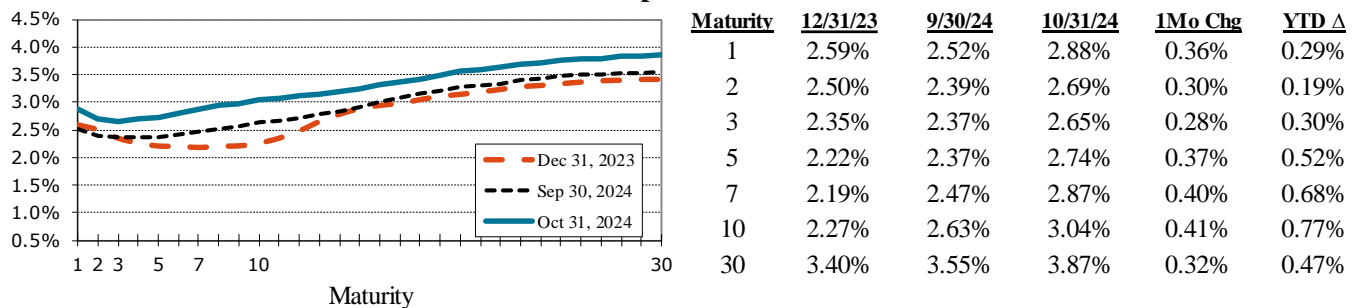


Baird Advisors
Municipal Fixed Income Market Commentary
October 2024

Municipal Yields Rise in October

Tax-exempt yields rose in October with a slight curve steepening bias. The 2yr yield rose 30 bps and the 10yr yield rose 41 bps, adding to the already positive 2s10s curve slope which ended the month at a spread of +35 bps. The selloff in October was triggered mostly by stronger than expected economic data, including above-consensus inflation data even though the Fed eased by 50 bps in September. The market is now pricing in fewer Fed cuts for the remainder of this year and in 2025 which helped to drive yields higher. Despite the rise in rates, demand for municipals remained strong, with fund inflows totaling \$8.6B in October, bringing the YTD total to \$33B. The steady demand helped the market absorb what was the strongest month of supply this year, a staggering \$65B for the month bringing the YTD total to \$443B. While we would expect supply to slow a bit in the week of the election and FOMC meeting in November, we expect issuance to resume again and remain robust into year end, likely ending the year at or near a new record level of issuance (\$496B in 2020).

AAA Municipal Yields



The Impact of Hurricanes Helene and Milton on the Municipal Market

Hurricanes Helene and Milton hit the Southeastern US just a week apart in late-September and early-October, respectively, causing heavy damage in their path. Insurance industry estimates suggest the combined physical damage from the storms may be approximately \$50B, but when economic activity loss is considered, estimates rise to as much as \$400B (Accuweather). We know the rebuilding of homes, business and infrastructure may take years in some communities. One of the hardest hit cities was Asheville NC, an inland city that was inundated by rain as Helene moved north from the Gulf. Given the extent of the damage, it was no surprise when S&P, which rates the city AAA, placed the city's GO and water system (AA+) rating on CreditWatch Negative as they await further information on federal reimbursements and rebuilding efforts. While coastal cities are at obvious risk from severe storms, it is much harder to assess the risk to inland areas. However, an investor can look to the fundamental strength of each community and credit. In the case of Asheville, with its diverse tax base, long history of following disciplined fiscal practices and producing favorable financial results, combined with a relatively low debt burden, we expect it will ultimately recover. In addition, Asheville and other affected communities will also receive support from the Federal Emergency Management Agency (FEMA). Although FEMA has said the Disaster Relief Fund will need more Congressional funding given the frequency and severity of recent natural disasters, it was also clear that they have enough funding to meet the immediate needs from those affected by Helene and Milton. Fortunately, most state and local governments are currently in a position of fiscal strength, with healthy reserves that help provide a cushion when unexpected events such as these occur. We fully expect that Asheville and other communities impacted by these hurricanes will continue to honor all of their debt obligations.

Negative Returns for the Month

The rise in rates produced negative returns for the month of October but all curve segments and market sectors remain positive YTD. Short-term maturities outperformed longer segments of the curve in October and not surprisingly, Prerefunded bonds, with the shorter average duration, were the best performer by a wide margin relative to the GO and Revenue sectors this month. Although there was little differentiation in performance by quality this month, lower quality credit is still outperforming high quality YTD.

Total Returns of Selected Barclays Municipal Indices and Subsectors

<u>Bloomberg Index/Sector</u>	<u>October</u>	<u>YTD</u>	<u>Duration</u>	<u>Bloomberg Quality</u>	<u>October</u>	<u>YTD</u>	<u>Duration</u>
Municipal Bond Index	-1.46%	0.81%	6.23	AAA	-1.56%	0.09%	6.46
General Obligation bonds	-1.49%	0.24%	5.92	AA	-1.47%	0.49%	6.07
Revenue bonds	-1.47%	0.99%	6.43	A	-1.41%	1.55%	6.20
Prerefunded bonds	-0.69%	1.87%	2.43	BBB	-1.25%	2.94%	7.12
Long maturities (22+ yrs.)	-1.95%	1.10%	9.77	High Yield	-1.52%	5.84%	6.65
Intermediate maturities (1 - 17 yrs.)	-1.27%	0.67%	4.78	HY, ex-Puerto Rico	-1.61%	6.19%	6.57
Short maturities (1 - 5 yrs.)	-0.56%	1.90%	2.34				

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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