

AH Williams Muni Weekly Commentary

Flight to quality and risk off are the themes. Global equities are seeing the largest point correction since the financial crisis. US treasuries are the commodity of choice to park cash, and have seen yields drop to record lows. At the time of this writing 5yr is at .91%, 10yr 1.11% and 30yr at 1.65%. Covid-19 related fears have grown exponentially and talk of a possible global pandemic has created the type of uncertainty that causes market turmoil.

Municipal bonds have seen significant declines in yield but not to the extent of the magnitude of the UST moves, and percentages have risen as a result. Tax frees now appear cheap in comparison. This is primarily due to the enhanced liquidity associated with US Treasuries, although there appears to be rate shock taking hold in the retail investor sector of the municipal market. 10 year AAA credits now yield less than 1%, and the flatter yield curve does not incentivize buyers. Hedged accounts and mutual funds have been predominantly the buyers. Another \$2.3 billion came into muni funds making this the 60th consecutive week of inflows.

The surprise of the week was the \$3 billion Ohio Buckeye Tobacco deal. It was over 25x oversubscribed and saw yields reduced approximately 20 basis points. The next day buyers emerged paying as much as 45 basis points through the original issue yield before profit takers arrived in mass and drove yields back. Yet Friday's 3pt plus rally in Treasuries only produced a 1 bp bump in the widely followed Muni Index.

Our strategy has been to sell into this rally as we believe the risk vs reward considerations are becoming unpredictable, even though tax exempt yield ratios are favorable. The seasonal March technicals tend to provide a significant amount of new issue supply at a time when investors are not as flush with reinvestment cash, and especially so with yields this low. It is becoming difficult to find 2% or greater yields now.

We were leveraged with long positions and favor being a too early seller with the opportunity to reload at better entry points in March.