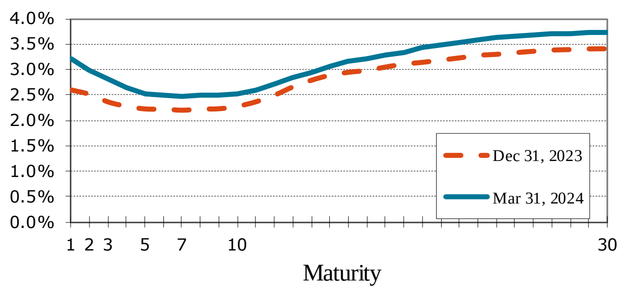
Baird Advisors
Municipal Fixed Income Market Commentary
March 2024

Municipal Yields Rise in Q1 and Demand Returns

Tax-exempt rates climbed in March, led by short-term rates while long-term rates saw minimal changes; however, there was a clear bias to higher yields in the first quarter. Short-term municipal rates continued to be influenced by the volatile Sifma weekly floating rate index, which reached a high of 4.55% in late-January before settling back to 3.64% at quarter end, up 56 bps from the start of the year. While the 10yr yield rose 25 bps in Q1, the 1yr yield was up 62 bps, increasing the 1-10yr curve inversion by 37 bps to end Q1 at -69 bps. Municipal rates climbed more than short-term Treasury yields as both markets responded to reduced expectations of Fed rate cuts to three from six by year end, with the probability of a first cut in June now at 60%. Investor demand returned as municipal funds saw modest but steady net inflows in 9 out of 12 weeks this quarter, totaling $7.3B YTD, which was a welcome change from the outflows seen in 2022 and 2023. The increased fund flows coupled with steady reinvestment needs from called and maturing bonds was sufficient to absorb robust new supply. In Q1, total municipal supply was up 36% YoY, led by tax-exempt borrowing up 50% while taxable supply fell -39% YoY.

AAA Municipal Yields



Maturity	12/31/22	12/31/23	2/29/24	3/31/24	1Mo Δ	1Q Δ
1	2.82%	2.59%	2.97%	3.21%	0.24%	0.62%
2	2.67%	2.50%	2.82%	2.99%	0.17%	0.49%
3	2.58%	2.35%	2.64%	2.81%	0.17%	0.46%
5	2.56%	2.22%	2.47%	2.52%	0.05%	0.30%
7	2.56%	2.19%	2.44%	2.48%	0.04%	0.29%
10	2.64%	2.27%	2.53%	2.52%	-0.01%	0.25%
30	3.63%	3.40%	3.70%	3.73%	0.03%	0.33%

The State of US Infrastructure

The incredibly unfortunate collapse of the Francis Scott Key Bridge in Baltimore on March 26th was caused by a heavy container vessel striking one of its supports, which reignited questions over the state of infrastructure in the United States. The tragedy brought to mind the most recent (2021) report card on US infrastructure from the American Society of Civil Engineers. That report gave the country a C- grade and estimated the U.S. had $2.6 trillion in infrastructure needs over 10 years. For perspective, the 2021 Bipartisan Infrastructure Investment and Jobs Act (IIJA) provided $350B for Federal highway funding; a significant sum but insufficient to meet the massive and growing need. Beyond the known infrastructure costs that state and local governments must consider, the need to prepare for what may be more frequent and more severe weather events in the future is also of concern. AccuWeather Inc. recently warned of the potential for as many as 25 named storms originating in the Atlantic Ocean between June and November this year, well above the ~15 storms in a typical season. Adding to the concern is the rise in construction and insurance costs across the country. Homeowners and businesses see this reflected in higher insurance rates, lack of insurance options in many areas as well as rising costs to build a new home. While President Biden has stated a commitment for the federal government to fund the cost of the Baltimore bridge replacement, the municipal market can play an important role in both this and other infrastructure needs. Investor appetite for tax-exempt and taxable municipal debt is strong and while other debt markets have grown significantly, the amount of net municipal debt outstanding has been unchanged at approximately $4 trillion for nearly fifteen years indicating there is capacity for the market to grow. Optimally, both public and private markets will work together to help provide the funds the US needs to make our infrastructure as modern and efficient as possible, both now and in the future.

Negative Returns Persist

March produced modestly negative returns, which pushed Q1 returns negative as well. The exceptions were BBB and A rated bonds that have positive returns YTD, and the HY index continued its strong performance for the year. From a sector perspective, Prerefunded issues performed the best on a YTD basis.

Total Returns of Selected Barclays Municipal Indices and Subsectors

Bloomberg Index/Sector	March	YTD	*Duration*	Bloomberg Quality	March	YTD	*Duration*
Municipal Bond Index	0.00%	-0.39%	*6.07*	AAA	-0.13%	-0.81%	*6.35*
General Obligation bonds	-0.16%	-0.70%	*5.79*	AA	-0.14%	-0.56%	*5.95*
Revenue bonds	0.07%	-0.27%	*6.32*	A	0.24%	0.10%	*5.93*
Prerefunded bonds	-0.18%	-0.09%	*2.14*	BBB	0.74%	0.60%	*7.14*
Long maturities (22+ yrs.)	-0.01%	-0.75%	*10.12*	High Yield	1.19%	1.51%	*6.92*
Intermediate maturities (1 - 17 yrs.)	0.00%	-0.29%	*4.51*	HY, ex-Puerto Rico	1.32%	1.38%	*6.89*
Short maturities (1 - 5 yrs.)	-0.12%	-0.19%	*2.29*				

Disclosures

Fixed income is generally considered to be a more conservative investment than stocks, but bonds and other fixed income investments still carry a variety of risks such as interest rate risk, credit risk, inflation risk, and liquidity risk. In a rising interest rate environment, the value of fixed-income securities generally decline and conversely, in a falling interest rate environment, the value of fixed-income securities generally increase. High yield securities may be subject to heightened market, interest rate or credit risk and should not be purchased solely because of the stated yield.

The Bloomberg Municipal Bond Index is a broad-based, total-return index. The bonds are all investment-grade, tax-exempt, and fixed-rate securities with long-term maturities (greater than 2 years). They are selected from issues larger than $50 million. The components listed below the Municipal Bond Index (long maturities, intermediate maturities, short maturities, prefunded bonds, general obligation bonds and revenue bonds) are subsectors of the Bloomberg Municipal Bond Index and do not represent separate indices.

The Bloomberg High Yield Municipal Index includes bonds with a par value of at least $3 million and must be issued as part of a transaction of at least $20 million. The maximum rating for inclusion is Ba1/BB+/BB+ using the middle rating.

For more information about the Bloomberg Municipal Bond Index or Bloomberg High Yield Municipal Index, please visit https://index.barcap.com/Home/Guides_and_Factsheets.

Municipal securities investments are not appropriate for all investors, especially those taxed at lower rates. The alternative minimum tax (AMT) may be applicable, even for securities identified as tax exempt. Past performance is not a guarantee of future results.

Ratings are measured on a scale that ranges from AAA or Aaa (highest) to D or C (lowest). Investment grade investments are those rated from highest down to BBB- or Baa3.

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