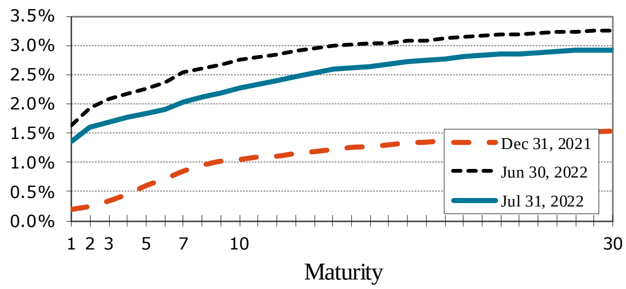
Baird Advisors
Municipal Fixed Income Market Commentary
July 2022

Rates Fall Across Curve

Tax-exempt yields fell sharply in July despite an elevated level of inflation and another 75 bps rate hike by the Fed, which takes the upper bound of the federal funds rate into what Chair Jay Powell described as the neutral range. The June CPI rose 1.3% MoM and 9.1% YoY, the highest rate in over forty years. Offsetting this was the first estimate of Q2 GDP growth which fell 0.9%, making it the second consecutive quarter of decline. The result of this complex economic backdrop was that municipal yields fell by 30 bps or more across all but the shortest maturities, led by a 52 bps decline in the 7yr maturity. Flows into municipal mutual funds were mixed, with two weeks each of inflows and outflows; a sign of stabilization relative to the persistent outflows that occurred through the first half of the year. The improving demand for municipals was supported by the favorable summer seasonal period in which there are more bonds rolling off from calls and maturities, combined with coupon payments, than the new supply being issued. This seasonal support will persist through August as well. Total supply YTD continues to run behind last year's pace, now down 13% YoY due to the sharp decline in taxable issuance (-44%). Tax-exempt supply in July was also relatively light, down 5% against the same month last year, while the YTD tax-exempt supply is unchanged YoY.

AAA Municipal Yields



Maturity	12/31/21	3/31/22	6/30/22	7/31/22	1Mo Δ	YTD Δ
1	0.19%	1.54%	1.64%	1.35%	-0.29%	1.16%
2	0.25%	1.78%	1.93%	1.60%	-0.33%	1.35%
3	0.34%	1.89%	2.09%	1.70%	-0.39%	1.36%
5	0.60%	2.03%	2.27%	1.84%	-0.43%	1.24%
7	0.85%	2.09%	2.55%	2.03%	-0.52%	1.18%
10	1.05%	2.23%	2.75%	2.27%	-0.48%	1.22%
30	1.54%	2.60%	3.25%	2.93%	-0.32%	1.39%

Strong State Credits – Case in Point: Florida

State and local governments are in a strong financial position, none stronger than Florida. The Sunshine State ended FY 2022 with a budget surplus of $21.8B and total reserves of $19B, or 43% of General Revenues – an abundant cushion heading into an economic slowdown. Even with the obvious importance of tourism, the Florida economy is quite diversified. In fact, Leisure and Hospitality employment represents just 13.1% of total state employment, only marginally above the 10.3% US average. The state unemployment rate of 2.8% is also below the 3.6% national average. Florida has no state income tax but instead is heavily dependent on sales tax collections which provide 77% of total revenues. The Florida real estate market is also strong, with values up 33% over the last five years, providing strong property tax revenue for local municipalities. The debt burden for the state is modest at just 4.3% of total expenses and total direct debt of $17.1B is down $11B, or 40%, from its peak in 2010. Florida also has a well-funded state pension, with assets covering 86% of liabilities at current market values. Not surprisingly, given these metrics, the state is rated triple-A by Moody's, S&P and Fitch. The biggest concern for investors is the state's exposure to storms and climate change given its 1,350 miles of relatively low elevation coastline. Fortunately, policymakers have been proactive in this area, developing a "Statewide Flooding and Sea Level Rise Resilience Plan" and funded several mitigation measures across the state. The insurance market in Florida, however, is under pressure with companies reducing coverage and increasing rates. Litigation risk has been a problem, so the state is working on legal reforms to cap liability risks. Meanwhile, the state's two large insurance entities, the Hurricane Catastrophe Fund and Citizen's Property Insurance Corporation are currently well funded, with an estimated $13.3B of total claims-paying capacity against projected loss estimates for a 1-in-100-year storm of $13.0B. Additional bonding capacity and insurance premium surcharges are also available, if necessary.

Strong Rally in July Helps Offset YTD Decline

Prices rose sharply in July as yields fell across the curve, clawing back a portion of the YTD price declines. Long maturities outperformed other segments of the curve this month. There was little difference in performance between GOs and Revenue bonds, while Prerefunded issues lagged. Lower-quality issues also outperformed in July as credit spreads narrowed slightly, but higher-quality issues maintain their YTD outperformance status.

Total Returns of Selected Barclays Municipal Indices and Subsectors

Bloomberg Index/Sector	July	YTD	Duration	Bloomberg Quality	July	YTD	*Duration*
Municipal Bond Index	2.64%	-6.58%	*6.58*	AAA	2.54%	-6.19%	*6.29*
General Obligation bonds	2.58%	-6.08%	*5.99*	AA	2.59%	-6.20%	*6.37*
Revenue bonds	2.79%	-7.16%	*7.12*	A	2.58%	-7.03%	*6.73*
Prerefunded bonds	1.07%	-2.03%	*2.52*	BBB	3.36%	-8.35%	*8.09*
Long maturities (22+ yrs.)	3.77%	-11.45%	*12.23*	High Yield	3.73%	-8.48%	*10.14*
Intermediate maturities (1 - 17 yrs.)	2.23%	-4.72%	*4.56*	HY, ex-Puerto Rico	3.55%	-8.50%	*9.99*
Short maturities (1 - 5 yrs.)	1.09%	-2.19%	*2.41*				

Disclosures

Fixed income is generally considered to be a more conservative investment than stocks, but bonds and other fixed income investments still carry a variety of risks such as interest rate risk, credit risk, inflation risk, and liquidity risk. In a rising interest rate environment, the value of fixed-income securities generally decline and conversely, in a falling interest rate environment, the value of fixed-income securities generally increase. High yield securities may be subject to heightened market, interest rate or credit risk and should not be purchased solely because of the stated yield.

The Bloomberg Municipal Bond Index is a broad-based, total-return index. The bonds are all investment-grade, tax-exempt, and fixed-rate securities with long-term maturities (greater than 2 years). They are selected from issues larger than $50 million. The components listed below the Municipal Bond Index (long maturities, intermediate maturities, short maturities, prefunded bonds, general obligation bonds and revenue bonds) are subsectors of the Bloomberg Municipal Bond Index and do not represent separate indices.

The Bloomberg High Yield Municipal Index includes bonds with a par value of at least $3 million and must be issued as part of a transaction of at least $20 million. The maximum rating for inclusion is Ba1/BB+/BB+ using the middle rating.

For more information about the Bloomberg Municipal Bond Index or Bloomberg High Yield Municipal Index, please visit https://index.barcap.com/Home/Guides_and_Factsheets.

Municipal securities investments are not appropriate for all investors, especially those taxed at lower rates. The alternative minimum tax (AMT) may be applicable, even for securities identified as tax exempt. Past performance is not a guarantee of future results.

Ratings are measured on a scale that ranges from AAA or Aaa (highest) to D or C (lowest). Investment grade investments are those rated from highest down to BBB- or Baa3.

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