# Municipal Market Insight

Wealth Management

April 2022 | Portfolio Advisory Group – U.S. Fixed Income Strategies

**What's inside:**




**For important disclosures and authors' contact information, see page 11.**


## A tough month for fixed income

March was a difficult month for fixed income. Treasury bond yields—which move in the opposite direction to prices—rose 0.9% for bonds maturing in two years and nearly 0.5% for bonds maturing in 10 years. The Fed's mid-month decision to raise interest rates by 0.25 percentage points was widely expected, but comments by Fed Chair Jerome Powell following the policy meeting emphasized the central bank's commitment to fighting inflation and contributed to the negative Treasury returns.

The underperformance of short-term bonds saw the difference between 10-year and 2-year yields shrink to nearly zero by month-end. Recessions are often preceded by a period where short maturity Treasuries offer higher yields than longer maturities—a situation referred to as an inverted yield curve—so the indicator is being carefully watched. For now, we believe the shrinking yield difference is largely attributable to confidence in the Fed's ability to eventually control inflation, and the U.S. is likely to avoid a recession in the next 12 months, in our opinion.

Corporate bond investors also saw losses in March, although the major indices recovered some of the ground into month-end. We continue to see a relatively

### U.S. Treasury rate forecasts (%), March 2022

| | 2021 | 2022 | | | | 2023 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Q4 | Q1 | Q2E | Q3E | Q4E | Q1E | Q2E | Q3E | Q4E |
| FF | 0.13 | 0.38 | 0.88 | 1.13 | 1.38 | 1.63 | 1.88 | 2.13 | 2.38 |
| 2-yr | 0.73 | 1.50 | 1.65 | 1.80 | 1.95 | 2.05 | 2.20 | 2.30 | 2.40 |
| 5-yr | 1.26 | 1.85 | 1.95 | 2.10 | 2.20 | 2.25 | 2.30 | 2.35 | 2.40 |
| 10-yr | 1.52 | 2.00 | 2.05 | 2.15 | 2.25 | 2.35 | 2.40 | 2.45 | 2.45 |
| 30-yr | 1.90 | 2.25 | 2.30 | 2.35 | 2.40 | 2.45 | 2.45 | 2.50 | 2.50 |

Source - RBC Economics

### Treasuries vs. municipals (%)

| | 5-yr TSY | 5-yr Muni | 10-yr TSY | 10-yr AAA Muni | 30-yr TSY | 30-yr AAA Muni |
|---|---|---|---|---|---|---|
| Beginning of month (3/1/22) | 1.62% | 1.24% | 1.79% | 1.50% | 2.11% | 1.91% |
| Mid-month (3/15/22) | 1.94% | 1.44% | 2.05% | 1.71% | 2.36% | 2.09% |
| End of month (3/31/22) | 1.71% | 1.34% | 1.83% | 1.58% | 2.16% | 1.98% |

Source - Bloomberg (Treasuries), Thomson Reuters TM3 (Municipals) benign credit picture, as elevated levels of corporate bond issuance in 2020 and 2021 left corporations with low debt service costs and limited refinancing pressure. We believe corporate bond investors are likely to focus on domestic and global growth prospects as Q2 unfolds.

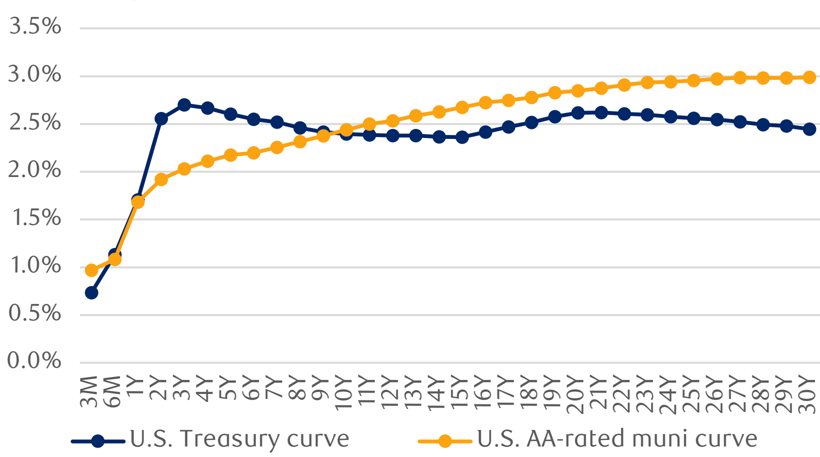
## Market investment strategy & market commentary

### Municipal strategy & performance

*Muni selloff presents relative value in 10–15 year maturities*

Heavy geopolitical headwinds and the topic of higher interest rates continue to pressure municipal markets after posting the worst quarterly performance since the early 1980s, down over 6% according to the Bloomberg index. The yield on the 10-year municipal benchmark has nearly doubled since the start of the year, while Muni/Treasury ratios have improved substantially after ratios traded near record lows last year. Given where yield ratios stand, we believe the muni market presents attractive opportunities. The shape of the muni curve is considerably steeper versus Treasuries beyond five years, giving investors relatively attractive entry points toward the intermediate-to-long end of the curve. In our view, muni investors should target 10–15 year maturities with minimum 4% coupons and shorter call dates to enhance price protection against interest rate risk.

Curve comparison: Treasuries vs. AA-rated munis




Source - RBC Wealth Management, Bloomberg

*Taxable muni issuance falls on higher Treasury yields*

The pace of taxable muni issuance has been declining due to rising Treasury yields as the Fed turns more hawkish against severe inflationary pressures in the economy. Historically, taxable muni prices have closely correlated to Treasury prices, typically more so than the investment-grade corporate bond market. According to the Bloomberg fixed income indices, Treasury yields are approximately 120 basis points (bps) higher since the start of 2022, closely followed by taxable muni yields at approximately 110 bps higher on the year. Due to rising rates, taxable muni issuers are quickly shifting back toward the tax-exempt market in search of cheaper borrowing costs. As a result, new issue taxable muni volume is down about 40% from a year ago.

*Using a mixed barbell investment strategy of long munis and short investment-grade corporates*

Due to heightened uncertainty among financial markets and the situation in Europe, we believe more interest rate sensitive investors should consider barbell strategies, which incorporates both short- and long-dated maturities. The main attraction of barbell strategies is that investors can find benefits in rising and declining interest rate scenarios. While the Treasury curve is inverted, we recommend taking advantage of relative steepness in the muni curve by purchasing intermediate-to-long-end maturities. In addition, we favor investment-grade corporate bonds with 2–5 year maturities to complete the barbell. Short-term corporates can provide a greater yield advantage over short-term munis in today's environment, even for investors in the highest tax bracket.

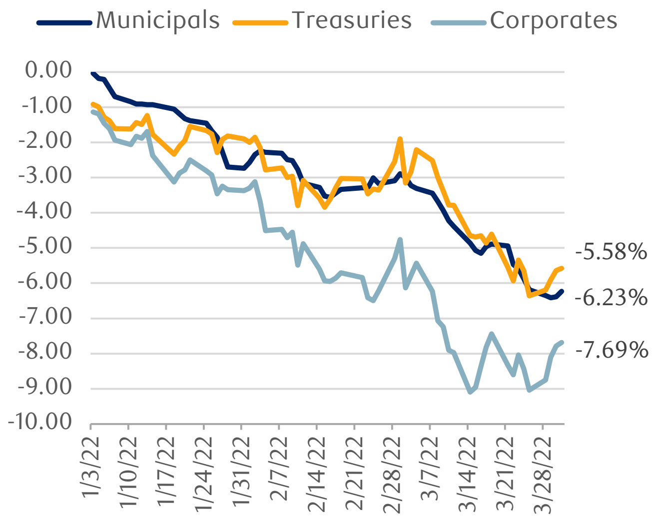
*Performance: Another dismal month for the muni market*

March proved to be another challenging month for fixed income markets, and the muni market was not spared from the selloff that began in the beginning of the year. As was the case in January and February, mounting inflationary concerns, fears of interest rate hikes, and the ongoing Russia-Ukraine crisis caused investors to position their cash on the sidelines until they can have a better grasp of the future direction of the economy. As a result of the selloff and lack of investor engagement, the municipal market is off to its worst start since the 1980s. The Bloomberg Municipal Bond Index returned -6.23% during Q1. Partially driving this year's sizable loss is the beginning of a period of an aggressive Fed tightening cycle, which we expect to continue through the remainder of the year and possibly into next year.

The municipal market wasn't the only fixed income sector to experience significant losses in Q1, as the Bloomberg Corporate Bond Index and Treasury Bond Index returned -7.69% and -5.58%, respectively.

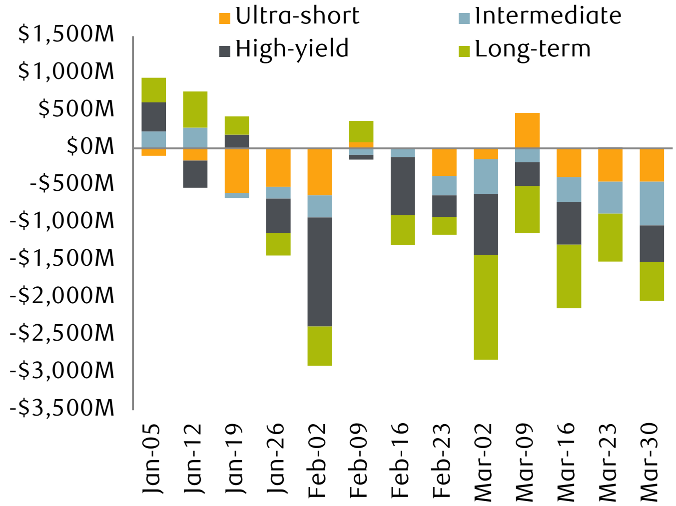
On a monthly return basis, Treasuries outpaced municipals and lagged corporates in March, returning -3.11%. Municipals returned -3.24%, also underperforming corporates, which returned -2.52%, according to Bloomberg data.

Bloomberg indexes (%)




Source - RBC Wealth Management, Bloomberg; data range 1/3/22–3/28/22

Recent municipal fund flows




Source - Refinitiv Lipper U.S. Fund Flows, RBC Wealth Management; weekly data range: 1/5/22–3/30/22

*Looking ahead: Barriers to entry remain*

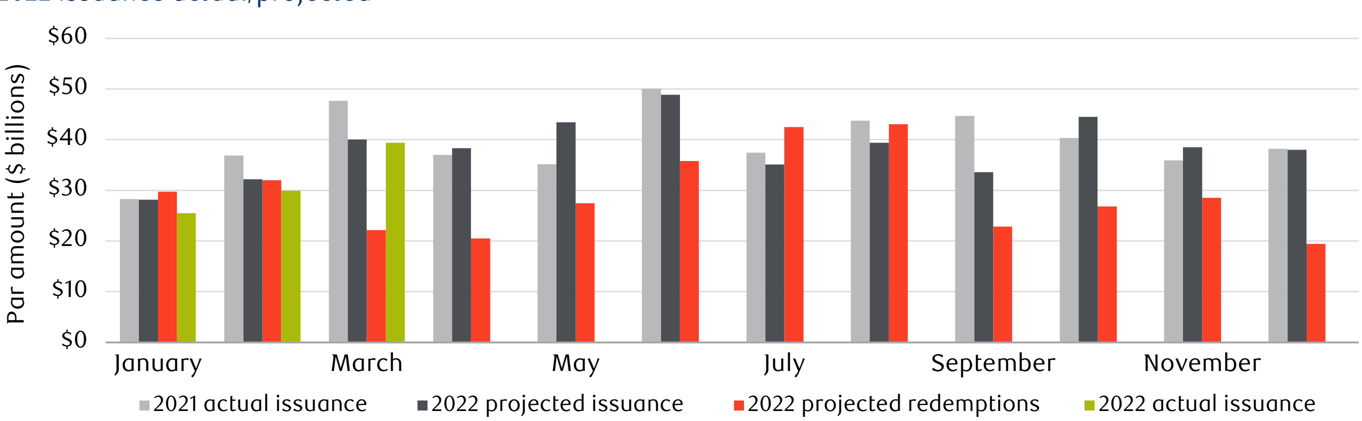
We expect concerns over both rising interest rates and continued inflationary pressure on the economy to prevent many investors from moving into fixed income markets until a clearer economic picture emerges. Anxiety over the direction of financial markets has led investors to withdraw just under $15 billion from municipal bond funds through the first 13 weeks of 2022, helping drive benchmark yields higher. In addition to withdrawing cash in 10 out of 13 weeks this year, waning demand has had a negative impact on issuance and the ability of issuers to place new deals amid the current rising rate environment. Many issuers have pushed yields on new deals higher in an attempt to attract a sufficient number of buyers to get deals completed.

*April, May, and June could present additional challenges*

Looking ahead to April, May, and June, RBC Capital Markets is projecting issuance of $38 billion, $43 billion, and $49 billion, respectively, while total redemptions including principal payments, maturities, and redemptions are expected to lag issuance in those months by $18 billion, $16 billion, and $13 billion, respectively. This would set up a three-month supply/demand imbalance, which could prove to be a catalyst for a rising yield environment over the next three months.

The recent rise in municipal yields has also pushed Muni/Treasury ratios to levels not seen since the outbreak of the COVID-19 pandemic. Investors with “dry powder” could consider putting some cash to work where Muni/Treasury ratios in the 5-, 10- and 30-year ranges are topping 77%, 91%, and 103%, respectively, with bonds maturing between 10 and 30 years the most attractive, in our opinion. We caution investors to consider the current volatility in municipal markets and the likelihood this trend will continue until we see the exodus out of municipal bond funds stabilize and funds eventually return to a period of inflows.

2022 issuance actual/projected




Source - RBC Capital Markets, The Bond Buyer

## This month's focus: Puerto Rico finalizes its general government debt restructurings

Puerto Rico finalized its general government debt restructurings on March 15, 2022, marking the end of more than five-and-a-half years of non-payment on its general obligation (GO) and GO-equivalent debt. Puerto Rico also finalized the restructuring of debt attributable to the Puerto Rico Infrastructure Finance Authority (PRIFA), Puerto Rico Convention Center District Authority (Convention Center), and the Employee Retirement System. The federal oversight board—as representative for the commonwealth—is now tackling the remaining debt securities, including the Puerto Rico Electric Power Authority (PREPA) and the Puerto Rico Highways and Transportation Authority (Highway). Our expectation is all the remaining debt restructurings will be finalized by the beginning of 2023, but acknowledge there are plenty of potential pitfalls to derail this schedule.

### GO and PBA restructuring results

Uninsured GO and Puerto Rico Public Buildings Authority (PBA) bondholders experienced an average of 27% and 21% reduction in principal, respectively. Actual principal recoveries varied based on the vintage of the original Puerto Rico bonds, with older series of bonds receiving greater recovery. The GO recovery consisted of cash equaling 43% of the principal recovery and multiple maturities of a new GO bond obligation that in aggregate totaled 57% of the principal recovery. The PBA recovery consisted of roughly 59% cash and 41% new GO bonds.

The new GO bonds are secured by the commonwealth's full faith and credit, and annual debt service payments will be funded up in equal monthly installments paid directly to the trustee. From a credit perspective, Puerto Rico's ability to service its new GO debt obligation may be more feasible because its debt load is materially less and, as importantly, additional GO debt issuance is restricted.

### Sales tax contingent value instrument

As an additional potential recovery, certain security holders also received a contingent value instrument (CVI), which will pay additional funds to bondholders if the commonwealth's sales tax revenues exceed annual baseline collection projections. The CVI is generically known as a "Hope bond" because bondholders hope the instrument pays but is contingent upon exceeding annual economic thresholds. If Puerto Rico's sales tax exceeds an annually escalating baseline measure, bondholders will receive a percentage of any excess, but if the collections perform below the baseline, bondholders will not receive any payment in that year. GO, PBA, PRIFA, Convention Center, and Highway bondholders all received the sales tax CVI whereby a portion of any excess sales tax revenues is allocated to each security based on a multifactorial formula subject to annual and lifetime caps.

### GO and PBA principal recoveries

| | Principal recovery | Consisting of: | |
|---|---|---|---|
| | | Cash* | New bonds |
| GO: | | | |
| Pre-2011 | **77.6%** | 43% | 57% |
| 2011 D/E/PIB | **76.4%** | 43% | 57% |
| 2011 | **72.9%** | 43% | 57% |
| 2012 | **72.4%** | 43% | 57% |
| 2014 | **67.7%** | 43% | 57% |
| PBA: | | | |
| Pre-2011 | **80.3%** | 59% | 41% |
| 2011 | **79.5%** | 59% | 41% |
| 2012 | **74.8%** | 60% | 40% |

* Excludes PSA restriction fee, consummation costs, and PSA retail support fee.

Source - Puerto Rico Plan Support Agreement

To better illustrate the recoveries above, for a pre-2011 GO bondholder with a $100,000 par value, the investor received a $77,600 recovery consisting of roughly $33,600 in cash and $44,000 in new GO bonds. The investor also received the sales tax CVI (Hope bond).

### Convention Center District Authority

The Convention Center debt was restructured whereby uninsured bondholders received 29% principal recovery as an all-cash payment and the sales tax CVI (Hope bond).

### Employee Retirement System

The Employee Retirement System debt was restructured whereby uninsured bondholders received 12% principal recovery as an all-cash payment and rights to a private equity portfolio trust valued at roughly $71 million.

### PRIFA

The PRIFA debt was restructured whereby uninsured bondholders received 14% principal recovery as an all-cash payment, the sales tax CVI (Hope bond), and a rum tax CVI (Hope bond). The rum tax CVI functions similarly to the sales tax CVI, but instead of excess sales tax revenues the financial instrument is supported by excess rum tax revenues. The rum tax is a federal excise tax collected on rum distilled in Puerto Rico and exported to the United States.

### Highway restructuring

The Highway restructuring terms largely have been set in Puerto Rico's central government restructuring plan; however, Highway bondholders will not receive the restructuring package until certain conditions are met and the bankruptcy court approves the Highway restructuring plan. Under the current terms, bonds issued under the 1968 resolution will receive 94% principal recovery in the form of cash and new highway bonds secured by net highway toll revenues. Senior lien bonds issued under the 1998 resolution will receive 22% principal recovery in the form of cash and new highway bonds. Subordinate lien bonds under the 1998 resolution will not receive any cash or new bonds. All bonds issued under both the 1968 and 1998 resolutions will receive the sales tax CVI.

### PREPA restructuring

Various PREPA restructuring proposals have been presented over the years with varying levels of acceptance from bondholders, bond insurers, commonwealth officials, and the Puerto Rico Oversight Management and Economic Stability Act (PROMESA) oversight board. The latest version of the PREPA debt restructuring had buy-in from a majority of bondholders, the bond insurers, and the PROMESA board; however, commonwealth officials voiced opposition. In early March 2022, the three-year-old PREPA restructuring proposal was terminated.

The PROMESA board stated it is now working on a PREPA restructuring deal that will circumvent local government involvement given commonwealth officials' apparent unwillingness to pass necessary legislation. Under the prior deal, the new bonds would have been secured by a non-bypassable, statutory lien on a capped electric surcharge, which would have required commonwealth legislative approval. Uninsured PREPA bondholders would have exchanged their outstanding bonds for two tranches of securitized bonds. The first tranche would have provided 67.5% of principal recovery, and the second tranche would have potentially provided an additional 10% of principal recovery. However, the second tranche would only pay after full repayment of the first tranche, subject to a sunset provision.

Controversies notwithstanding, we are optimistic a consensual solution will be found that satisfies all parties and the PREPA debt can be restructured by the first quarter of 2023.

### Moving forward

Puerto Rico and many security holders can finally move forward from the island's general government bankruptcy. But there is more work to be done because several defaulted Puerto Rico debt securities still need to be resolved. We believe there is a reasonable likelihood the remaining debt restructurings will be finalized by the end of the first quarter of next year. Positively, the PROMESA oversight board will remain in place to help advance the restructurings, and, as importantly, will continue to oversee the island's finances until certain benchmarks are achieved including four consecutive years of balanced operations.

## Municipal news

Updates and general commentary

### California – Governor offers $11 billion tax relief package

With gas prices topping as much as $7.00 per gallon in some places in the state, Governor Gavin Newsom has put forth a measure totaling as much as $11 billion that would provide direct payments of as much as $400 per vehicle. In addition to direct payments, the measure calls for $750 million of grants to incentivize public transit agencies to provide free transit for three months. In addition, Newsom would like to use $600 million to pause a portion of the tax charged on diesel fuel for one year and $523 million to pause an inflationary adjustment to gas and diesel excise tax rates.

### Connecticut – Governor signs bill

Governor Ned Lamont signed a bill suspending the state's $0.25 a gallon gas tax from April 1 to June 30 as inflation takes a bite out of consumer spendable cash. The bill also suspends fares on public buses statewide during the same period and calls for a one-week sales tax holiday on clothing and footwear under $100. The legislation passed with unanimous support from both parties.

### Drought expected to continue plaguing U.S. West

A recent outlook released by the National Oceanic and Atmospheric Administration said the U.S. West is facing another spring and summer of depleted reservoirs, water-starved croplands, and an elevated risk of another season of wildfires. The update went on to say that from April to June the region will experience minimal rain and snowfall, which will further pressure water supply. A large portion of the U.S. West has experienced a severe drought since early 2020. The prolonged drought has since extended to the southern Plains and Lower Mississippi Valley, according to the outlook, leaving those regions to face a summer of heatwaves due to the lack of moisture in the atmosphere.

### Florida – Lawmakers approve budget

Lawmakers approved a $112 billion budget, the largest in state history. The recently passed budget is around 10% higher than the state's current-year budget and $12 billion higher than the budget submitted by Governor Ron DeSantis in December.

The budget earmarks funds to raise the minimum wage for state workers to $15 an hour, includes a gas tax holiday, increases teacher salaries, and uses the remaining $3 billion of American Rescue Plan funds to boost construction and deferred maintenance for the state's colleges and universities. The budget also sets aside $400 million for broadband expansion throughout the state.

### Gateway Rail Tunnel, NJ/NY – Eligible for federal funding

The proposed new rail tunnel between New Jersey and New York is expected to be eligible for a portion of $2.9 billion of grants being offered by the Biden administration to help fund infrastructure projects of regional or national significance. The much-needed Gateway Tunnel project is expected to cost approximately $12.3 billion. The project, which was delayed during the Trump administration, will carry both Amtrak and New Jersey Transit rail passengers to and from New Jersey and New York, doubling the number of trains that can traverse the Hudson River. The route is vital to the northeast corridor, providing service connecting Boston, New York, and Washington.

### Glen Hope Harbor – Files for Chapter 7 bankruptcy

Emmaus Calling, the parent company of Glen Hope Harbor, which operates nine assisted living facilities in the Houston and San Antonio markets, filed for Chapter 7 bankruptcy in early March. The Glen Hope Harbor projects have been experiencing census challenges since before the pandemic due to competition in both market service areas. The pandemic further exacerbated the projects' ability to attract new residents, driving ownership to close the facilities and file for bankruptcy and the liquidation of the senior living portfolio. Once in receivership, we expect the sale of the projects, with proceeds going to bondholders, whose bonds are secured by a first lien mortgage on the projects.

### Illinois – Lawmakers approve additional $1 billion for pension buyouts

The Illinois Senate approved a bipartisan proposal authorizing the sale of $1 billion of debt to fund an additional pension buyout program as the state aims to reduce its elevated pension liabilities, the highest in the country. The funding allows an additional $1 billion to offer buyouts to many state, university, and public school system employees. Illinois is currently facing around $130 billion of unfunded pension obligations across the state's five pension systems.

### Infrastructure bill – Facing inflation pressure

The reach of President Joe Biden's $550 billion infrastructure bill could be reduced amid skyrocketing labor costs and rising inflation, potentially reducing the number of projects that could be started and completed absent additional funding. Soaring construction costs, a labor market shortage, and rising project costs are likely to reduce the number of projects the original $550 billion infrastructure funds can cover.

### Las Vegas – Gains visitors after three months of declines

February proved to be a turnaround month for the country's gambling mecca. The Las Vegas Convention and Visitors Authority reported more than 2.6 million people flocked to the city in February, marking a 5.7% increase following a three-month visitor decline. While an improvement, February's gains remain down 18% from February 2019.

Hotel occupancy grew by 69.3% in January, up 10% y/y, while weekend occupancy jumped to 87.5%, up 12.9% from the previous month. Approximately 5.1 million people have visited Las Vegas year to date, up 79.6% y/y, and down 22.9% from the same period in 2019.

### New Jersey Transit – Expecting a shortfall

The transit agency said it is expecting a $550 million revenue shortfall as soon as 2026, despite federal aid and an overall improvement in ridership as workers return to on-premises work. The agency presented its budget proposal notice to the state legislature, which calls for no fare increases over the next four years. The agency said it plans to shift funds from its clean energy fund and capital needs fund to make up the shortfall in revenue from day-to-day operations.

### New York updates

#### *New York City – Financial district struggles amid a glut of office space*

New York City's financial district is dealing with a glut of available office space. During Q1 2022 the district's availability rate rose to 19%, the most since 2000, according to a recent report by Savills Research as reported in Bloomberg News. One of the main reasons for the glut is that tenants are shifting their demand to newer top-tier spaces, leaving landlords of older spaces struggling to find tenants.

#### *New York City – Projecting a surplus*

New York City is projecting a FY2022 budget surplus of around $3.7 billion, which State Comptroller Thomas DiNapoli said could grow as high as $4.5 billion if city spending and revenue trends remain on their current paths. The city tax coffer is benefiting from outsized federal aid, better-than-expected tax collections, and improved property tax collections as New York City continues rebounding from the impact of the pandemic.

The city, however, is facing some budgetary pressure in FY2024 through FY2026, projecting budget gaps to average $2.7 billion annually over that period.

#### *Metropolitan Transportation Authority (MTA) – Stands to lose $100 million*

The MTA is facing a potential $2 billion budget deficit as early as 2026 and could lose $100 million in the current year if state lawmakers provide drivers with a gas tax holiday. State lawmakers have reassured the MTA that any lost revenue from a gas tax holiday would be offset by other state funding sources.

*New York State – Budget deadline missed*

New York Governor Kathy Hochul missed an April 1 deadline to submit the state's budget. Bail reform, to-go-drinks, and New York City casinos were some of the major sticking points in completing the coming year's budget. The aforementioned items are part of the state's more than $200 billion preliminary FY2023 budget. If a deal with lawmakers is not reached, it could hold up payroll for the state's public workers.

### Port Authority of New York and New Jersey (PANYNJ) – Revenue falling short

PANYNJ CFO Elizabeth McCarthy said the authority's net operating revenue was trailing 2019 revenue by $73 million as PANYNJ slowly rebounds from the impact of the pandemic. The authority's net operating revenue was nearly $1 billion more than the lows of 2020, while cash flow from operations jumped $924 million year over year.

Passenger volumes in 2021 at the authority's aviation division and its subsidiary the Port Authority Trans-Hudson (PATH) were 46% and 64%, respectively, below 2019 levels.

### Retail buyers – A shift in investing

Household investors in the $4 trillion municipal market have begun shifting their investment preferences to exchange-traded funds (ETFs) and municipal bond funds rather than purchasing individual bonds. During Q4 2021, household ownership of direct bonds fell by around $18 billion quarter over quarter. The drop matches the lowest level of direct ownership by households since 2008. While we believe demand for individual bonds could decline as investors shift to ETFs and municipal bond funds, we also think a segment of household buyers will remain focused on individual bonds, albeit at a slower pace.

### State tax revenue in Q4 2021 rose 22% y/y

States collected 22% more in tax revenue during Q4 2021 compared to Q4 2020. States collected an aggregate $335.7 billion in Q4 2021, up from $274.1 billion in the same period the year prior. New York experienced the most growth with Q4 2021 revenue of $33.3 billion, up 73% y/y. The State of Washington collected 2.1% or $8.06 billion more, the least among the reporting states.

The trend of rising sales tax collections continued into January, according to reporting from 34 states made to the U.S. Census Bureau, with 17% more in January than the same period the year before. The data showed states collected an aggregate $27.8 billion. North Dakota took in 39.7% more on a year-over-year basis, while Delaware's revenue dropped 26.1% y/y.

### Tennessee – Troubles continue for senior care sector

The Trousdale Foundation, a Tennessee-based non-profit that borrowed $158 million to purchase four senior living communities in Florida, Ohio, and Tennessee, defaulted on its April 1 bond payment. The current forbearance agreement was set to expire unless it was extended. The foundation attributes the inability to make debt service payments to the COVID-19 pandemic, which kept many potential residents from moving into the facilities.

### Texas Public Finance Authority (TPFA) – Selling bonds to recoup winter storm losses

The TPFA is planning to sell around $3.4 billion of municipal bonds to help the state's utilities cover the costs associated with last year's winter storm that crippled many areas of the state. The bonds, expected to be sold in August, will be issued through the Texas Natural Gas Securitization Finance Corporation, which was created by the TPFA.

## Ratings corner

**Notable state and local issuer rating updates**

### Assured Guaranty – Upgraded by Moody's

On March 18, Moody's upgraded the insurance financial strength (IFS) ratings of Assured Guaranty Municipal to A1 from A2 and the IFS rating of Assured Guaranty Corp. to A2 from A3; the outlook is stable. According to Moody's, "The upgrade of Assured Guaranty and its subsidiaries reflects their improved credit profiles following the resolution of the group's exposure to the general obligation bonds issued by the Commonwealth of Puerto Rico and limited expected volatility among its remaining Puerto Rico exposures."

### Chicago Board of Education (CBOE), IL – Upgraded by Moody's

On March 3, Moody's upgraded the CBOE's rating to Ba2 from Ba3; the outlook is stable. Moody's stated that the upgrade "incorporates continued growth in operating liquidity and improved revenue certainty provided by federal relief aid, growing state aid that will continue into fiscal 2023 and stable property tax receipts supported by increasing valuations."

### Detroit, Michigan – Upgraded by Moody's

On March 9, Moody's upgraded the city's GO rating to Ba2 from Ba3; the outlook remains positive. Moody's cited the city's healthy financial position, strong management team, and the ability to navigate challenges presented by weak property tax wealth, volatile revenue streams, and limited flexibility to raise taxes.

### New Jersey – Wins second upgrade in less than a month

On March 31, S&P upgraded the state's rating one notch, in line with the one notch upgrade issued by Moody's on March 2. S&P's upgrade cited the state's material improvement in its structural deficit and near-term liquidity amid surplus revenues, which has allowed the state to improve reserves and increase annual pension payments for the past two fiscal years.

### U.S. Virgin Islands – Matching Fund Special Purpose Securitization Corp. (MFSPSC)

On March 18, Kroll Bond Rating Agency assigned a BBB rating with a stable outlook to the MFSPSC's approximate $900 million revenue bond offering. The revenue bonds are secured by federal excise taxes collected by the U.S. Treasury on rum produced in the Virgin Islands and sold in the U.S. According to Kroll, "The stable outlook reflects the sufficient initial coverage and the ability to withstand modest declines in rum sales to the U.S."

## Territorial updates

### Commonwealth of Puerto Rico

*Multiyear bankruptcy ended March 15*

On March 15, the commonwealth restructured $22 billion of GO and commonwealth-secured debt, ending a five-year bankruptcy. The commonwealth was able to reduce its outstanding debt from $22 billion to around $7 billion. Investors received cash payments and various series of new bonds. Governor Pedro Pierluisi said the restructuring plan, while not perfect, would allow the island to achieve stability and economic development for its 3.3 million residents.

*Puerto Rico Electric Power Authority (PREPA)*

Governor Pedro Pierluisi is rescinding PREPA's restructuring deal reached with bondholders and the bond insurers in 2019, stating the previously negotiated deal was not feasible. The Financial Oversight and Management Board expressed support for rescinding the deal, according to a spokesperson for the board. PREPA, which has been in bankruptcy since 2017, is the major provider of electricity to the island's residents. PREPA currently has approximately $9 billion of outstanding debt.

*PREPA – Receives $10.3 million from commonwealth*

The commonwealth has agreed to provide PREPA with $10.3 million in federal funds to entice the electric utility to mitigate rising fuel prices and avoid implementing a rate hike on its electricity consumers. The governor is using leftover funds the commonwealth received from the Coronavirus Aid, Relief, and Economic Security Act and transferring them to PREPA.

### U.S. Virgin Islands

*Plans to test the market with new offering*

The U.S. territory is planning to sell $918 million of Matching Fund Special Purpose Securitization Corp. revenue bonds. The proceeds are to be used to refund all outstanding Virgin Islands Public Finance Authority Matching Fund revenue bonds and cover issuance costs as well as some capitalized interest. The new deal will be sold as tax-exempt revenue bonds ($793 million) and taxable revenue bonds ($125 million). Kroll Bond Rating Agency assigned a BBB rating to the deal.

## RBC Wealth Management retail trading (3/1/22 – 3/31/22)

Top 10 CUSIPs selling volume to retail customers

| CUSIP | Description | Maturity | Coupon | Volume |
|---|---|---|---|---|
| 759136RJ5 | REGL TRANSP DIST-A | 11/01/2032 | 5.00 | 8,705 |
| 13032UNY0 | CALIFORNIA HLTH FA | 11/15/2048 | 5.00 | 4,909 |
| 1306852J8 | CA ST PUBLIC WKS-A | 04/01/2037 | 5.00 | 4,229 |
| 544445SY6 | LOS ANGELES DEPT OF | 05/15/2051 | 5.00 | 4,017 |
| 74529JRL1 | RESTRUCTURED-SER A-2 | 07/01/2058 | 4.78 | 3,526 |
| 15504RFE4 | CENTRL PUGET TRANS-S1 | 11/01/2023 | 5.00 | 3,070 |
| 57421CDC5 | MARYLAND HLTH & HGR-B | 01/01/2051 | 4.00 | 2,915 |
| 650028XR9 | NY ST-A-1-REF | 03/15/2055 | 4.00 | 2,607 |
| 771902HM8 | ROCHESTER -REV -REF | 11/15/2057 | 5.00 | 2,398 |
| 155498NL8 | CENTRL TX REGL ETC-D | 01/01/2044 | 4.00 | 2,036 |

Top 10 CUSIPs buying volume from retail customers

| CUSIP | Description | Maturity | Coupon | Volume |
|---|---|---|---|---|
| 735000QU8 | PORT OAKLAND-P-AMT | 05/01/2029 | 5.00 | 5,031 |
| 1306852J8 | CA ST PUBLIC WKS-A | 04/01/2037 | 5.00 | 4,220 |
| 65821DXK2 | NORTH CAROLINA ST MED | 07/01/2049 | 4.00 | 1,769 |
| 6500358E1 | NY URBAN DEV-A | 03/15/2045 | 5.00 | 1,706 |
| 64990FLC6 | DASNY-REV-A-GRP 4-REF | 03/15/2045 | 5.00 | 1,456 |
| 59261AC39 | MET TRANSPRTN-AGM | 11/15/2037 | 5.00 | 1,105 |
| 64971WM64 | NYC TRAN FIN AUTH-SUB | 05/01/2040 | 5.00 | 1,101 |
| 64990GGK2 | NY DORM AUTH-B-TXBL | 08/01/2048 | 4.95 | 999 |
| 64990FWX8 | NY ST DORM AUTH-UNREF | 02/15/2041 | 5.00 | 954 |
| 59261AXS1 | MET TRANS AUTH-A-A2 | 11/15/2044 | 5.00 | 917 |

Source - RBC Wealth Management

## RBC Capital Markets institutional trading (3/1/22 – 3/31/22)

Top 10 CUSIPs selling volume to institutional customers

| CUSIP | Description | Maturity | Coupon | Volume |
|---|---|---|---|---|
| 56035DDH2 | MAIN STREET NATURAL | 07/01/2052 | 4.00 | 42,714 |
| 09182NBR0 | BLACK BELT ENERGY GAS | 06/01/2051 | 4.00 | 38,401 |
| 84247PLL3 | STHRN CA PUBLIC PWR A | 07/01/2030 | 5.00 | 31,968 |
| 575718AJ0 | MASS INSTITUTE OF TECH | 04/01/2052 | 3.07 | 31,305 |
| 709225DZ6 | PENNSYLVANIA ST TURNP | 12/01/2051 | 4.00 | 25,377 |
| 709225BD7 | PENNSYLVANIA ST TURNP | 12/01/2050 | 4.00 | 24,962 |
| 605581JP3 | MISSISSIPPI ST | 10/01/2031 | 5.00 | 22,996 |
| 91802RAQ2 | UTIL DEV SEC-TE | 12/15/2041 | 5.00 | 21,347 |
| 646140DK6 | NEW JERSEY ST TURNPIK | 01/01/2051 | 4.00 | 21,020 |
| 64971XWH7 | NYC TRANSITIONAL FIN | 11/01/2041 | 4.00 | 20,915 |

Top 10 CUSIPs buying volume from institutional customers

| CUSIP | Description | Maturity | Coupon | Volume |
|---|---|---|---|---|
| 56035DDH2 | MAIN STREET NATURAL | 07/01/2052 | 4.00 | 53,567 |
| 09182NBR0 | BLACK BELT ENERGY GAS | 06/01/2051 | 4.00 | 38,366 |
| 84247PLL3 | STHRN CA PUBLIC PWR A | 07/01/2030 | 5.00 | 31,963 |
| 575718AJ0 | MASS INSTITUTE OF TECH | 04/01/2052 | 3.07 | 30,082 |
| 89602HAB3 | TRIBOROUGH BRIDGE-A-1 | 05/15/2051 | 5.00 | 26,897 |
| 709225BD7 | PENNSYLVANIA ST TURNP | 12/01/2050 | 4.00 | 26,477 |
| 709225DZ6 | PENNSYLVANIA ST TURNP | 12/01/2051 | 4.00 | 25,353 |
| 605581JP3 | MISSISSIPPI ST | 10/01/2031 | 5.00 | 22,973 |
| 407272W25 | HAMILTON CNTY HOSP-CC | 11/15/2049 | 5.00 | 22,674 |
| 91802RAQ2 | UTIL DEV SEC-TE | 12/15/2041 | 5.00 | 21,381 |

Source - RBC Capital Markets

## Bond Buyer indexes

| Weekly | Current 3/31/22 | Previous 3/24/22 | 2022 high | Date | 2022 low | Date |
|---|---|---|---|---|---|---|
| Bond Buyer Revenue Bond Index | 3.01% | 2.95% | 3.01% | (3/31) | 2.03% | (1/06) |
| Bond Buyer 20-Bond Index | 2.73% | 2.67% | 2.73% | (3/31) | 2.12% | (1/06) |
| Bond Buyer 11-Bond Index | 2.63% | 2.57% | 2.63% | (3/31) | 1.65% | (1/06) |

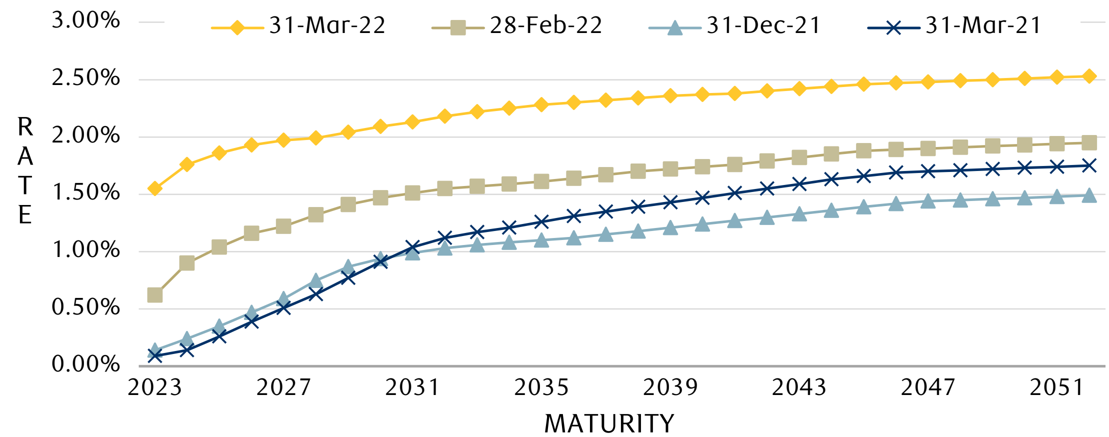
Source - The Bond Buyer

## Bloomberg Municipal Index returns

| | Index | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1-month | 5-year (4–6) | 10-year (8–12) | 15-year (12–17) | Long bond (22+) | AAA | AA | A | BAA |
| Month-to-date total return | -3.24% | -2.35% | -3.13% | -3.82% | -4.80% | -3.20% | -3.17% | -3.27% | -3.70% |
| Year-to-date total return | -6.23% | -5.10% | -6.23% | -7.16% | -8.65% | -6.14% | -6.08% | -6.29% | -7.13% |

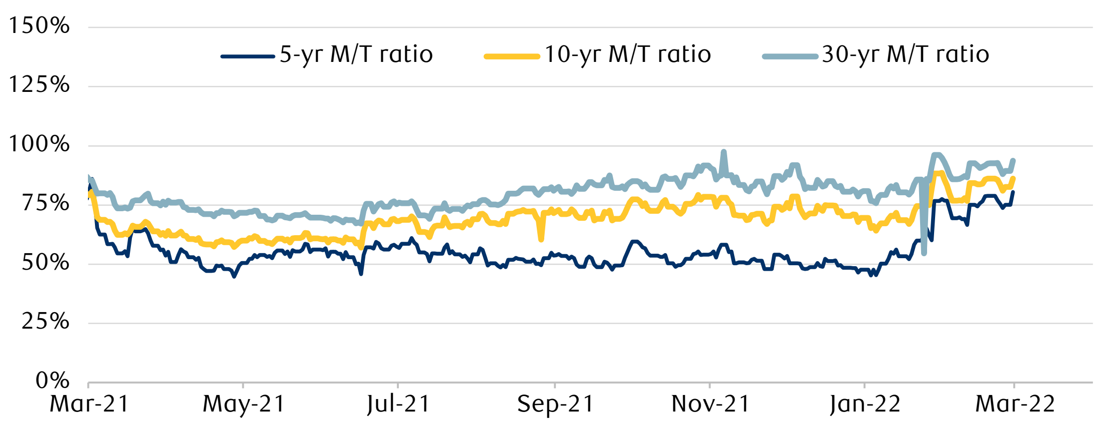
Source - Bloomberg; data through 3/31/22

## Muni market data AAA yield curve




Source - RBC Wealth Management, Thomson One Refinitiv; data through 3/31/22

## Muni/Treasury ratio comparison




Source - RBC Wealth Management, Bloomberg; data through 3/31/22

## Municipal bond insurers

| Insurer | Moody's | Kroll Ratings |
|---|---|---|
| ACA | Not rated | Not rated |
| AMBAC | Not rated | Not rated |
| Assured Guaranty (AGC) | A2 (stable outlook) | AA+ (stable outlook) |
| Assured Guaranty Municipal Corp. (AGM) | A1 (stable outlook) | AA+ (stable outlook) |
| Berkshire Hathaway (BHAC) | Aa1 (stable outlook) | Not rated |
| Build America Mutual (BAM) | Not rated | Not rated |
| FGIC | Not rated | Not rated |
| National Public Finance (MBIA) | Baa2 (negative outlook) | Not rated |
| Syncora | Not rated | Not rated |

Source - RBC Wealth Management; data through 3/31/22

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