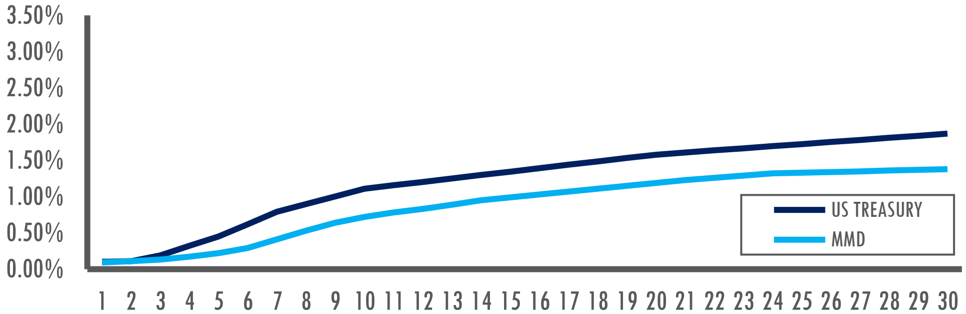
MARKET UPDATE

- Persistent worries over rising coronavirus cases and its impact on the economic outlook ebbed risk appetite among investors during the week.
- The timing and size of the fiscal stimulus tempered investor sentiments as the Senate Majority Leader Chuck Schumer dented hopes of passing it anytime soon before mid-March.
- This combined with the Fed's downbeat assessment of economic recovery and "short squeezes" led volatility-fueled risk-off sentiments and resulted in the biggest weekly drop in the S&P500 Index since October.
- On the other hand, the demand for US treasuries surged as Q4 growth numbers came at 4% YoY, below the 4.3% Dow Jones estimate.
- The Fed maintained interest rates near zero and pledged to retain the monthly bond purchases of $120 billion intact, putting downward pressure on the yields. The Fed also stated that the improvement in the economy and job market had slowed in recent months and noted that the fate of the economy was tied to the success of the US vaccination program.
- In commodities, gold prices traded flat to end the week at $1,847/oz as the dollar index was boosted by encouraging jobless claims data. Oil prices were also down 1% to settle at $52/barrel as the market fears delays in vaccination and fresh travel curbs could depress demand despite a massive drawdown in US crude inventories.
- The core capital goods orders and durable goods orders increased by 0.6% and 0.2% compared to previous readings of 1% and 1.2%, respectively. Although consumer spending slipped 0.2% in December, personal income rose 0.6% in December, boosted by the late stimulus package. Meanwhile, the core PCE price index increased 1.5% YoY against the forecast rise of 1.3%.
- The 2s/10s Treasury yield spread tightened by a bp to close at 95bps during the week. The 2yr and the 5yr yields narrowed by a bp each to settle at 0.10% and 0.41%, respectively. Consequently, the 10yr and 30yr yields tightened by 2bps each to settle at 1.06% and 1.82%, respectively.

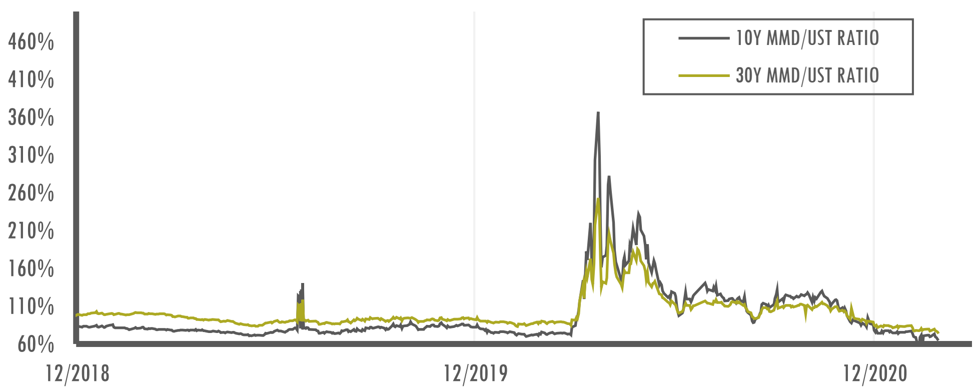
CONSENSUS ECONOMIC PROJECTIONS*

	Q4 20	Q1 21	Q2 21	Q3 21	Q4 21	Q1 22
Fed Funds (%)	0.25	0.25	0.25	0.25	0.30	0.30
3M LIBOR (%)	0.24	0.29	0.30	0.32	0.34	0.40
2Y T-Note (%)	0.12	0.18	0.22	0.27	0.31	0.38
10Y T-Note (%)	0.92	1.06	1.19	1.26	1.34	1.40

AAA MMD/ TREASURY YIELDS**



HISTORICAL TAX-EXEMPT/TAXABLE RATIO**



*SOURCE: BLOOMBERG, AS OF 12/14/2020 **SOURCE: TM3 MMD

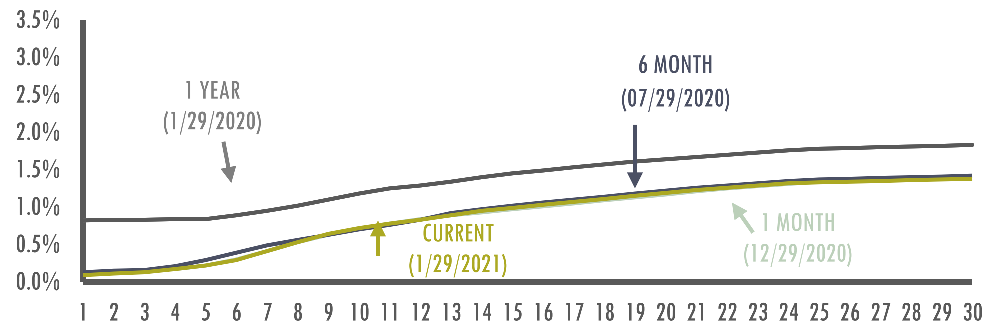
WEEKLY RECAP

- Municipals saw their first real positive movement this week as yields decreased across the curve.
- Municipals continue to price rich compared to Treasuries while demand remains high and supply low.
- Large inflows mixed with a shortage of traditional tax-exempt paper continues to keep benchmark yields at or near the historical lows we saw in August.
- Demand stepped up for the new issuance supply that hit the market this week with a large portion of deals being bumped during the repricing.
- As cross-over buyers continue to invest in the taxable municipal market we have seen spreads to compress significantly for taxable debt.
- Volume in the municipal market for January was down compared to volume for January 2020. This comes as issuers hit the pause button after an above-average year of issuance in 2020 but is expected to pick up in Q2. Total volume in January fell 26.7% year-over-year.
- The market is continuing to play close attention to President Biden's planned stimulus package which is said to include $350 billion to aid cities and states and another round of stimulus checks equaling $1,400 which could help the economy.
- Muni fund flows reported $2.79 billion in inflows for the week ending January 27th. This comes after last week's inflows of $2.4 billion. The four-week moving average continued to increase and is now at $2.2 billion. High yield muni funds saw inflows of $777 million, compared to $527 million last week.
- Inflows into the municipal market hit another record this week with the $2.79 billion of inflows. This is the sixth week in a row of $1 billion-plus of inflows. This is the third week in a row of $2 billion-plus of inflows. This is the second biggest inflow on record. We have now seen 12 straight weeks of inflows.
- This week's new issuance calendar is set to price $7.45 billion of issuance. We expect $4.7 billion to be tax-exempt and $2.8 billion taxable and of that $5.6 billion will be negotiated.

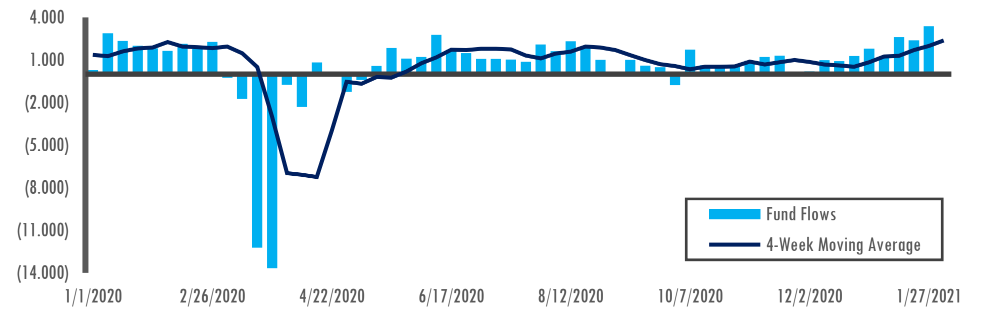
WEEKLY & MONTHLY CHANGES*

	AAA MMD			US TREASURY		
MATURITY	29-JAN	1 WEEK CHANGE	1 MONTH CHANGE	29-JAN	1 WEEK CHANGE	1 MONTH CHANGE
2-year	0.11%	-4	-3	0.11%	-2	-1
5-year	0.22%	-5	0	0.45%	-1	8
10-year	0.72%	-7	1	1.11%	0	17
30-year	1.38%	-9	-1	1.87%	2	22

HISTORIC AAA MMD YIELDS*



MUNICIPAL BOND FUND FLOWS ($BN)**



*SOURCE: TM3 MMD **SOURCE: BOND BUYER