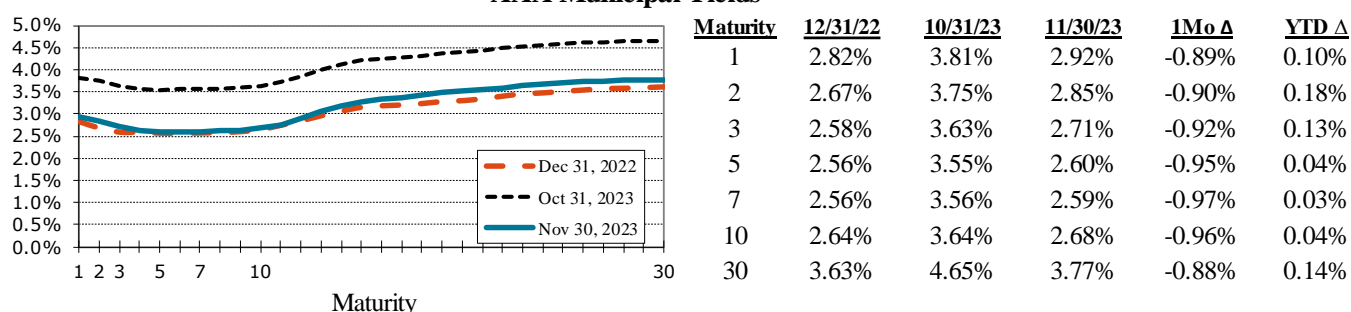


Baird Advisors
Municipal Fixed Income Market Commentary
November 2023

Massive Rally in November; Municipals Outperform Treasuries

Tax-exempt rates fell sharply in November in a nearly uniform manner across the curve. Short-term and long-term yields fell by nearly 90 bps, while 5 – 10-year maturities fell as much as 97 bps. The dramatic decline in tax-exempt rates provided investors with significantly positive return; the return of the Bloomberg Municipal Bond Index in November (+6.35%) was the highest since January 1986 and the sixth highest monthly return ever. A sharp drop in Treasury yields sparked the unusually strong rally in municipals, but tax-exempt yields fell even more than Treasuries, making up for relative underperformance in October. The inversion of the tax-exempt curve between the 1 – 10-year maturities deepened slightly, to -24 bps from -17 bps. Strengthening the municipal rally was a stabilization in industry fund flows, as redemptions slowed and ultimately turned positive for one week. Also, market concerns over potentially heavy tax-loss selling into a slowing holiday trading environment were eased by the rally; YTD fund returns are now solidly positive. The rally occurred even with robust municipal issuance. November's tax-exempt supply rose 35% YoY to \$32.5B, bringing YTD tax-exempt issuance 3% ahead of last year's pace. For December, the supply/demand outlook remains favorable. Expected reinvestment demand (including principal and coupon income) of \$47B will be the highest level of the year and should easily exceed the level of new supply in the last month of the year.

AAA Municipal Yields



November Bond Referendums, Stable Outstanding Municipal Supply

There were approximately \$45B of bond referendums for voters to consider on the November ballot and two-thirds (~\$30B) were approved. School districts dominated the bond requests and, not surprisingly, four of the five largest referendums (ranging in size from \$1.6B - \$2.5B) were in Texas. Borrowing needs in Texas continue to grow as the population rises and infrastructure needs increase. This has been evident by a steady stream of borrowings in recent months by Municipal Utility Districts, which fund the build out of growing communities, as well as Texas school districts, with most of the deals backed by the AAA-rated Permanent School Fund (PSF). We expect Texas issuance to remain robust in 2024 as well. Not to be outdone, a request to borrow \$2.5B by the Charlotte-Mecklenburg, NC School District, tying for the largest, was also approved. While the required voter approval for traditional borrowings such as these can be a challenge, in some communities it takes multiple requests and a modification of the project size to get voter approval, but it nonetheless acts as a valuable checks and balances process for the market. It serves as borrowing discipline that plays a part in the stable, rather than growing, level of outstanding municipal debt. At \$4 trillion, the total amount of outstanding municipal debt is relatively unchanged since before the global financial crisis of 2008, while both US Treasury and corporate debt has grown. Certainly, the level of fiscal accountability varies by state and region, but the fact that total municipal debt has been stable even as the economy and tax revenues have grown is an important and often underappreciated credit strength for the municipal market.

Multi-Decade Record Returns in November; YTD Returns Also Strongly Positive

As noted above, November returns for the municipal market were the highest in nearly four decades. Not surprisingly, the rally in long maturities (+10.07%) outperformed other curve segments. The longer duration Revenue and GO sectors also significantly outperformed the shorter Pre-refunded sector. Lower-quality issues outperformed higher-quality, which is not typical in such a sharp rally. For example, BBBs outperformed AAAs by 128 bps in November and are also the YTD credit category leader.

Total Returns of Selected Barclays Municipal Indices and Subsectors

<u>Bloomberg Index/Sector</u>	<u>November</u>	<u>YTD</u>	<u>Duration</u>	<u>Bloomberg Quality</u>	<u>November</u>	<u>YTD</u>	<u>Duration</u>
Municipal Bond Index	6.35%	3.98%	6.18	AAA	6.65%	3.52%	6.33
General Obligation bonds	6.21%	3.40%	5.84	AA	6.09%	3.59%	6.02
Revenue bonds	6.59%	4.32%	6.48	A	6.40%	4.70%	6.17
Prerefunded bonds	2.24%	2.35%	2.20	BBB	7.93%	6.16%	7.46
Long maturities (22+ yrs.)	10.07%	5.71%	10.29	High Yield	7.75%	6.03%	7.44
Intermediate maturities (1 - 17 yrs.)	4.83%	3.30%	4.60	HY, ex-Puerto Rico	7.22%	4.80%	7.33
Short maturities (1 - 5 yrs.)	2.43%	2.61%	2.36				

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.

Robert W. Baird & Co. Incorporated.

This is not a complete analysis of every material fact regarding any company, industry or security. The information has been obtained from sources we consider to be reliable, but we cannot guarantee the accuracy. Indices are unmanaged and are not available for direct investment.