/32 | 5.000% | 1.670% | 0.49% | | | | | |
| | * 09/01/33 | 5.000% | 1.700% | 0.50% | | | | | |
| | * 09/01/34 | 5.000% | 1.720% | 0.50% | | | | | |
| | | | | | | 1/1/22 | 3.775% | 3.775% | 1.60% |
| * Priced to 9/1/31 call date at 100% | | | | | | | | | |
| ¹ Spreads to AAA MMD are based on end-of-day uninterpolated MMD on the day of pricing, and incorporate forward premium through 6/7/2022 closing date. | | | | | | | | | |
| ² Spread to the 30-year US Treasury | | | | | | | | | |

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| Select Interest Rates | | | | | | | | |
|-----------------------|------------|-------------------|-------------------|-------------------|------------------------|-------------------|----------------------|-------------------|
| | Treasuries | 1 Month Change | AAA Rated Muni | 1 Month Change | AAA Rated Higher Ed | 1 Month Change | A Rated Higher Ed | 1 Month Change |
| 2-Year | 1.16 | 0.41 | 0.89 | 0.65 | 0.91 | 0.59 | 1.06 | 0.54 |
| 5-Year | 1.61 | 0.37 | 1.24 | 0.64 | 1.30 | 0.64 | 1.46 | 0.55 |
| 10-Year | 1.77 | 0.29 | 1.57 | 0.51 | 1.61 | 0.54 | 1.88 | 0.48 |
| 20-Year | n/a | n/a | 1.83 | 0.49 | 1.83 | 0.44 | 2.37 | 0.57 |
| 30-Year | 2.07 | 0.17 | 1.99 | 0.46 | 1.97 | 0.34 | 2.49 | 0.41 |

| Swap Ratios/Rates | | |
|-------------------|-----------------|-------------------|
| | 80% of LIBOR | 1 Month Change |
| 2-Year | 1.05 | 0.30 |
| 5-Year | 1.35 | 0.27 |
| 10-Year | 1.47 | 0.23 |
| 20-Year | 1.57 | 0.17 |
| 30-Year | 1.53 | 0.14 |

Source: Bloomberg Market Data. Rates as of 1/28/2022



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