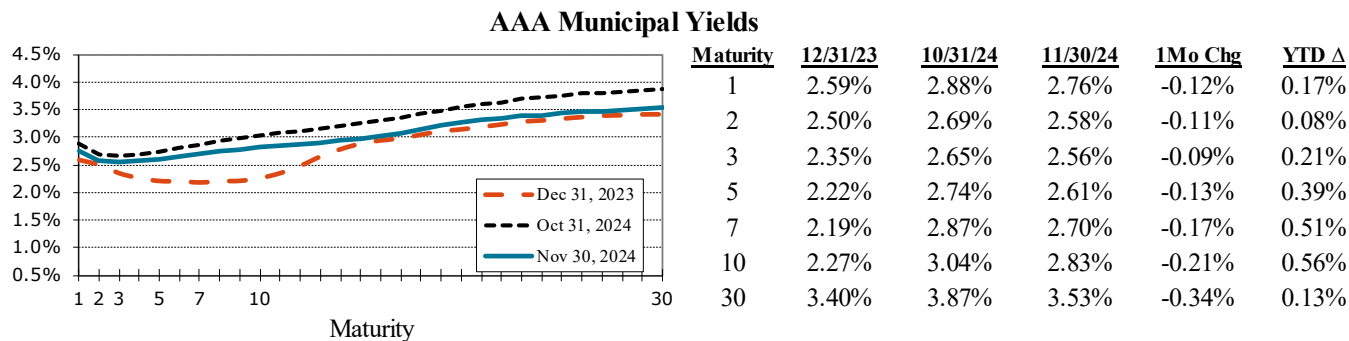


**Baird Advisors**  
**Municipal Fixed Income Market Commentary**  
**November 2024**

### Tax-exempt Yields Fall in November

Tax-exempt yields fell in November with a modest flattening trend for the curve. The 2yr yield fell 11 bps and the 10yr yield fell 21 bps, narrowing the 2s10s slope by 10 bps which ended the month with a positive spread of 25 bps. Amid somewhat mixed economic data, the overriding catalyst behind market moves in November was the outcome of the election and President-elect Trump's cabinet nominations. Overall, the supply/demand backdrop was favorable during the month. Demand was consistently strong throughout the month with net tax-exempt fund inflows of \$5.8B in November second only to October's \$8.6B of inflows. YTD inflows total \$39B. On the supply front, total municipal issuance of \$25B in November was the lowest month of the year, as issuers sought to avoid pricing deals around the uncertain and potentially volatile election and the FOMC decision (a 25 bps easing). Still, YTD municipal issuance of \$468B, when taxable and tax-exempt are combined, remains on a record pace. If total issuance exceeds \$28B in December, as we expect, supply in 2024 will exceed the previous record high set in 2020.



### Election Results and Municipal Impact

The GOP sweep of the presidency and both houses of Congress in November is likely to have implications for the municipal market in 2025 and beyond. President-elect Trump campaigned on his desire to extend the 2017 Tax Cuts and Jobs Act (TCJA) which is set to expire at the end of 2025. A GOP-controlled Congress, albeit with slim majorities in each chamber, improves the President-elect's probability of success. The major challenge will be finding ways to offset or partially offset the estimated \$4.5 trillion cost over ten years (CBO estimate) of extending the law, and that's before any additional tax cuts are proposed. While the topic has been discussed again, loss of the tax-exempt status of municipal bonds is unlikely due to the significant role the market plays in funding infrastructure needs, as well as the relatively small revenue gained if changed on a prospective basis. It is possible, however, that certain segments of the market could come under review, such as private activity bonds, as they did in 2017. Yet just the mere discussion of changes may cause volatility in the municipal market – which could create an opportunity for investors if municipals cheapen relative to taxable securities. The election produced the successful passage of numerous bond referendums across the country. Most notable was California, where over \$40B of ballot measures passed including two separate \$10B requests for schools and climate change mitigation, respectively. Texas had the second highest number of approved referendums despite the defeat of the largest request ever in the state, a \$4.4B referendum for the Houston School District. The new administration in Washington will be focused on tax policy and, given the large number of ballot measures approved in November, 2025 is expected to be another year of strong supply. Currently, dealer estimates are approximately \$500B of total issuance (taxable and tax-exempt), near where we expect 2024 to end. Issuers may accelerate supply in the first half of the year as they seek to avoid the risk of any sunset dates should new tax measures impact the municipal market.

### Positive November Returns

The decline in rates produced positive returns for the month of November. Long maturities outperformed shorter segments of the curve and longer maturities also lead YTD. The Revenue sector had a slight edge over GO bonds in November and easily outperformed Pre-re's for the month. BBB bonds nudged out AAA bonds this month and YTD as lower quality is still outperforming higher-quality issues.

### 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	1.73%	2.55%	6.02	AAA	1.84%	1.93%	6.23
General Obligation bonds	1.70%	1.94%	5.73	AA	1.68%	2.18%	5.88
Revenue bonds	1.76%	2.78%	6.21	A	1.72%	3.30%	5.98
Prerefunded bonds	0.61%	2.48%	2.49	BBB	1.90%	4.90%	6.88
Long maturities (22+ yrs.)	2.87%	3.99%	9.28	High Yield	2.15%	8.12%	6.32
Intermediate maturities (1 - 17 yrs.)	1.23%	1.90%	4.70	HY, ex-Puerto Rico	2.23%	8.56%	6.25
Short maturities (1 - 5 yrs.)	0.51%	2.42%	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](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.