CABRERA CAPITAL MARKETS

Municipal Market Year in Review

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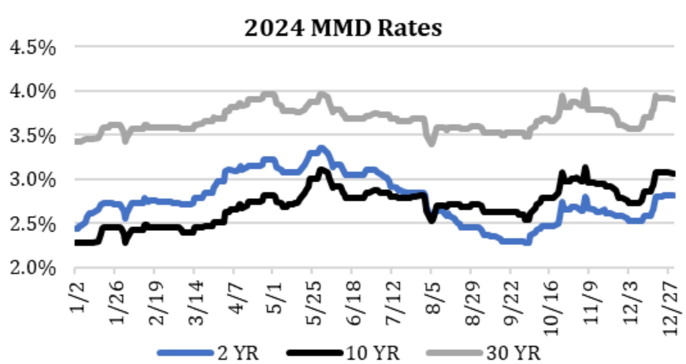
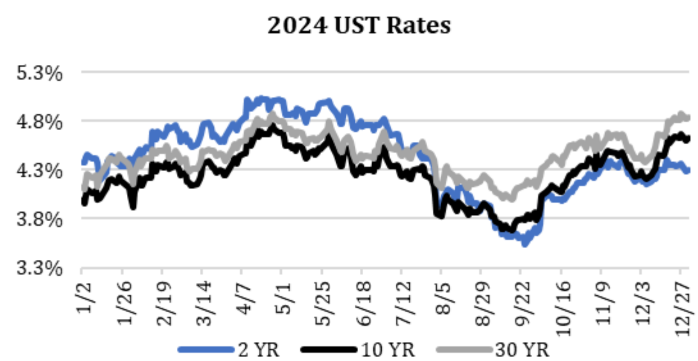
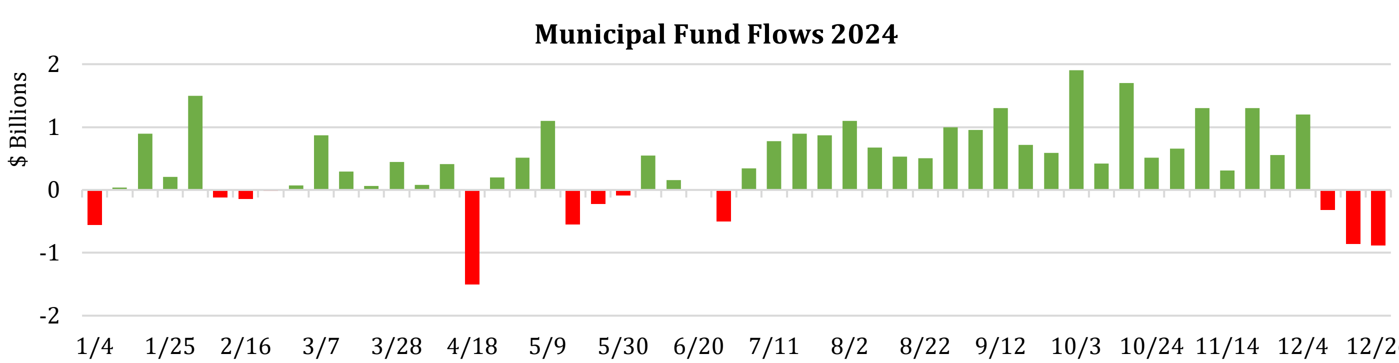
2024 Year in Review

- ***Billion Dollar Deals.*** 2024 proved to be a year of record volume, driven by out-sized refundings, including several billion dollar Build America Bonds using extraordinary call provisions, and new money issuances. With total volume finishing at $539.79 billion, almost 20% of represented transactions were in excess of $1 Billion (69 issuances), up from 12% (34 transactions) in 2023.
- ***Waiting on Inflation.*** The Fed's preferred measures of inflation, Personal Consumption Expenditures (CPE and Core PCE), declined from peak inflation readings in 2022 but progress throughout 2024 stalled. Core PCE was problematic given housing costs, for example. Beginning in May of 2024, the market rallied into the first Federal Funds rate cut only to reverse course once the Fed cut rates in September (-50 basis points), November (-25 basis points) and December (-25 basis points).





- ***Municipal Technicals Remained Strong.*** Even with record volume, municipal demand remained strong, with inflows of $20.10 billion for 23 weeks in 2024. In addition to bond funds, 2024 saw the launch of 27 muni exchange-traded funds (ETFs), representing an annual record. ETF momentum represents a longer-term bet that caters to state and local-government debt investors, and we expect that demand to continue to grow.



Source: Lipper

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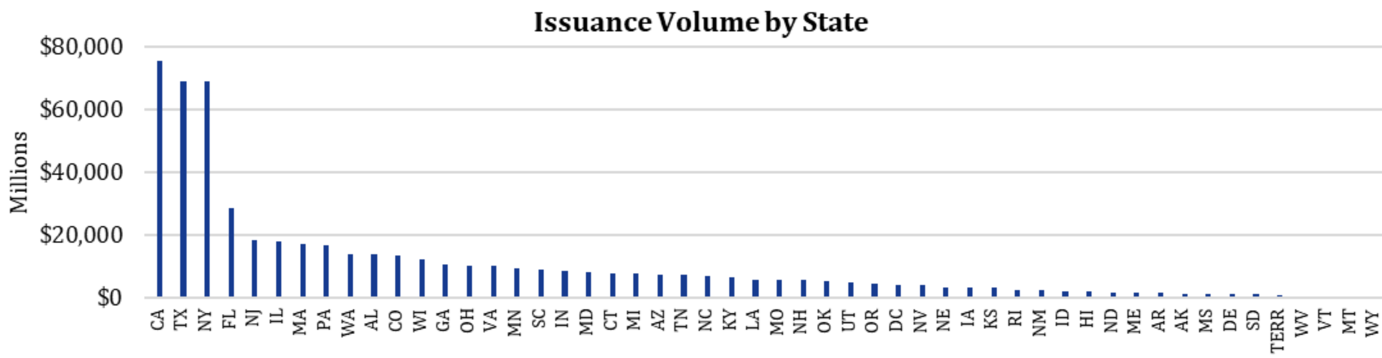
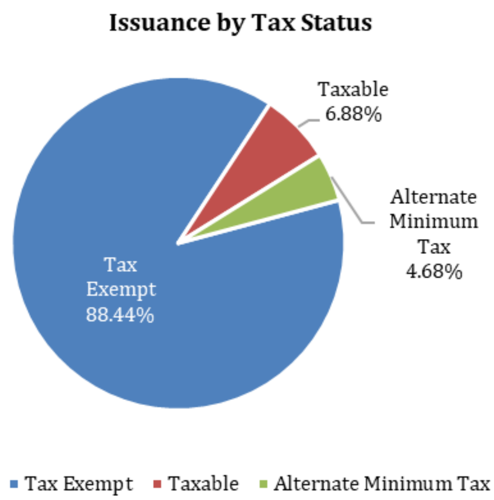
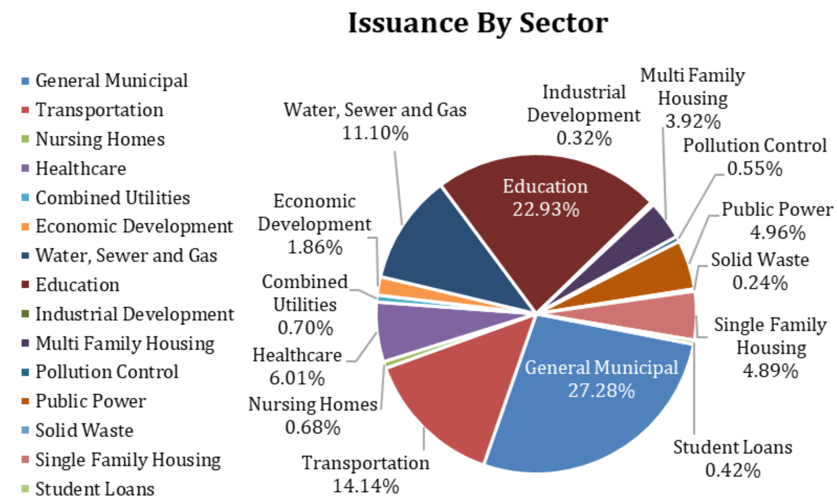
Municipal Market Snapshot. California led all states in municipal bond issuance in 2024, with over $75 billion in total issuances, followed by Texas and New York, both just shy of $70 billion. This marked a shift from 2023, when Texas led with $59 billion. Despite the top three states remaining the same, California surpassed Texas in 2024. Of the nearly $540 billion issued in 2024, 88% were tax-exempt, 7% taxable, and 5% AMT bonds. Both Tax-Exempt and AMT issuance ratios remained stable while Taxable issuance dropped from 10% in 2023 to 7%. General Municipal issuances led the market at more than 27% of total issuances, followed by Education (23%) and Transportation (14%), consistent with 2023 trends.







2025 Preview

In 2025 investors will need to evaluate any number of possible rate scenarios given the incoming federal administration's policy proposals, a multitude of geopolitical risks, stop and go progress on inflation, converging central bank policies, and how all these impact a data-dependent Federal Reserve's monetary policy. Two of the three principal policy proposals, tariffs and action on immigration, are potentially inflationary. Tax cuts are likely to drive deficits higher and increase debt issuance by the US Treasury. Though the to-be-created Department of Government Efficiency is charged with cutting expenditures and is suggesting major cuts to the federal budget, some research suggests that when one party controls both Congress and the Presidency, federal deficits expand and stoke inflation.

For municipals, investors concerned by the above and possible adverse tax changes as the administration seeks to offset tax cuts will take a cautious approach to duration and credit risk, but the steep MMD curve and attractive ratios and rates will support demand. Projections for new municipal issuance range from $450 Billion to over $700 Billion and while the higher end of the range may seem out of reach, tax policy and federal administration direction remains to be seen.