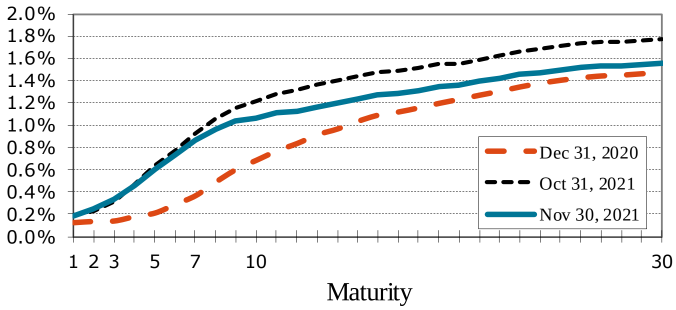
Baird Advisors
Municipal Fixed Income Market Commentary
November 2021

Stable Short Rates, Falling Long-Term Yields Leads to Flatter Curve

Short-term tax-exempt yields were steady in November while intermediate and long rates fell, flattening the curve. There was an abundance of news for investors to consider last month, including: state and local election results in which Republicans had a particularly strong showing (most notably Virginia), the Fed's official reduction of monthly asset purchases, the President's signing of the Infrastructure Investment and Jobs Act (IIJA) – see below for more on this – and the emergence of the Omicron variant of the Covid virus. Through it all, the municipal tone remained firm thanks to a supportive credit and supply/demand technical backdrop for the market. Even though economic growth was reported at a relatively modest 2.1% pace in Q3, state and local tax revenues in the quarter were more than 20% above pre-pandemic levels, boosting already abundant state and local government coffers. Demand for tax-exempts improved from October's modest slowing as the streak of positive weekly inflows continued. YTD total municipal fund flows of $96.8B are at a new record, ahead of the $92.8B high set in 2019. Supply also picked up slightly in November, rising 3% MoM, but YTD is 4% behind last year's pace as taxable municipal issuance has fallen 28% YoY.

AAA Municipal Yields



Maturity	12/31/20	10/31/21	11/30/21	1Mo Δ	YTD Δ
1	0.13%	0.19%	0.19%	0.00%	0.06%
2	0.14%	0.23%	0.24%	0.01%	0.10%
3	0.14%	0.32%	0.33%	0.01%	0.19%
5	0.22%	0.64%	0.61%	-0.03%	0.39%
7	0.37%	0.92%	0.87%	-0.05%	0.50%
10	0.69%	1.22%	1.07%	-0.15%	0.38%
30	1.47%	1.77%	1.55%	-0.22%	0.08%

The Infrastructure Bill (IIJA) Passes Includes $550B of New Spending

A long-awaited federal infrastructure bill was signed into law by President Biden in November. The $1.2T Infrastructure Investment and Jobs Act (IIJA), which includes $550B of new spending beyond the baseline spending levels, will begin to address widespread deferred needs across the country. The top five targets for the new spending are: 1) roads, bridges and other major surface projects ($110B), 2) power and grid needs ($73B), 3) passenger and freight rail ($66B), 4) rural broadband ($65B) and 5) public transit ($39B). Specific to municipals, the Act expands the Private Activity Bond Authorization by $1.4B for certain projects that qualify, such as surface transportation, rural broadband and carbon capture activities. If this plan follows prior methods for distribution of funds, most of the money will be directed through federal grants to state and local governments over a multi-year period. The grants typically require a cost sharing arrangement between the federal and state/local governments (e.g. 80/20). Given the strong fiscal condition of most municipalities, funding (or borrowing to fund) the local portion of project costs should not be a problem. Some municipalities may choose to borrow against the expected federal revenue stream, which should provide a modest boost to both tax-exempt and taxable supply over the next several years. The new federal outlays will vary from $26B to $89B per year, with the heaviest distributions between 2025 – 2027. Even with this large additional spending it is still significantly less than the $2.6T funding need by 2029 identified by the American Society of Civil Engineers. Hopefully, more bipartisan infrastructure progress will be considered in the future to address ongoing needs.

Long Maturities Lead Strong November Rally

The decline in longer-term maturities led to the significant outperformance of that segment of the curve relative to shorter-term issues last month. Not surprisingly, the shorter average maturity of the Prerefunded sector caused those issues to lag other sectors as well. Lower-quality issues outperformed higher-quality issues in November and remain well ahead on a YTD basis.

Total Returns of Selected Bloomberg Municipal Indices and Subsectors

Bloomberg Index/Sector	November	YTD	Bloomberg Quality	November	YTD
Municipal Bond Index	0.85%	1.35%	AAA	0.83%	0.29%
General Obligation bonds	0.85%	0.88%	AA	0.79%	0.78%
Revenue bonds	0.92%	1.68%	A	0.90%	2.07%
Prerefunded bonds	0.07%	-0.03%	BBB	1.09%	4.63%
Long maturities (22+ yrs.)	1.65%	2.95%	High Yield	1.31%	7.49%
Intermediate maturities (1 - 17 yrs.)	0.53%	0.72%	HY, ex-Puerto Rico	1.18%	7.52%
Short maturities (1 - 5 yrs.)	0.06%	0.33%			

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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