

# Municipal spotlight

May 2012

Relative to other fixed income sectors, municipal total returns (2.68%) are outpacing the performance of Treasuries (-0.16%), Agencies (0.57%), and Mortgage-Backed securities (1.16%), on a year-to-date basis. By contrast, returns on Investment Grade corporate bonds (3.23%) are running ahead of munis by a margin of about 55bps. Taxable municipal bonds, as measured by an index of Build America Bonds (BABs), continue to deliver the strongest returns (4.55%) based on favorable supply/ demand dynamics, in our view.

The ebb and flow of new issue supply continues to be an important focus for municipal market participants. Refundings comprise a larger share of total issuance relative to new money financings. Year-to-date, refundings total USD 57.3bn. That compares to just USD 32.4bn in bonds issued to fund new capital projects over the same time frame.

*US Municipal Bond Market Chartbook / Wealth Management Research / April 16, 2012*

## Municipal bond market overview

New issue supply	2012	2011	Change
April total	\$33.9 billion	\$15.6 billion	Up 114.9%
Year-to-date total	\$112.4 billion	\$63.6 billion	Up 76.6%
Year-to-date fixed-rate	\$106.0 billion	\$57.3 billion	Up 85.2%
Year-to-date tax-exempt	\$102.5 billion	\$52.0 billion	Up 97.3%

## Estimated reinvestment flows

(estimated maturing and called bonds plus coupon payments)

May	\$19.4 billion
June	\$40.1 billion
July	\$32.0 billion
2012 Monthly Average	\$22.9 billion



Municipal bond yields snapshot	Dec 29 2006	Dec 31 2007	Dec 31 2008	Dec 31 2009	Dec 31 2010	Dec 30 2011	Mar 30 2012	Apr 30 2012
Fed Funds Target Rate	5.25	4.25	0 to 0.25	0 to 0.25	0 to 0.25	0 to 0.25	0 to 0.25	0 to 0.25
2-Year High-Grade Muni	3.55	3.09	2.03	0.75	0.75	0.47	0.46	0.43
Percentage of US Treasury	73.8%	101.3%	264.3%	65.8%	125.6%	195.0%	138.9%	166.0%
10-Year High-Grade Muni	3.74	3.65	3.91	3.05	3.16	2.28	2.40	2.26
Percentage of US Treasury	79.5%	90.7%	176.6%	79.5%	95.9%	121.5%	108.5%	118.0%
30-Year High-Grade Muni	4.41	4.45	5.47	4.52	4.89	4.22	4.33	4.19
Percentage of US Treasury	91.7%	99.9%	204.4%	97.4%	112.8%	145.8%	129.7%	134.6%
Min maturity for 4% yield	16 years	15 years	11 years	20 years	17 years	24 years	23 years	25 years
Min maturity for 5% yield	NA	NA	NA	NA	NA	N/A	N/A	N/A

Sources: Thomson Reuters (New Issue Supply), The Bond Buyer (redemptions), Bloomberg, Municipal Market Advisors, Inc. (Yields Snapshot). High-grade municipal yields based on The Consensus Municipal Bond 'Aaa' G.O. Yield Curve, courtesy of Municipal Market Advisors, Inc. Municipal yields are indicative of national tax-exempt rates; actual yields available in the market may have been lower or higher than those shown. Past performance is no guarantee of future results.

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