Municipal Market Insight

Wealth Management

April 2025 | Portfolio Advisory Group – U.S. Fixed Income Strategies

What's inside:

For important disclosures and authors' contact information, see page 9.

March presented challenges for fixed income markets

March was a mixed month for Treasuries. U.S. government bonds maturing in the next 10 years saw gains, with yields—which move inversely to prices—lower by 11 basis points (bps) on 2-year bonds and down just over one basis point on 10-year bonds. Longer maturities fared poorly; falling prices pushed yields on the 30-year Treasury up 8 bps to 4.57%.

Concerns about the economic growth implications of tariffs drove most of the price performance this month, in our view. Uncertainty over the magnitude and duration of import taxes created tailwinds for bonds in two areas. First, the negative implications for equity markets had investors seeking the more predictable cash flows of U.S. Treasury bonds. Second, the potential for a weaker U.S. economy led investors to expect more aggressive rate cuts from the Federal Reserve . By the end of the month, interest rate futures showed a high probability of four cuts over the next 12 months, whereas projections from early March had seen only three cuts as likely. We believe this repricing of the

U.S. interest rate forecasts (%), April 2025

	2024	2025				2026			
	Q4	Q1E	Q2E	Q3E	Q4E	Q1E	Q2E	Q3E	Q4E
FF	4.38	4.38	4.38	4.13	4.13	3.13	2.88	2.88	2.88
2-yr	4.25	3.89	3.65	3.35	4.40	3.15	3.25	3.40	3.55
5-yr	4.38	3.96	3.75	3.50	4.30	3.25	3.30	3.45	3.60
10-yr	4.58	4.23	4.10	3.90	4.40	3.65	3.65	3.75	3.85
30-yr	4.78	4.59	4.55	4.40	4.55	4.30	4.30	4.40	4.50

Source - RBC Economics

Treasuries vs. municipals (%)

	5-yr TSY	5-yr AAA Muni	10-yr TSY	10-yr AAA Muni	30-yr TSY	30-yr AAA Muni
Beginning of month (3/1/25)	3.96%	2.63%	4.21%	2.86%	4.45%	3.93%
Mid-month (3/15/25)	4.09%	2.80%	4.31%	3.12%	4.62%	4.21%
End of month (3/31/25)	3.95%	2.86%	4.21%	3.26%	4.57%	4.24%

Source - Bloomberg (Treasuries), Thomson Reuters TM3 (Municipals) potential need for monetary policy support was the main reason shorter-maturity bonds outperformed last month.

Investor concerns on growth were also a factor in the underperformance of corporate bonds relative to government securities. Credit spreads—or the additional yield investors demand for taking higher perceived default risk—shifted meaningfully higher in March, causing corporate bond prices to lag their government counterparts. One measure of sub-investment-grade credit, the high-yield CDX Index, reflected nearly 70 bps of widening, a significant move for an index that closed the month at 370 bps. Going forward, we expect the growth and inflation implications of Trump administration policies to drive bond prices across the curve.

Market investment strategy & market commentary

Taxable municipal market

Taxable municipals faced selling pressure during March on the back rising long-term Treasury yields. The Bloomberg Taxable Muni Index finished the month down 0.7%, paring its gains for the year to 2.8%. Like most U.S. fixed income sectors year to date, spreads, or the excess yield versus Treasuries, continue to widen as more investors transition to Treasuries in search of lower risk in a slowing economy. Taxable municipal spreads ended last month at 0.86%, the widest since September. While taxable municipal spreads are certainly more appealing than during the first two months of the year, levels are still near multi-decade lows as limited taxable issuance keeps relative valuations historically rich. Nonetheless, the Taxable Municipal Bond Index is outperforming the Bloomberg US Corporate Bond Index by more than 0.5% year to date, and we expect taxable municipals to continue outperforming IG corporates in 2025 amid a flight to quality. Regarding yield curve positioning, we believe taxable municipal buyers should target maturities in the seven- to 12-year range, where the shape of the curve steepens and compensates investors for taking on duration.

Tax-exempt municipal monthly update

Following heavy losses in March of about 1.7%, municipal bonds are back to performing in April as the sector attracts investors facing heavy losses in the equity market. As of April 3, tax-exempt municipal yields are down 11 basis points month to date, the fastest rally in nearly five months. U.S. markets are largely in risk-off mode in April with many investors shifting cash out of riskier assets and into high-quality fixed income such as Treasuries and municipals. The yield on the 10-year Treasury benchmark recently broke below 4% for the first time since October, while the interest-rate-sensitive 2-year Treasury yield is down roughly 50 bps since March 26.

The high-quality nature of municipal bonds often attracts investors seeking protection from downside risk during periods of economic stress. For example, over the past five U.S. recessions, municipal debt has outperformed equities, generating an average return of 7.2% compared to -1.2% in the equity market. In our view, this history of strong performance during economic downturns points to the relative stability and resilience of the municipal bond market. While robust new-issue supply is currently creating some technical headwinds for municipals, June is typically a very strong month of redemptions as municipal buyers reinvest principal and interest payments.

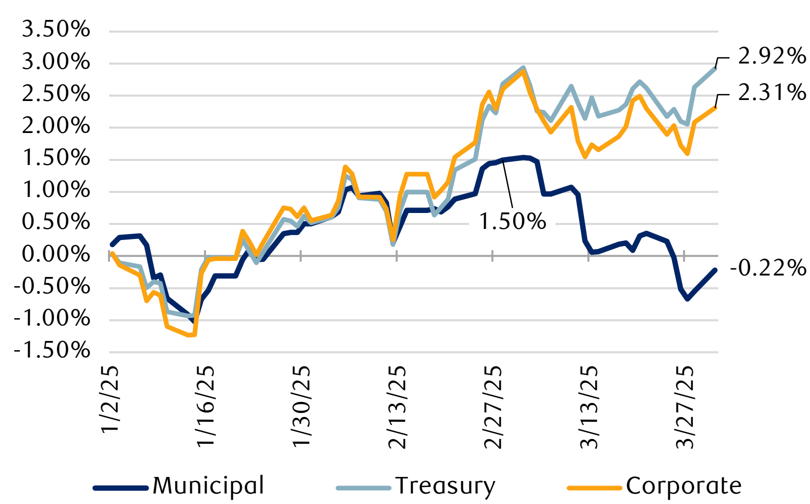
This month's focus

March selloff wipes out January and February gains

Uncertainty swirling around tax exemption, the impact of tariffs, and a deluge of issuance during the second-lowest redemption month of the year caused a selloff in municipals in March. After returning 1.50% year to date as of the end of February, March's selloff drove municipals into negative territory for the year. Municipals returned -1.69% in March and are returning -0.22% year to date. As has been the case through the first three months of the year, municipals continue to underperform both corporate and Treasury bonds.

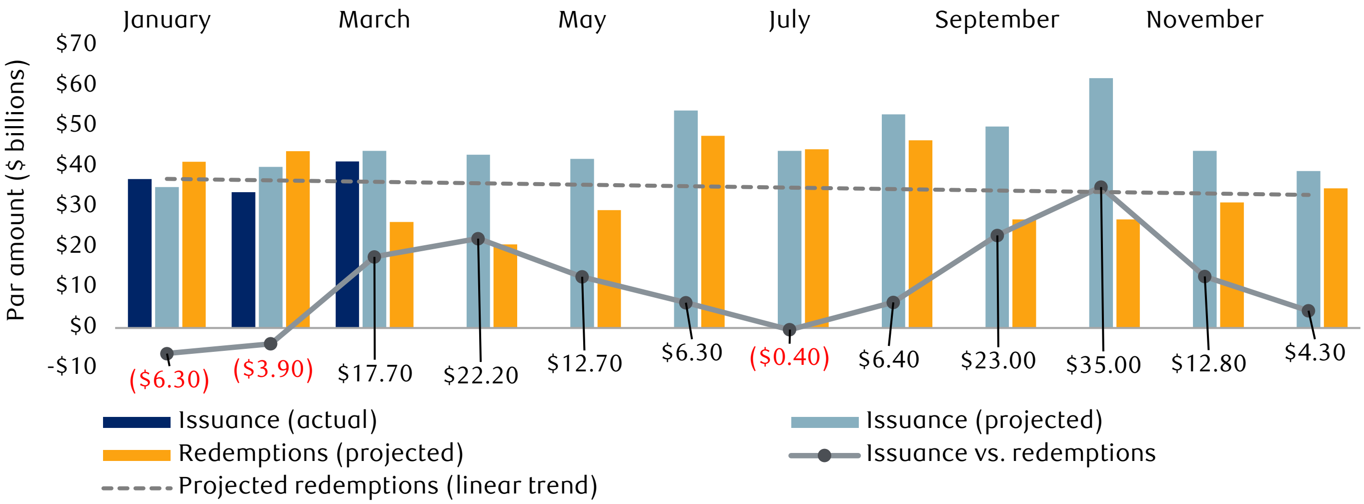
A "flight to safety" mentality led investors to Treasury bonds, which returned 0.23% in March and are returning a solid 2.92% year to date. Unlike Treasuries, the corporate bond market sold off in March alongside municipals, returning -0.29% for the month but 2.31% year to date as of March 31.

Bloomberg indexes



Source - RBC Wealth Management, Bloomberg

Projected 2025 municipal supply and redemptions



Source - RBC Capital Markets, RBC Wealth Management, CreditSights

Issuance continues to dominate the municipal landscape

After breaking 2021's $484 billion issuance record in 2024, the municipal market is on pace to surpass last year's record $507 billion issuance. State and local borrowers issued over $112 billion in Q1, an 8.3% year-over-year increase, and are on track to surpass our initial issuance projection of $550 billion for the year.

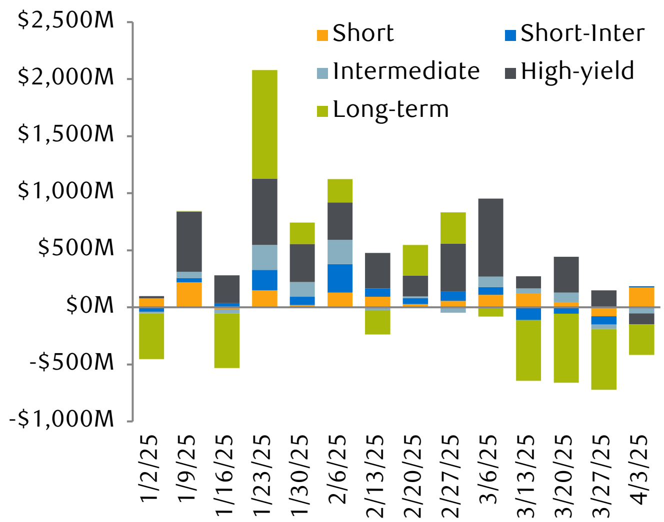
Heading into March and April, traditionally the two largest redemption months of the year, the municipal market was facing stiff headwinds with an almost $40 billion supply/demand imbalance over the two-month period. Municipals received a reprieve after the Trump administration implemented tariffs that roiled the U.S. equity market, and the resulting selloff sent investors seeking less-volatile alternatives. Like their Treasury counterparts, municipals benefited from strong demand to start April, erasing all of March's losses during the first full trading week of the month. But while the month started strong, we are seeing some warning signs with respect to demand. Institutional investors began a period of withdrawing or shifting their cash from municipal bond funds.

Through April 3, institutional investors withdrew cash for four consecutive weeks after adding cash the seven prior weeks. Inflows year to date remain positive across all sub-classes at $5.2 billion, but recent outflows and shifts to shorter funds have pushed long-term bond funds into negative territory year to date signaling continuing investor uncertainty.

Municipals out of gate strong in April, before tariffs roiled the market

After returning an unexpected 1.48% month to date through April 4, municipals sold off the second week of the month with yields rising by around 0.57% across the

Municipal bond fund flows



Source - RBC Wealth Management, Lipper

yield curve. The selloff has erased gains made earlier in the month and left municipals returning -2.02% through April 8 year to date, with a month-to-date return of -1.81%. Market volatility caused state and local government borrowers to delay primary offerings that had been scheduled to come to market. Looking ahead to the remainder of the month, we believe municipal market yields could be pressured higher as investors face continued uncertainty surrounding the impact tariffs will have on the U.S. economy and financial markets. Tariff uncertainty and a supply/demand imbalance could present significant challenges to the municipal market the remainder of the month. The trend of retail investors moving into lower-volatility assets proved to be short-lived. A subsequent Treasury market selloff sent shockwaves through the municipal market, leading investors to mostly abandon municipals. This caused yields to rise by the most in five years and pushed municipal/Treasury ratios in the 20- and 30-year range to top 93% and 97%, a very attractive entry point in our view.

Surging supply and low redemptions through the end of June could further pressure yields higher and prices lower, leaving investors to face multiple months of sticker shock when reviewing their portfolio valuations.

Traditional buy-and-hold investors should remember that interim lower prices and higher yields caused by market volatility are usually relatively short-lived, and clients holding their municipals will be paid full principal and interest at maturity absent any distress or default scenario.

Headline risk will likely continue to drive volatility

The municipal market could experience months of volatility as headline risk impacts the market and investor sentiment. We expect a clearer outlook to emerge when the U.S. House of Representatives and Senate reach an agreement and pass tax legislation. Once that happens, investors will have decisive answers to questions about tax exemption and the Alternative Minimum Tax, both of which will impact the outlook for the municipal market. Both the House and Senate have been working aggressively to get a tax bill completed in the hope of passing legislation by the end of May. We believe that goal may be overly optimistic and that an August or September bill passage is more likely, at which point we could see less volatility in the municipal space.

Municipal news

Charter schools and smaller colleges – Distress levels rise

The issuance of municipal bonds to finance projects such as charter schools and smaller colleges, which in some cases are considered riskier, are on track to break a 12-year record of distress with charter schools the most affected. With federal pandemic aid evaporating, inflationary pressure driving expenses higher, and ongoing challenges leading to a smaller pool of students, charter schools have experienced 15 impairments so far this year. Some of the same issues are also driving impairments among smaller colleges higher, with five reported so far this year.

Illinois

Chicago – Positive revenue news

The city received some good news when it was reported that revenue had surpassed estimates by 7.2% during the first two months of the fiscal year. Revenue from taxes on cloud storage and home sales were the primary driers of the surge. Collections totaling $365.7 million represented a remarkable turnaround from the city's January estimates that had projected revenue coming in 4.2% below earlier estimates.

Chicago Board of Education (CBOE) – Negotiates 16% raise for teachers

The CBOE and its teachers' union reached a tentative contract that will increase teachers' pay 4% each year over the next four years. The CBOE estimates the contract will cost Chicago Public Schools $1.5 billion in additional spending over the four-year contract period, if the contract is approved by the union. The CBOE is currently rated 'Ba1' with a positive outlook by Moody's; the rating agency said the district was well positioned for balanced operations or another surplus in FY 2024, but was facing significant budget gaps in the coming years due to rising expenses and the depletion of federal aid.

Colleges and universities – Facing federal funding pressure headwinds

Many colleges and universities face mounting pressure from potential federal funding cuts, which could have an adverse impact on institutions that are dependent on those grants to continue conducting research. Many universities will face tough decisions if there are substantial funding cuts, including preparation for large layoffs and budget cuts if they lose the hundreds of millions of dollars they currently receive.

Higher education – Outlook cut by Moody's

Moody's cut its outlook on the higher education sector to negative from stable, citing potential policy changes out of Washington, D.C., which could "create a more difficult operating environment for colleges and universities." Recent funding cuts to Columbia University contributed to the uncertainty surrounding the outlook for the higher education sector.

California

High-speed rail project in jeopardy

Facing a $7 billion shortfall to complete the Central Valley segment, the high speed rail project currently under construction remains in jeopardy of not being completed. The project has come under scrutiny from Transportation Secretary Sean Duffy, who has ordered the Federal Railroad Administration to undertake a formal investigation with the threat of clawing back around $4 billion in federal funding. The project will need to address the $7 billion shortfall by June 2026 to complete work on the Bakersfield to Merced high speed rail link, which is projected to cost almost $24 million.

Los Angeles – Facing a $1 billion shortfall

Mayor Karen Bass, facing a $1 billion budget deficit for the city, is expected to seek help from the Governor Gavin Newsom and state legislators. Reeling from the

Los Angeles wildfires that caused extensive damage throughout the city and facing pressure to prepare the city to host the soccer's Men's Cup and the 2028 Summer Olympic and Paralympic Games the city is in desperate need of budgetary assistance.

Los Angeles County Metropolitan Transportation Authority –Project Rebid

The Foothill Gold Line Construction Authority was created in 1998 to plan, design, and construct a light rail system connecting downtown Los Angeles to Montclair located in San Bernardino County. The Authority has been forced to rebid the last 3.2-mile leg because of cost overruns in the hundreds of millions of dollars.

Legacy Cares, Arizona – Caught up in fraud case

The U.S. Attorney's Office for the Southern District of New York and the Securities and Exchange Commission both filed suits alleging Legacy Cares committed fraud when it sold two municipal bond deals totaling around $284 million to finance the construction of an Arizona sports complex that went into default and then bankruptcy. The bonds were issued in August 2020 and June 2021. The suits are seeking permanent injunctions, conduct-based injunctions, disgorgement with prejudgment interest, and civil penalties.

New Jersey City University (NJCU) – Merging with state school

NJCU, which found itself struggling with budget shortfalls and questions about its viability as an independent institution of higher education, announced a plan to pursue a merger with Kean University, a state-backed university. The merger would allow NJCU to address stagnant net tuition revenue, high leverage, and thin reserves, while allowing the school to provide a high-quality education to students.

New York

Lawmakers seeking higher taxes in budget talks

State lawmakers are pushing Governor Kathy Hochul to increase income taxes on the state's wealthiest earners (those earning $5 million or more). Lawmakers are also calling for the governor to increase income taxes on those earning $100 million or more to 12% from 10.9%.

New York City – Congestion pricing

The Metropolitan Transportation Authority reported it collected $52 million in congestion pricing toll revenue in February bringing two-month collections to $100.6 million. The $100.6 million is derived from a $9 fee charged to drivers entering Manhattan's business district, below 60th street.

State tax revenue – Remains in positive territory during Q4 2024

The U.S. Census Bureau reported states collected $3.568 trillion in tax revenue in Q4 2024, a 0.1% Y/Y increase. New York reported the biggest increase, $29.4 billion, a 12% Y/Y increase while California reported a 10% drop, collecting $63.7 billion for the quarter.

State and local tax (SALT) cap –May be lifted to $25,000

Bloomberg AI reported that Republicans are in the process of drafting a tax bill that would raise the SALT deduction cap to $25,000 from $10,000. The draft bill also includes renewing the 2017 Tax Cuts and Jobs Act, which will include income tax on overtime pay and tips. House Republicans are aiming to pass a bill by August with likely offsets to potentially include the reduction of corporate deductions on state and local taxes and rollbacks on some of the Biden Administration's Inflation Reduction Act.

Tax exemption – Let the lobbying effort to conserve tax exemption begin

Nebraska Representative Don Bacon is urging his fellow congressional colleagues to preserve tax-exemption as part of the tax bill being negotiated in Congress. In a Dear Colleague letter, Bacon said, "The tax-exempt bond has helped drive the local economy, spurred job growth, funded critical infrastructure projects and enhanced the quality of life of our constituents."

Villanova University, PA – Announces merger with Rosemont College

For the second time in two years Villanova is adding a college. It has agreed to merge with Rosemont College, located near its main campus. The merger helps Villanova expand its footprint within the state. Last year, Villanova acquired Cabrini College. The merger and purchase of the two smaller colleges helps increase Villanova's reach in the growing competition for a smaller pool of students moving on to college.

Ratings corner

Notable state and local issuer rating updates

California – Moody's affirms 'Aa2' rating

On March 24, Moody's affirmed the state's 'Aa2' rating citing the state's massive economic base, healthy liquidity, and adequate budget reserves. The rating is also supported by the state's moderate leverage and fixed costs that are significantly lower that most heavily burdened states and lower than many of its 'Aa' peers.

California utilities – Seven utilities on negative outlook

In mid-March, S&P revised the outlook on seven of the state's utilities based on increased wildfire risks. The revision reflects "heightened longer-term credit pressure and rising potential for future liabilities, and operating and infrastructure costs, associated with wildfires, which have become more frequent and intense in the state."

Indiana – 'AAA' rating affirmed by Fitch

On March 13, Fitch Ratings affirmed the state's 'AAA' rating, the rating outlook is stable. The affirmation "is based on the state's low-long-term liability burden and exceptionally strong operating profile, including a long track record of prudent budget management that has resulted in robust financial reserves."

Nebraska – Issuer rating upgraded

On March 31, Moody's upgraded the state's issuer rating to 'Aaa' from 'Aa1' and revised the rating outlook to stable from positive following the upgrade. Moody's noted the upgrade "reflects the state's improved financial position that will provide a buffer in case of unexpected revenue declines and the maintenance of very low liabilities, providing significant financial flexibility."

Palomar Health, CA – Rating falls deeper into below investment-grade territory

Palomar Health's ongoing fiscal challenges caused Fitch to lower the healthcare providers rating to 'B-' from 'B' last month. Fitch revised the negative watch to negative outlook following the rating downgrade. The downgrade "reflects Palomar's financial pressures over the past 18-months as the organization addresses various financial challenges."

Washington, D.C. – Ratings placed under review for downgrade

On March 7, Moody's placed the ratings on multiple District bonds under review for downgrade. The review for downgrade is being driven by drastic cuts to the federal workforce, which Moody's expects will have an outsized impact on District finances, its economy, and employment outlook.

Territorial Update

Commonwealth of Puerto Rico

Puerto Rico Electric Power Authority (PREPA) – Status quo

Judge Laura Taylor Swain has directed PREPA and its creditors to resolve ongoing questions about the utility's revenue before discussing restructuring proposals of PREPA's $9 billion of outstanding debt. Discussions are ongoing, and it remains unclear when a settlement will be reached between the Oversight Board, bond insurers, creditors, and the utility.

RBC Wealth Management retail trading (3/1/25 – 3/31/25)

Top 10 CUSIPs selling volume to retail customers

CUSIP	Description	Maturity	Coupon	Volume
882723E47	TEXAS WTR FIN ASSIT	05/15/2045	4.00	5,372
05914GLQ9	BALTIMORE CO	03/01/2040	5.00	4,827
13053CAD4	CA POLL FING AUTH	11/01/2046	4.75	4,750
882854Q70	TX WTR DEV BRD-B	04/15/2049	5.00	4,700
65000B7Y8	NEW YORK ST DORM AUTH	10/01/2054	5.50	4,404
93978HXK6	WASHINGTON ST HLTH CA	09/01/2050	5.00	4,394
13051AFY9	CA ST MUNI FIN AUTH-A	09/01/2053	5.50	3,792
57585BGS1	A DEV FIN AGY-N-1-AGC	07/01/2054	4.50	3,582
68450LJS5	ORANGE HLTH FAC-A-AGC	10/01/2056	4.50	3,430
249002FZ4	DENTON ISD-BLDG	08/15/2048	5.00	3,160

Top 10 CUSIPs buying volume from retail customers

CUSIP	Description	Maturity	Coupon	Volume
64990FJF2	NY DORM AUTH -A -REF	03/15/2038	5.25	1,763
64990AGL3	DASNY-SER A-GROUP B	03/15/2038	5.00	1,170
64972GNT7	NEW YORK CITY NY MUNI	06/15/2038	5.00	1,163
304194FB4	FAIRFIELD -A	09/01/2041	4.00	1,049
986082SL0	YONKERS-D-REF	08/01/2030	5.00	801
59259Y3Q0	MTA-A1-TRANSPRTN	11/15/2045	5.00	770
65000XAW0	NEW YORK ST PWR AUTH	11/15/2052	4.00	725
705030NW0	PEASTER ISD	08/15/2051	3.00	712
59334PHV2	MIAMI-DADE CO-A	07/01/2050	4.00	705
544495Z72	LOS ANGELES DEPT WTR	07/01/2047	5.00	579

Source - RBC Wealth Management

RBC Capital Markets institutional trading (3/1/25 – 3/31/25)

Top 10 CUSIPs selling volume to institutional customers

CUSIP	Description	Maturity	Coupon	Volume
60637AXK3	MO HLTH & EDUCTNL-A	04/01/2045	4.00	52,417
647207BL2	NM MUNI ENERGY ACQ AU	06/01/2054	5.00	47,512
64972GK37	NYC MUNI WTR FIN-AA1	06/15/2053	5.25	41,114
880443JF4	TN ENERGY ACQ CORP-A-	05/01/2053	5.00	34,959
70870JEQ7	PA ECO DEV FIN AUTH-A	05/15/2031	5.00	33,431
24916PML8	DENVER CITY & CO-A	09/15/2054	5.00	30,115
452227UZ2	IL ST-REV-A	06/15/2029	5.00	29,337
574193WL8	MARYLAND ST-A	06/01/2032	5.00	28,521
575579W29	MA BAY TRANS AUTH-A	07/01/2052	5.25	28,281
896032BD0	TRIBOROUGH BRIDGE-A	12/01/2059	5.50	26,147

Top 10 CUSIPs buying volume from institutional customers

CUSIP	Description	Maturity	Coupon	Volume
647207BL2	NM MUNI ENERGY ACQ AU	06/01/2054	5.00	52,470
64972GK37	NYC MUNI WTR FIN-AA1	06/15/2053	5.25	41,081
09182TAM9	BLACK BELT ENERGY GAS	10/01/2052	4.00	39,322
880443JF4	TN ENERGY ACQ CORP-A-	05/01/2053	5.00	35,798
24916PML8	DENVER CITY & CO-A	09/15/2054	5.00	32,048
574193WL8	MARYLAND ST-A	06/01/2032	5.00	28,504
575579W29	MA BAY TRANS AUTH-A	07/01/2052	5.25	28,245
70870JEQ7	PA ECO DEV FIN AUTH-A	05/15/2031	5.00	27,618
84136HCF8	S E ENERGY AUTH-C	05/01/2055	5.00	23,388
343137WB7	FL ST TRANS DEPT-A	07/01/2030	5.00	21,738

Source - RBC Capital Markets

Bond Buyer indexes

Weekly	Current 3/27/25	Previous 3/20/25	2025 high	Date	2025 low	Date
Bond Buyer Revenue Bond Index	4.74%	4.59%	4.74%	(3/27)	4.35%	(1/2)
Bond Buyer 20-Bond Index	4.45%	4.30%	4.45%	(3/27)	4.06%	(1/2)
Bond Buyer 11-Bond Index	4.35%	4.20%	4.35%	(3/27)	3.96%	(1/2)

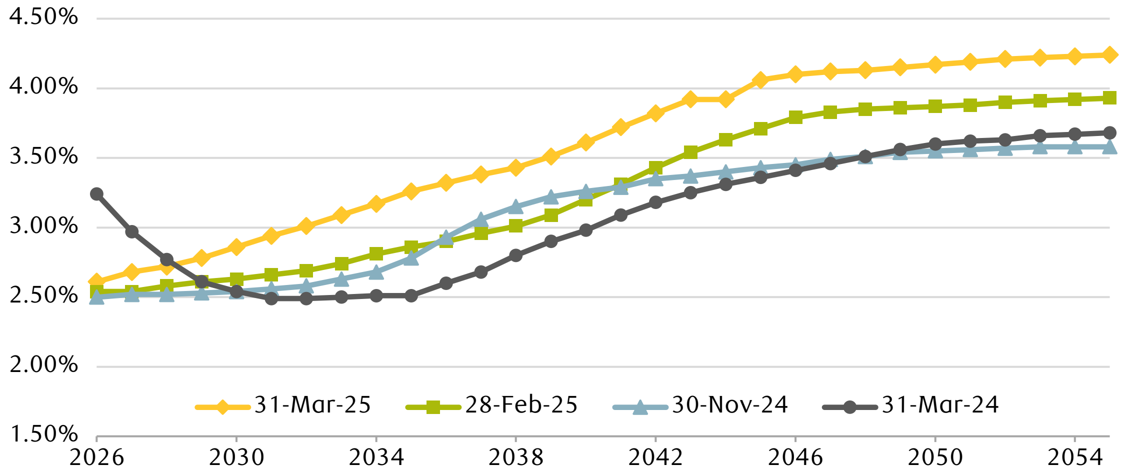
Source - The Bond Buyer

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	-1.69%	-0.59%	-1.72%	-2.42%	-2.50%	-1.88%	-1.69%	-1.58%	-0.24%
Year-to-date total return	-0.22%	0.91%	0.26%	-0.60%	-1.46%	-0.34%	-0.30%	-0.03%	0.92%

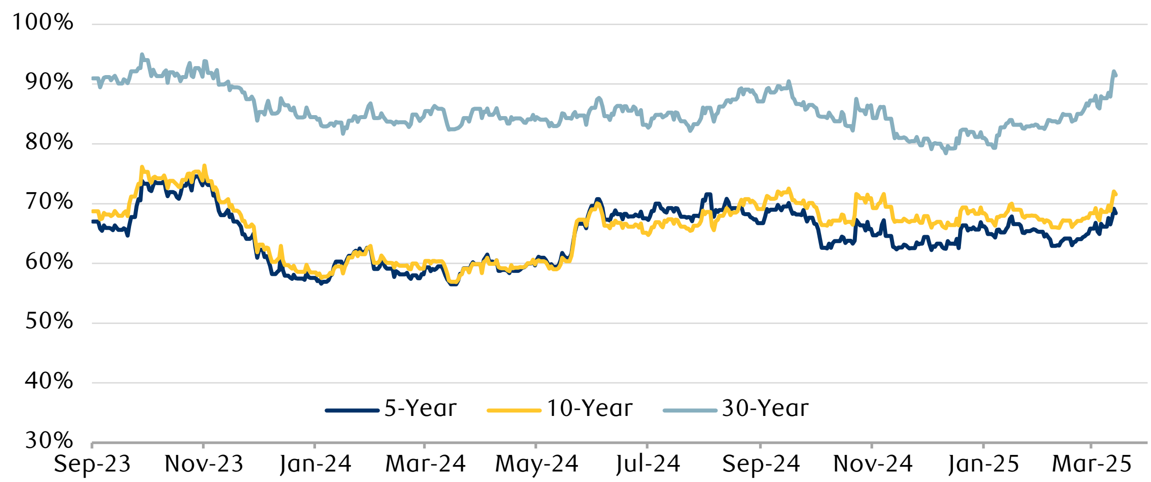
Source - Bloomberg; data through 3/31/25

Muni market data AAA yield curve



Source - RBC Wealth Management, Thomson One Refinitiv; data through 3/31/25

Muni/Treasury ratio comparison



Source - RBC Wealth Management, Bloomberg; data through 3/31/25

Municipal bond insurers

Insurer	Moody's	Kroll Ratings
ACA	Not rated	Not rated
AMBAC	Not rated	Not rated
Assured Guaranty (AGC)	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)	Baa3 (negative outlook)	Not rated
Syncora	Not rated	Not rated

Source - RBC Wealth Management; as of 3/31/25

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