Municipal Securities Rulemaking Board

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Second Quarter 2024 Municipal Securities Market Summary

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Municipal Securities Rulemaking Board

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Introduction

The municipal securities market was extremely active in the second quarter of 2024, with dramatically higher new issue volume, a substantially higher number of trades, higher par amount traded, and elevated volatility in benchmark interest rates. New issue volume totaled $139 billion for the quarter, up 35% compared to the second quarter of 2023. For the first half of 2024, new issue volume was 32% higher than it was in the first half of 2023. Trading volume continues to be strong and setting new records. Trade count increased 31% in the second quarter compared to the same period in 2023 and was up 22% for the first half of 2024. Par value traded also increased, rising 14% for the second quarter, though it was up only 5% for the first half. Tax-exempt benchmark yields were volatile during the quarter, with benchmark 5-year and 10-year tax-exempt yields up 43 basis points and 35 basis points, respectively, while 1-year yields were 2 basis points lower. Finally, tax-exempt mutual funds and exchange traded funds (ETFs) saw small positive net inflows, though banks and insurance companies continued to reduce their holdings of municipal securities.[1]

[1] The views expressed in the research papers are those of the author(s) and do not necessarily reflect the views and positions of the MSRB Board and other MSRB staff.

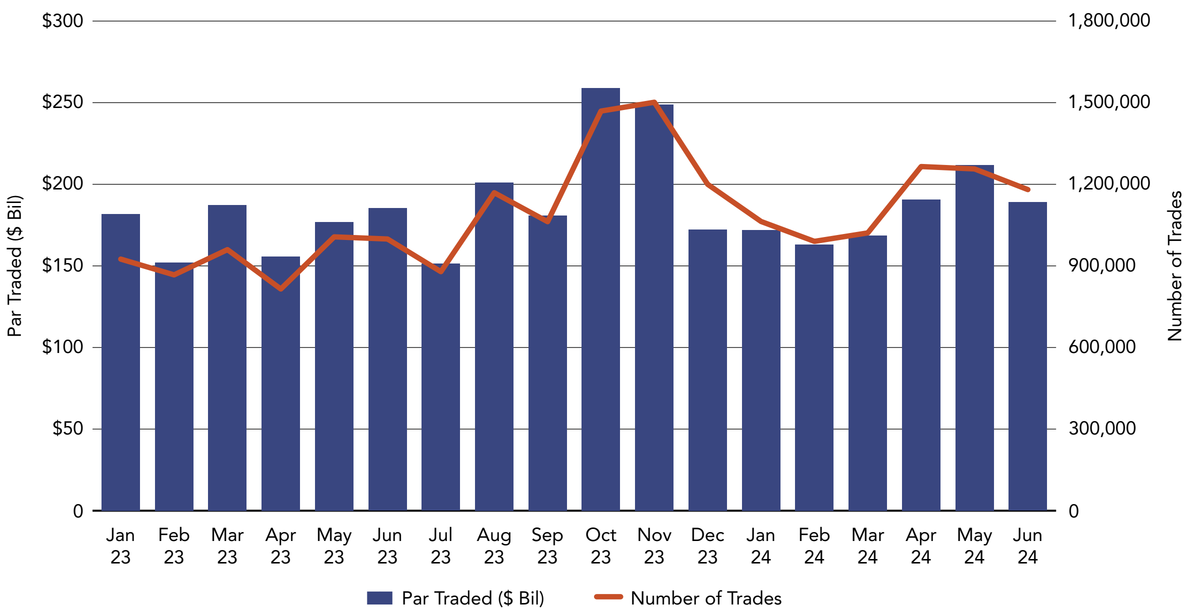
Trade Volume[2]

Trade volume for the second quarter of 2024 was quite robust and consistent from month to month. Trade count increased 31% compared to the second quarter of 2023, and year-to-date average daily trade count is up 22% from 2023, which was a record year for trade count.

Par amount traded in the second quarter was 14% higher than in the second quarter of 2023. Year-to-date, par amount traded is up 5%. The rise in trade count, which was significantly greater than the rise in par amount traded, was likely caused by the relentless demand from individual investors, directly or through separately managed accounts (SMA), which more than made up for lackluster demand from institutional investors.

The MSRB frequently uses 1 million trades in a month as a measure for strong demand from individual investors. Each month in the second quarter had more than 1.1 million trades, and trade count for all but one month in the first half of 2024 exceeded 1 million trades.

Figure 1. Monthly Municipal Market Activity, Fixed-Rate Securities, January 2023–June 2024



[2] Excluding variable rate securities and commercial paper.

Yields

Benchmark yields were volatile during the quarter. As Figure 2 shows, tax-exempt benchmark 10-year yields rose from 2.50% at the beginning of the quarter to 2.78% at the end of April. They then rallied almost 15 basis points to 2.63% by the middle of May before rising dramatically to peak at 3.09% late in the month. June saw the market recover, despite a robust new issue calendar, and 10-year benchmark yields dropped 24 basis points to close at 2.84%.

Figure 2. Bloomberg BVAL 10-Year Callable Yields, January 2021–June 2024

Source: Bloomberg Finance L.P.

Figure 3 shows the overall changes in benchmark tax-exempt yields and Treasury yields for the quarter. The chart clearly shows that the tax-exempt market dramatically underperformed the Treasury market in the 3- to 10-year range of the curve. Tax-exempt 5-year and 10-year yields were higher by 43 basis points and 35 basis points, respectively (though 1-year yields were down 2 basis points). This compares to increases of only 12 and 16 basis points for comparable Treasury bonds.

The underperformance of tax-exempt 5- and 10-year securities caused the Municipal/Treasury ratio to climb from 59% for both 5- and 10-year bonds at the end of March to 68% and 65%, respectively, by the end of the second quarter. As a result, tax-exempt yields are now more attractive relative to Treasury bonds for those maturities than they were at the start of the second quarter.

Figure 3. Bloomberg BVAL® AAA Callable and U.S. Treasury Yields

Year	BVAL 06/28/24	TSY 06/28/24	Muni/TSY Ratio	BVAL 2024 Change BPS	TSY 2024 Change BPS
1	3.175	5.090	62%	-2	6
2	3.122	4.710	66%	15	12
3	3.002	4.520	66%	21	12
5	2.932	4.330	68%	43	12
10	2.845	4.360	65%	35	16
20	3.441	4.610	75%	5	16
30	3.735	4.510	83%	6	17

Sources: Bloomberg Finance L.P., U.S. Department of the Treasury

New Issue Volume

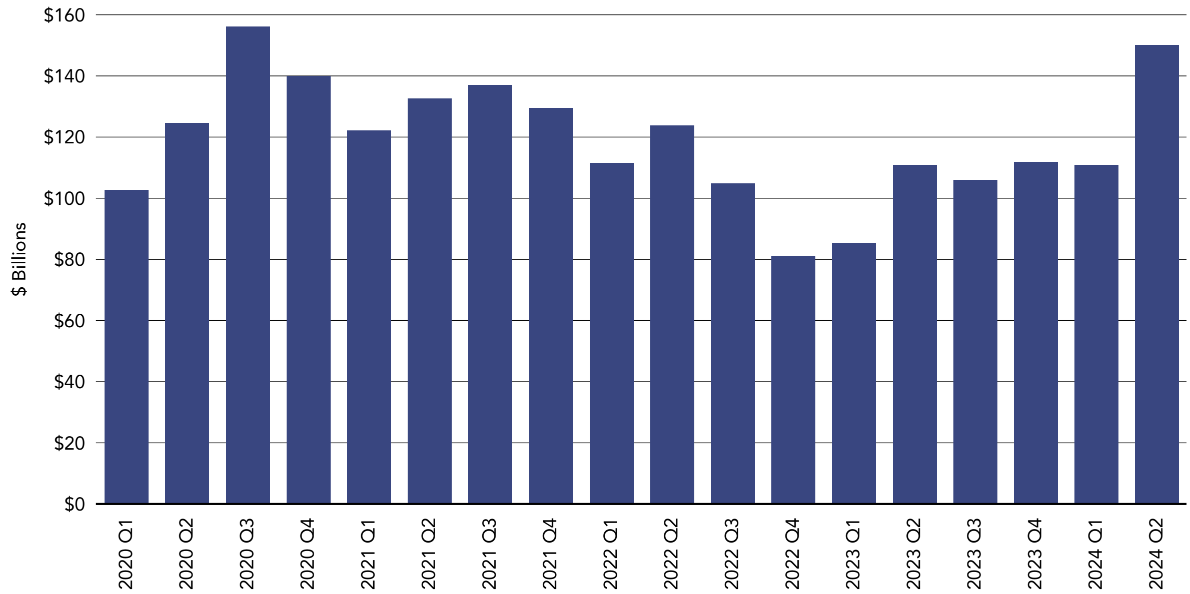
New issue volume rose dramatically in the second quarter, with each month in the quarter having over $40 billion in new issues. Total volume for the quarter was $139 billion, up 35% compared to 2023. The second quarter saw the largest new issuance in a quarter since the third quarter of 2020. Year-to-date, new issue volume was $241 billion, up 32% from 2023.

For the quarter, tax-exempt issuance was up 27% and taxable issuance rose 56%. New money issuance increased 37% and refunding volume rose 41%. Year-to-date, tax-exempt issuance is up 37% but taxable issuance is down 21% after a very slow first quarter. Negotiated volume was up 45% in the quarter compared with a 22% increase for competitive deals.

The increase in new issue volume likely was spurred by an end to COVID relief money for some issuers, a substantial increase in tender offers in the market and some large tax-exempt deals that refunded outstanding Build America Bonds (BAB). As an example, Figure 5 shows the number of continuing disclosures submitted to the MSRB related to the tendering of bonds. The number of disclosures has increased dramatically since the first half of 2023, and quite often the money to pay the investors that agree to tender their bonds comes from a refunding new issuance.

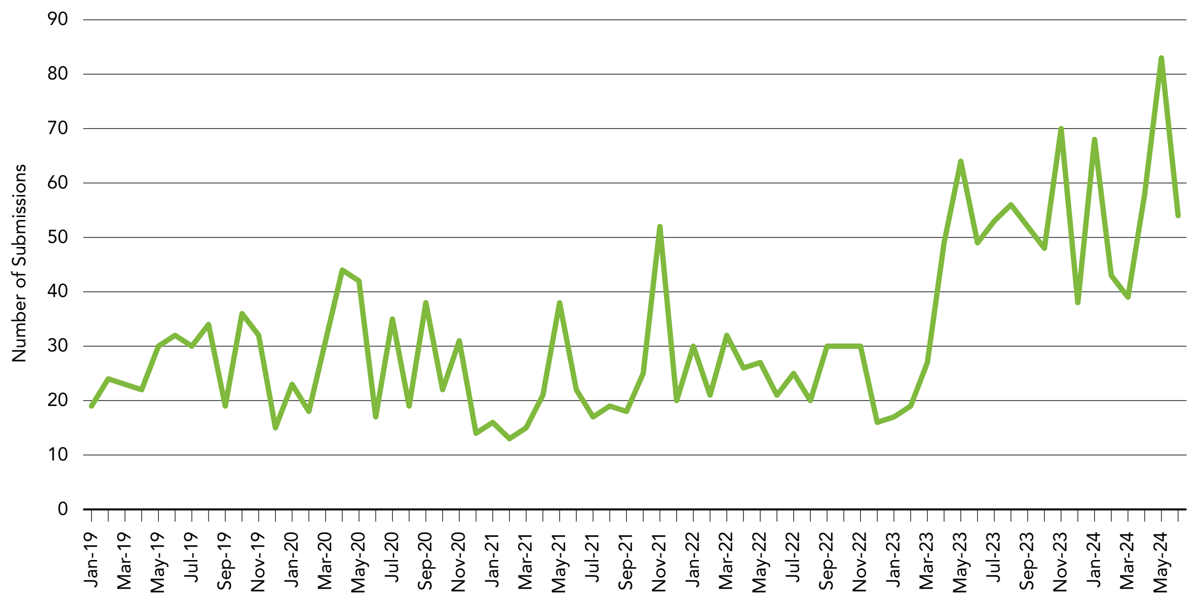
New issue volume is expected to remain high in the third quarter of 2024, as issuers that need to come to market will likely want to issue before the November election. With this dramatic increase in issuance, we have also seen several entities raise their estimates for full-year issuance volume.

Figure 4. Municipal Market Issuance, January 2020–June 2024



Source: LSEG

Figure 5. Number of Tender Offer/Secondary Market Purchases Continuing Disclosures, January 2019–June 2024

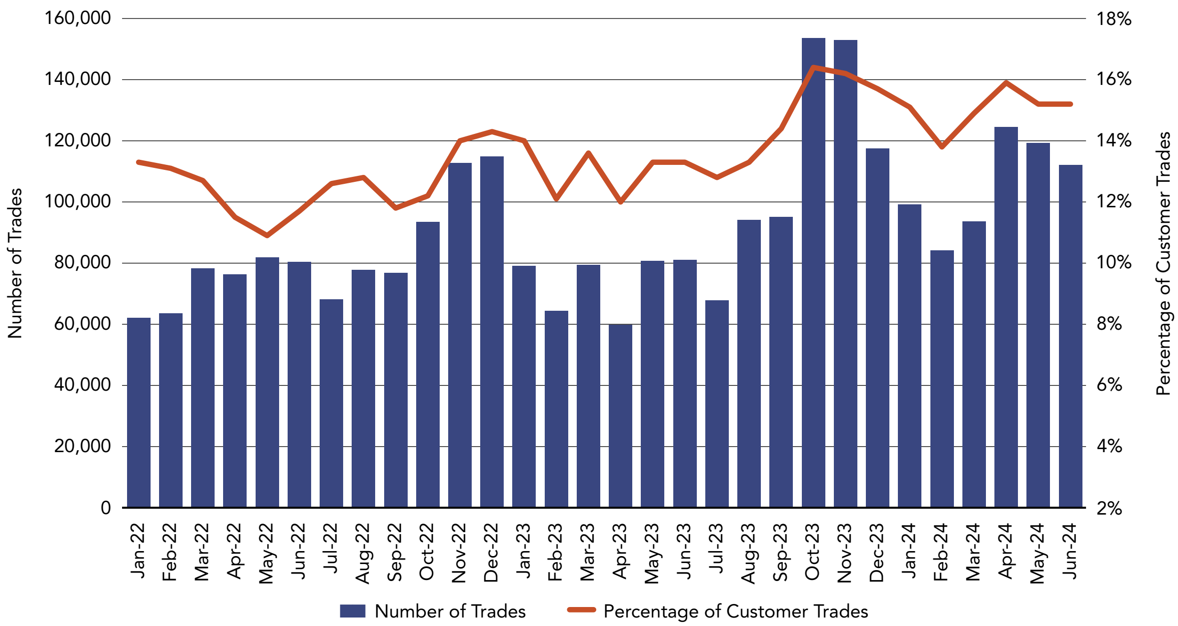


Trading on Alternative Trading Systems

Alternative Trading Systems (ATSs) continue to be a primary source of liquidity for individual investors and an increasing source of liquidity for institutional investors. For the second quarter of 2024, trading on ATSs accounted for 56% of all inter-dealer transactions, down slightly from the same period in 2023.

Figure 6 shows the number of customer trades with the dealer of an ATS as well as the percentage of customer trades executed with the dealer associated with an ATS. Of all customer trades executed in the second quarter, almost 15.4% were executed with the dealers associated with an ATS, up from 13.4% in the second quarter of 2023 and higher than any other quarter in 2022 and 2023 except for the fourth quarter of 2023.

Figure 6. Institutional Customer Trades Executed on ATS, January 2022–June 2024



Mutual Fund and Exchange Traded Fund Flows and Other Institutional Investors

In contrast to the substantial and consistent demand from individual investors, demand from institutional investors has not been as robust.[3] Although tax-exempt mutual funds have seen net inflows, the inflows have been small. According to the Investment Company Institute (ICI), in the second quarter through June 26, mutual funds saw net inflows of about $100 million, while net inflows into ETFs were almost $3 billion. A return to net inflows for mutual funds is a positive for funds and the market following consecutive years of net outflows. The level of net inflows likely means mutual funds and ETFs are not forced to sell, but the low relative inflows likely limit their demand for municipal securities.

The Federal Reserve Board (Fed) also released holdings data for municipal securities that showed a continued decline in municipal assets for banks and insurance companies. In fact, the Fed data shows bank holdings down 3% and holdings for property and casualty and life insurance companies down 5% for the first quarter of 2024.[4] Although second quarter data has not been released at the time of publication, conversations with market participants confirm that banks and insurance companies continue to reduce their overall holdings, not by ramping up selling but mostly by allowing maturing securities to run off and be replaced by other assets.

The demand component from institutional investors continues to be challenged but the strong demand from individual investors, by far the largest holders of municipal securities, has benefitted the market greatly in the quarter.

3 It is important to know that a substantial portion of the individual investor demand likely comes from SMAs, which are managed by institutional investors.

4 Board of Governors of the Federal Reserve System (US). Financial Accounts of the United States, Z.1 Release.

Conclusions

The municipal bond market was quite eventful in the second quarter of 2024. Highlights include:

- **A move to higher yields**, especially in the intermediate sector of the curve, despite a rally in June, and a move to higher Municipal/Treasury ratios in the 3- to 10-year portion of the curve.
- **A substantial increase in trade volume**, up 31% compared to the second quarter of 2023, with all but one of the first six months in 2024 having more than 1 million trades, **indicating continued strong and consistent demand from individual** investors directly and through SMAs.
- **A significant increase in new issue volume**, up 35% compared to the second quarter of 2023, with year-to-date new issue volume reaching $242 billion, up 32% from 2023.
- Small net inflows into tax-exempt mutual funds and ETFs.
- Muted demand from institutional investors, with banks and insurance companies continuing to reduce their holdings of municipal securities.

The municipal market enters the third quarter with July being one of the largest months for maturing and redeemed municipal securities. We expect new issue volume to remain high since it is very possible that issuers will try to complete their financing prior to the Presidential election and the uncertainty that could cause.

ABOUT THE MSRB

The Municipal Securities Rulemaking Board (MSRB) protects and strengthens the municipal bond market, enabling access to capital, economic growth, and societal progress in tens of thousands of communities across the country. The MSRB fulfills this mission by creating trust in our market through informed regulation of dealers and municipal advisors that protects investors, issuers and the public interest; building technology systems that power our market and provide transparency for issuers, institutions, and the investing public; and serving as the steward of market data that empowers better decisions and fuels innovation for the future. The MSRB is a self-regulatory organization governed by a board of directors that has a majority of public members, in addition to representatives of regulated entities. The MSRB is overseen by the Securities and Exchange Commission and Congress.

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