

Friday, February 7, 2020

The municipal market paused after having fallen -0.50% for the week. Despite the price decline, the bellwether 10-year yield has remained within the bullish channel it has enjoyed for the most of the past 15 months, **Figure 1**. The consolidation that occurred between mid-August and end of December represented a pause that essentially created comfort at the low yields of June 2016. Now that the levels have been penetrated, the **MMA** 10-year would have to rise back above 1.45%, or 15 bps to violate the technical positive pattern. As **MMA** has

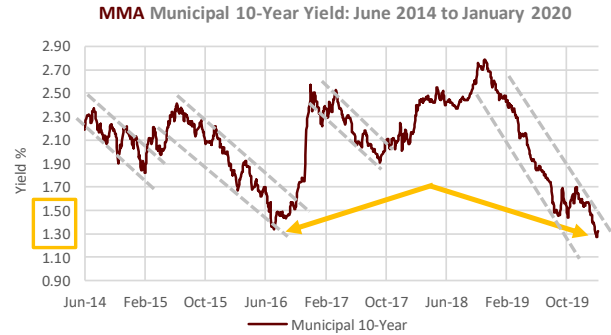
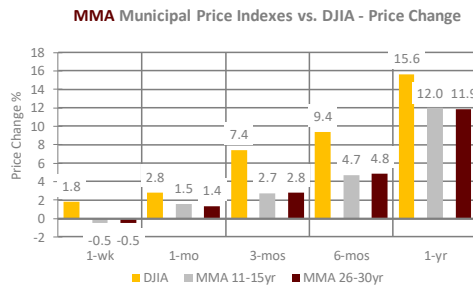


Figure 1: Despite the February weakness, and **MMA's** municipal price index turning negative on Wednesday, the bullish trading channel of the past remained intact. February activity has nearly been a reverse of January, as US equities have rallied and municipals have declined, **below**.

FUNDAMENTALLY

- Overnight, bonds strengthened after equity futures retreated from their Thursday gains; when the US equities' advance was led by Nasdaq's 0.67% improvement.
- China trade and virus continued to exert day-to-day ambiguous influences on the global markets.
- Oil rebounded back above \$50 despite headlines regarding possible Middle East production cuts.
- 4Q(P) Nonfarm Productivity 1.4% vs. est. 1.6%; 4Q(P) Unit Labor Costs 1.4% vs. est. 1.3%.
- Jobless Claims 202k vs. est. 215k.
- More encouraging speculation regarding PR bondholder resolutions pushed trading of 8's of '35 over \$71.

pointed out in the monthly Advisor and recent Strategist, the bearish seasonal of the next 7 weeks have been a reckoning force since 2000, and February itself has demonstrated little consistency since 2008, when that year, the month posted a -5% price loss. The January nonfarm data could provide some direction as to whether the negative trend builds momentum or is nullified. With a small primary municipal calendar recent sessions have struggled. However, fund inflows have persisted, and PR added to its YTD leading performance as speculation of a bondholder resolve again surfaced. While equities have rebounded this month, for the past year municipals' and the Dow's price change have become very similar, **below**.



TECHNICALLY

- Municipal price distribution would suggest that in 2020 there will be 40 trading days of the year with price change \geq +/- 0.25%. 5 days $>$ +0.13% in 2020.
- **MMA** Muni Price Index negative. Raising anxiety surrounding January nonfarm data's release.
- **MMA** Muni Value Index remained at -12. The current normal range is between -10 and -12, so that the index's level at -12 reflects a neutral condition for issuers. However, the persistent absolute low yields below the extremes of the past 21 years have created the unusually favorable market context for issuers. **MMA's** value Index has averaged in 2019, -7 bps. The current value suggests that the pricing benchmarks, on a long-term basis, still favor issuers by 5 bps as of February 2020.

Maturity	Muni 5% AAA Consensus	Treasury	% to Trsry	# of SD	Prev Day	BP Chng	01/30/20	01/08/20	02/07/19
1yr	0.93	1.50	62.0%	-1.8	0.93	0	0.92	1.09	1.64
2yr	0.93	1.45	64.1%	-1.7	0.93	0	0.92	1.08	1.68
5yr	0.96	1.46	65.8%	-1.4	0.96	0	0.94	1.13	1.91
10yr	1.32	1.64	80.5%	-0.7	1.32	0	1.27	1.46	2.40
15yr	1.61	n/a	n/a	n/a	1.61	0	1.56	1.76	2.74
20yr	1.80	n/a	n/a	n/a	1.80	0	1.74	1.94	2.95
30yr	1.93	2.11	91.5%	-0.7	1.93	0	1.88	2.06	3.09

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