



YEAR END REVIEW

Blaylock Van, LLC
CELEBRATING 30 YEARS OF SERVICE

January 3, 2022

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2021 IN REVIEW

Commentary

The Economy

- The economy's growth peaked with the reopening of state and local cities and towns helping their outlook in 2022.
- The \$350 billion of the Federal American Rescue Plan Act stimulus passed early in the year helped the municipal market as States held reserves at a median of 10% of annual spending, about the same level as before the pandemic.
- Inflation concern continued to drive Market volatility throughout the year.
- In the fall, the Fed announced that tapering will start in November by reducing purchases by \$15 billion per month but by December accelerated it to \$30 billion a month with 3 anticipated rate hikes in 2022.

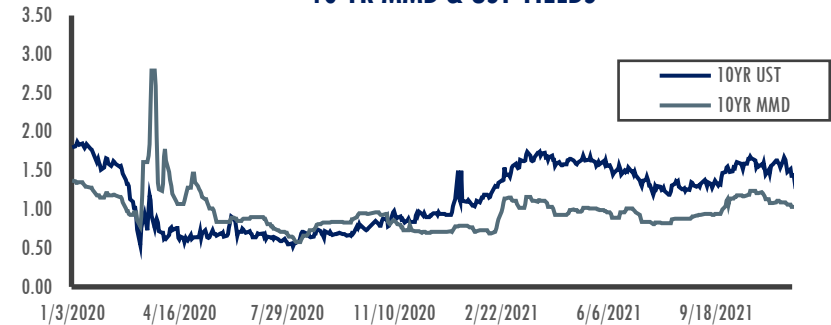
Performance

- Municipal debt outperformed Treasuries through most of 2021.
- Benchmark yields hit all-time lows throughout the year with February and the summer months hovering at or through the historical lows we saw in 2020 as demand continued to outweigh supply.
- Municipal performance softened as we moved into the end of the year as redemption cash slowed and inflows moved lower.
- The market saw two significant corrections this year with the first in March and the second in October. The first correction was followed by the year's first outflow, but the second correction managed to keep inflows positive.
- Ratios remain at historical low levels through all of 2021 with 10yr and 30yr hitting records.

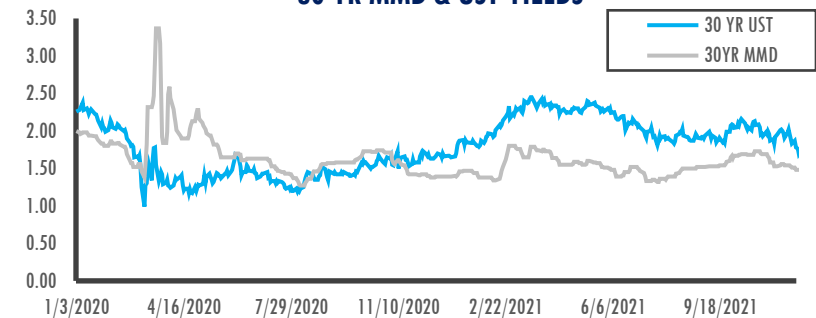
COVID

- COVID continued to play into the market's volatility as variants took hold across the U.S. and investors worried about possible shutdowns affecting the economy.

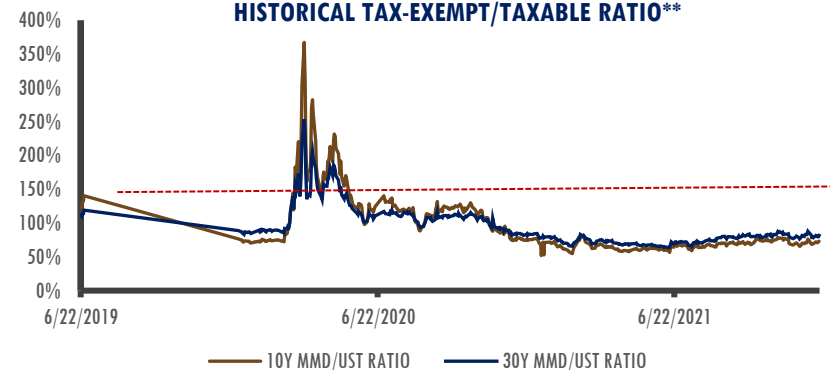
10 YR MMD & UST YIELDS



30 YR MMD & UST YIELDS



HISTORICAL TAX-EXEMPT/TAXABLE RATIO**



Commentary

Supply and Demand

- Supply just missed last year's record pace with \$475.3 billion of issuance down 1.9% from 2020, as taxable debt remained above average.
- Inflows remained positive for the 43 consecutive weeks as investors added about \$85 billion of new cash to municipal mutual funds.
- High-yield funds saw their highest year of inflows as investors search for yield in the current low-rate environment.
- Redemption cashed remained heavy over the summer contributing to the low rates.
- As issuance increased, trading volume has declined at \$800bln below the year-earlier level.

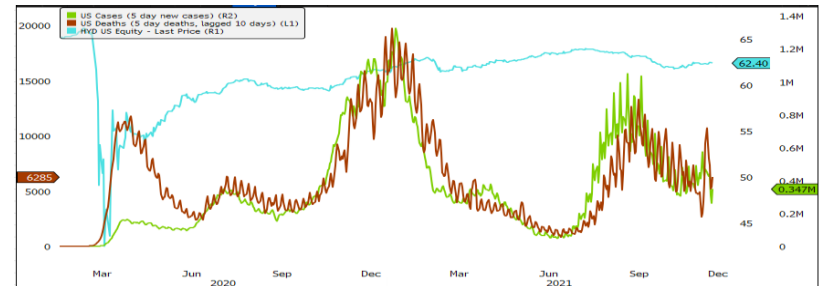
Debt Issuance

- Taxable debt made up 25% of the market this year down slightly from last year's 30% number as Treasury volatility came into play and new money issuance increased 14.4% from 2020.
- Cross-over buyers remained active throughout the year helping digest the increase of taxable issuance as taxable Muni's remained attractive compared to A & AA Corp Spreads.
- Forward delivery bonds reached \$15 billion which is more than double that of last year as issuers race to refinance and lock in the low rates with tax-exempt bonds.

Credit Spread

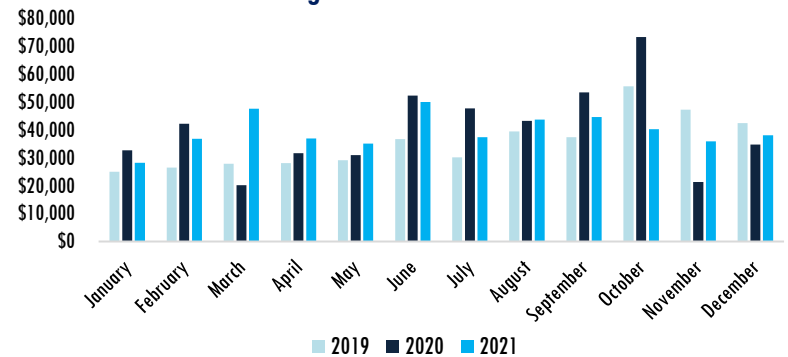
- Investors continued to prefer to take on credit risk than duration risk.
- Junk Munis were the best performing sector of state and local government debt as investors awash in cash have grown more comfortable with weaker protections as yields remain below historical averages.
- It should be noted that over \$4.4 billion of securities have faced distress or default year to date as defaults and impairments are coming at a faster clip.

US COVID and High Yield Debt

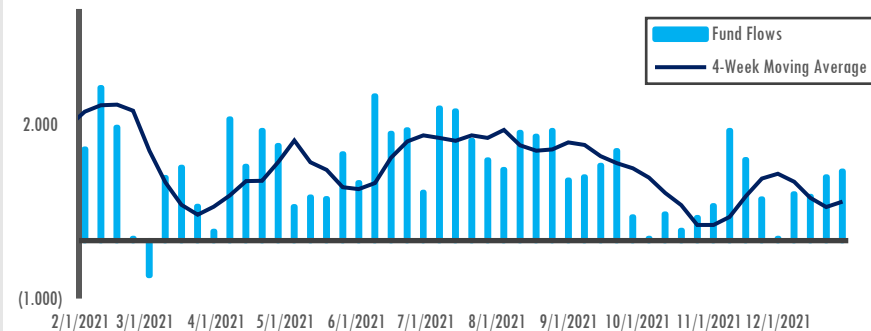


*SOURCE: BLOOMBERG

Muni Long Term Issuance 2019-2021



Municipal Bond Fund Flows (\$BN)





HOT TOPICS OF 2021

Commentary

Inflation

- Inflation continued to play into conversations and concerns from the Fed this year.
- In November, U.S. Consumer Prices rose year-over-year the most since 1990 as it increased to 6.2%.
- Inflation continues to be the hottest in a generation as Inflation rose to 6.8% in 2021, its highest since 1982.

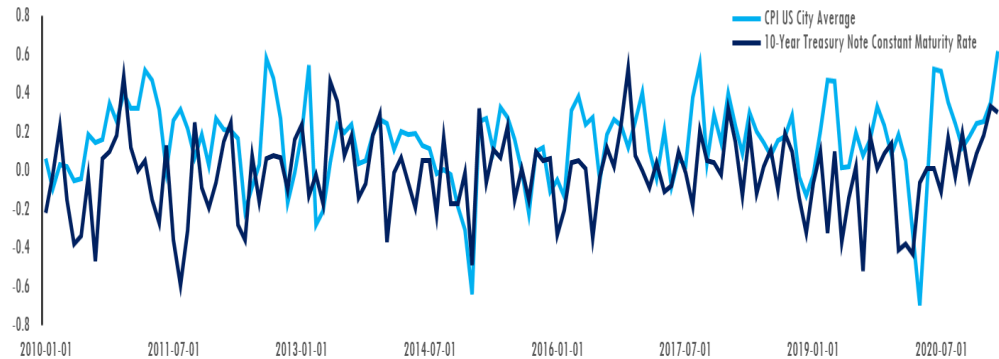
The Federal Reserve: Dovish to Hawkish

- In November, the Fed announced that it will start to taper bond purchasing to \$15 billion a month, wrapping up in late 2022, and that rate hikes won't commence until late 2022. The market easily transitioned to the news that a taper would begin, with rate hikes to commence when the taper concludes.
- But as the year wrapped up and as inflation continued to increase, the Fed became Hawkish after months on the Dovish side and announced, at their last meeting of the year, that they planned to end their asset-buying program earlier and signaling they may raise interest rates as much as three times in 2022.
- The Fed now plans to double the pace at which scaling back purchases of Treasuries and mortgage-backed securities to \$30 billion a month which will allow it to conclude its program in early 2022.

The End Affect On Munis

- The expectation is for the curve to flatten further as short-term rates rise faster than longer-dated maturities. But in the current environment, we may see the longer end of the curve potentially decline if inflationary pressures persist and we wait for the Fed to act.
- During Fed tightening cycles, Munis usually outperform Treasuries.
- During rate-hike periods over the past few decades, municipal ratios have tended to decline, meaning that municipal-bond valuations are richer. If this trend continues it would benefit tax-exempts in 2022.

% CHANGE FROM PRIOR MONTH



As indicated in the graph above, month-to-month changes in Treasury Yield rates tend to be positively correlated to month-to-month changes in CPI. As inflationary pressures begin to mount, Issuers may want to consider the effects of inflation on Treasury Yields

FUTURE FED MEETINGS

Meeting Date	Percentage Hike
01/26/2022	4.8%
03/16/2022	53.9%
05/04/2022	32.3%
06/15/2022	51.0%
07/27/2022	26.9%
09/21/2022	38.3%
11/02/2022	25.6%
12/14/2022	49.1%
02/01/2023	21.8%

Commentary

- What was once an under-utilized pocket of the municipal market is starting to make some serious headway. Green and Social bond new issue designations reported a record year in 2021, bringing to market a touch under \$39 billion in municipal securities, which is an increase year-over-year of roughly 50%.

What components are driving growth?

- Investor demand for impact or responsible investing in order to support positive environmental or social equity initiatives through a total return approach.
- Fiscal justice movements have put a spotlight on investing in underserved communities.
- Actively addressing the compounding effects of climate change on municipalities' aging infrastructure. Such entities are severely exposed to physical risks such as flooding, fires, and other natural disasters.
- ESG municipal bonds can play a key role in helping finance affordable housing, accessible education, improvements to access basic services, quality healthcare, and much more. When breaking down 2021 Green & Social bond issuance, single and multiple family housing and water & sewer projects totaled 47% of the market.

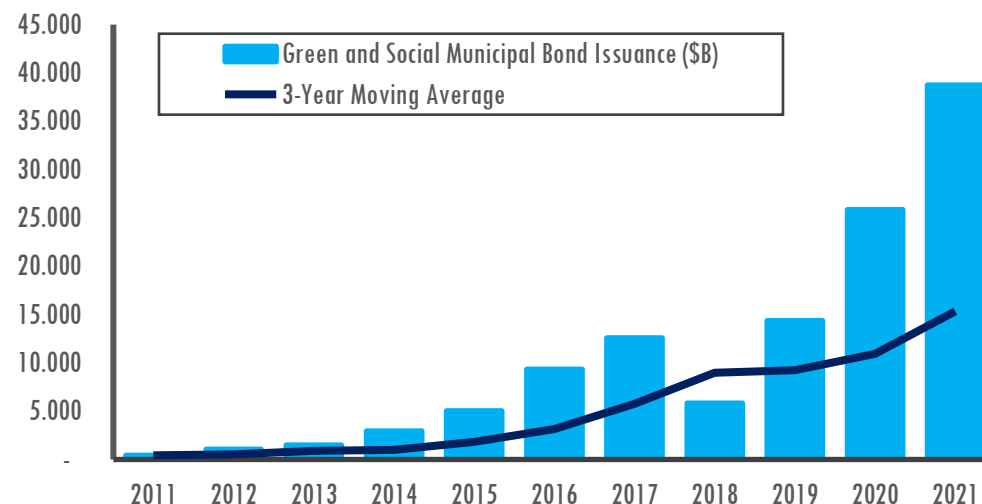
Will the pace of Green and Social opportunities continue?

- As ESG awareness continues to expand in and around every asset class, municipal issuers have been taking note. Green & Social bond designations represent 8% of new issue securities in 2021. The BV team forecasts this trend of market share should only increase in the years to come as supply is met with ample demand from institutional, professional retail, and retail market participants.
- Additionally, the bipartisan Infrastructure Investment and Jobs Act includes \$1.2 trillion of federal spending over the next 5-years with \$550 billion being allocated to various transportation subsectors. Some of the larger categories include roads & bridges, electric grid infrastructure, rail, broadband projects, and water infrastructure.

Green & Social Issuance Sources 2021

Rank	Source	Issuance (\$B)	Market Share (%)
1	State Single Family Housing	6.465	17%
2	State Multi Family Housing	5.899	15%
3	Water & Sewer	5.556	14%
4	Appropriations	3.280	9%
5	Sales Tax	2.203	6%
6	Gas Forward Contract	1.837	5%
7	General Obligation	1.728	5%
8	Public Transportation	1.621	4%
9	Higher Education	1.256	3%
10	School District	1.160	3%
	Other	7.341	19%
Total		38.347	100%

Green & Social Municipal Bond Issuance (\$B)



Commentary

- The \$1.2 trillion bipartisan Infrastructure Bill was signed into law on November 15th.
- President Biden stated that the Bill is expected to lower inflationary pressures on our economy.
- The Bill was passed with only minor support from Republicans in the Senate.

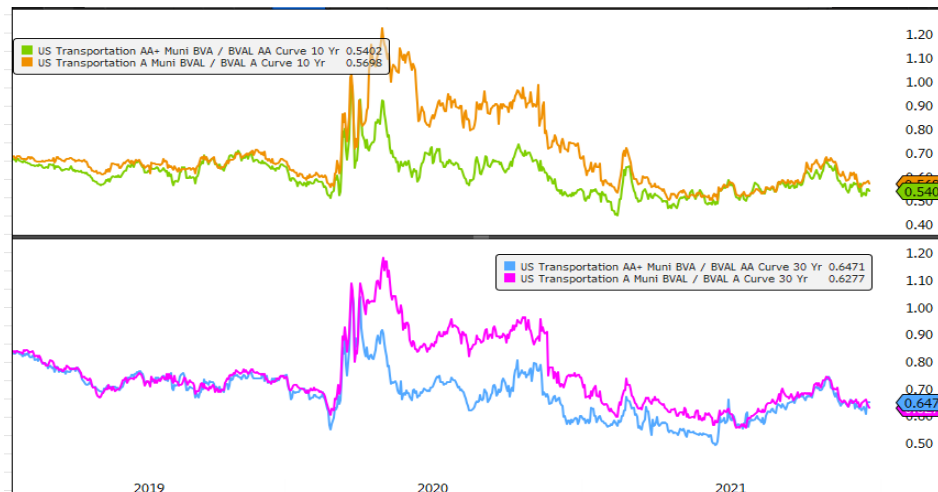
What Does the Bill Consist of?

- The Bill will put \$550 billion in new funds into transportation, broadband and utilities.
- The Bill also includes specific bond provisions such as new authority for private activity bonds for electric vehicle charging stations in addition to carbon capture facilities.
- The spending in the Infrastructure Bill is spread over a few years unlike the emergency spending money thus not expected to be a major impact on the markets rates.

The Affects On The Municipal Market.

- The biggest boost will go to spending on roads and bridges, power systems, rail, broadband, water systems and public transit.
- It will also help the demand for Municipal bonds as taxes will increase it making Municipals more attractive for their tax benefits to individual investors.
- As Municipalities leverage the Infrastructure Bill the market expects issuers to issue more bonds to match some of the funding from the federal level.
- But with the spending in the Infrastructure Bill is spread over a few years it could keep bond issuance muted in the short term but overall, it is expected to contribute to an uptick of issuance in the next few years.
- The overall consensus of the market is that it will be positive to supply and help municipalities going forward so they're not doing emergency fixes.

Transportation Credit Spreads



*SOURCE: BLOOMBERG

KEY ALLOTMENTS OF THE INFRASTRUCTURE PLAN

Roads and bridges:	\$110 billion of new funds would go toward improving the nation's roads and bridges.
Public transit:	\$39 billion to modernize systems, improve access for the elderly and people with disabilities, and repair more than 24,000 buses, 5,000 railcars and thousands of miles of train tracks.
Electric grid and energy	\$108 billion investment will help upgrade the nation's electricity grid.
Airports:	More than \$25 billion has been allocated to help modernize America's airports.
Road safety:	\$11 billion in transportation safety programs.
Normal funding:	In addition to the \$550 billion in new investments, the package also includes roughly \$650 billion in previously authorized funding for roads and other infrastructure, including nearly \$300 billion for the Highway Trust Fund and \$90 billion for public transit over the next five years.



WHAT LIES AHEAD

Commentary

Overview

- State and Local Governments have a positive outlook as this year's reopening's allowed a majority of States to implement balanced budgets for 2022.
- Factors to watch in 2022 include changing market composition, including further compression of fees, industry consolidation and continued use of taxable debt.

Rates

- Our outlook for 2022 is that both spreads and yields should modestly increase.
- Federal monetary and fiscal policy along with continued COVID concerns will be a driving force behind the Municipal market volatility.
- As the Fed tapers its purchases, there could be effects of which may manifest in the market in the form of higher rates.

Build Back Better Bill

- The Bill is currently dead in the Senate.
- The Muni-friendly provision for the restoration of tax-exempt advance refunding was once included in the Bill and some lobbyists are still pushing for the provision.

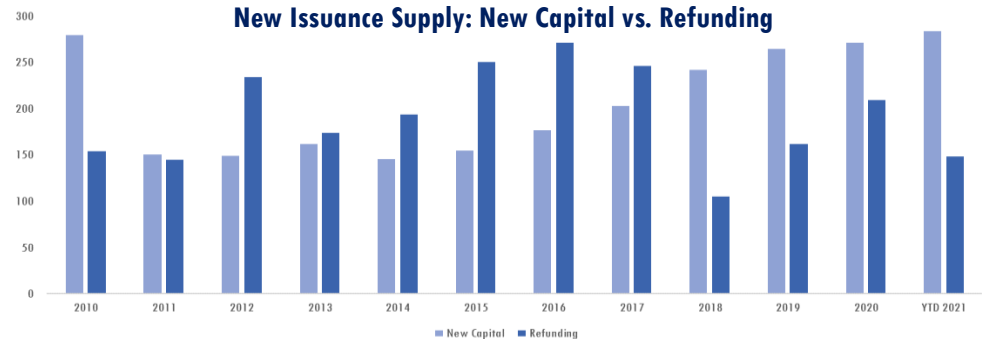
Supply vs Demand

- Supply is expected to continue to be above average as Muni Strategists see an Average of \$470 Billion of Supply in 2022 as The Federal Infrastructure Bill is expected to help the issuance of Municipal debt.
- The imbalance will ease if we see a slowdown in demand. If interest rates rise, as we expect, the pace of fund flows should slow and may even turn negative.
- If we do see advanced refundings return it would increase tax-exempts which could cause rates to move higher as any increase of tax-exempt issuance could cause rates to increase as we lose that supply vs. demand imbalance. It could also change the taxable market as issuers turn back to tax-exempts to issue refund debt.

CONSENSUS ECONOMIC PROJECTIONS*

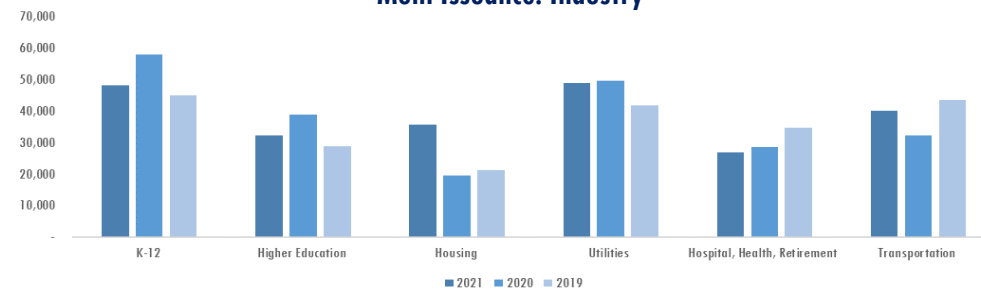
	Q3 21	Q4 21	Q1 22	Q2 22	Q3 22	Q4 22
Fed Funds (%)	0.25	0.25	0.25	0.40	0.60	0.75
3M LIBOR (%)	0.13	0.21	0.25	0.36	0.52	0.69
2Y T-Note (%)	0.28	0.73	0.71	0.84	0.98	1.12
10Y T-Note (%)	1.49	1.51	1.71	1.85	1.95	2.04

New Issuance Supply: New Capital vs. Refunding



** If rates rise next year and the infrastructure bill uncertainty fades, Muni supply may predominately rely on new issue this year.*

Muni Issuance: Industry



** We expect to see a shift in the infrastructure debt issuance next year as the Transportation Bill comes into play.*

Commentary

Credit

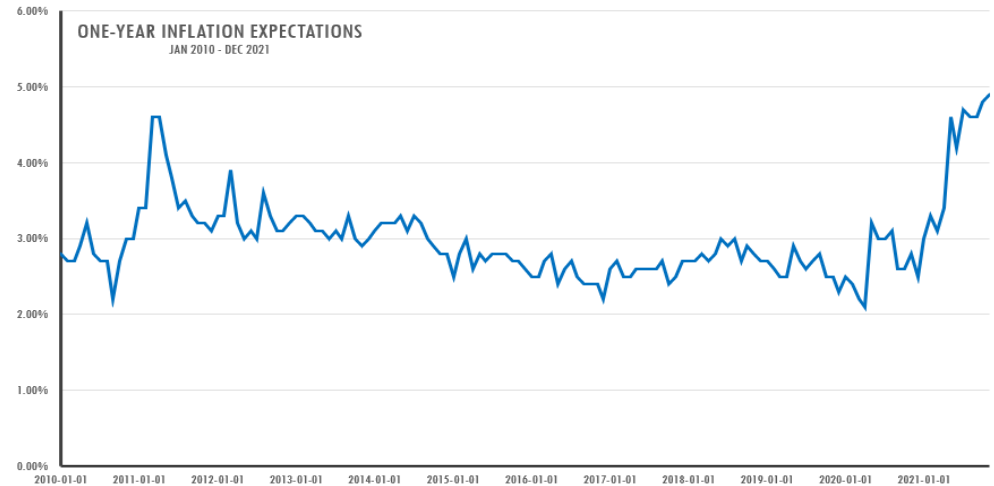
- While Muni credit has been given a support floor over the past year and a half, weaker credits will still be separated by fundamental factors such as pensions and retirement/healthcare expenses.
- We expect to see credit spreads start to widen in 2022 after one of the best years lower-rated bonds have seen as rates come off their lows and as investors start to pay attention to credit risk once again.
- In 2022, we anticipate that credit conditions will remain favorable for most municipal issuers and defaults should continue to remain low for a majority of the investment-grade market.
- Continued low tax-exempt rates have contributed to a shift in lower-coupon issuance that should extend into 2022, putting some investors in a less-defensive position to combat higher interest rates going forward.

The Federal Reserve

- The Fed plans to act in 2022 to curb inflation and avoid having to issue a larger number of rate increase down the line which can push the economy into a recession.
- Statistics show that the first-rate hike is expected by March of 2022 with two more to follow in 2022 which we feel is in-line with the recent Fed's commentary.
- With the new tapering plan, we should expect it to conclude in early 2022.

Inflation

- With the proposed Fed move market participants expect inflation is expected to hit 2% by 2023. This will be closely monitored as we move through 2022.
- The median forecast among **policy-makers** is now for the personal consumption price index to be 2.6% in 2022, which is slightly up from 2.2% in September's projections with the core measure to be 2.7%.
- Inflation will remain an important factor in all markets in 2022.



**The above 1-year future inflation chart highlights expectations market participants have on future inflation.*



** Municipal net supply for the past 4 years highlighting seasonal patterns which may be useful in planning future issuances.*



BLAYLOCK VAN MUNI HIGHLIGHTS

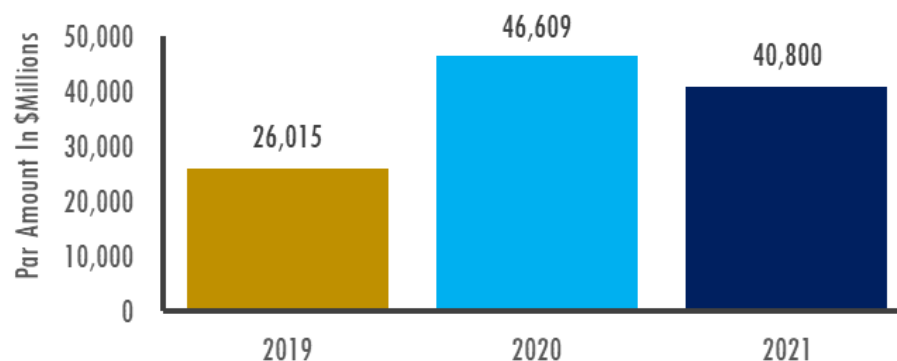
Commentary

- The Blaylock Muni team finished out the year ranked #18 for the Municipal Underwriter rankings for long-term negotiated municipal financings for 2021 and #5 when compared to our non-majority peers on Bloomberg's Municipal Bond Underwriting Rankings for Long-term Negotiated Underwritings.
- While the firm's total par amount of underwriting decreased slightly, we still more than doubled our 2019 amount and the firm increased its market participation from 1.89% in 2020 to 2.02% in 2021 with a total of \$40.799 billion debt underwriting participation.
- As the firm's capital continues to increase so did our senior level roles.
- The firm participated as a co-manager in 57 deals, 112 series, and as co-senior in a total of 5 deals, 11 series, totaling a par amount of \$40.799 billion for 2021.
- We were a co-senior on the Miami-Dade County, Florida's \$1.242 billion Seaport Revenue Refunding Bonds, Series 2021A & Seaport Subordinate Revenue Refunding Bonds, Series 2021B .
 - The deal was the largest for the Seaport in its history of issuing bonds.
 - The deal was named Deal of the Year for 2021 by The Bond Buyer.
- Blaylock Van continues to expand our Municipal department with the recent hiring of Brandon Bassell, CFA as our new California banker.
- We also have focused on expanding our sales department with the recent hire of Ron Banaszek as the firm's new Municipal Distribution Manager and Stephen Gabriel as an addition to the Muni sales team.

Municipal Bond Underwriting Rankings - Non Majority Firms 2021

Participant (100%)	All Rank	Non-Majority Rank	Vol (MM USD)	Deals	Table Share (%)
Siebert Williams Shank & Co LLC	7	1	81,935.23	228	4.06%
Samuel A Ramirez & Co Inc	9	2	75,706.52	212	3.75%
Loop Capital Markets LLC	11	3	74,263.82	196	3.68%
Academy Securities Inc	16	4	56,610.17	100	2.80%
Blaylock Van LLC	18	5	40,799.82	67	2.02%
Stern Brothers & Co	19	6	40,180.33	63	1.99%
Cabrera Capital Markets LLC	20	7	39,279.34	63	1.95%
Rice Securities LLC	21	8	38,524.47	62	1.91%
Drexel Hamilton LLC	22	9	30,656.85	73	1.54%
Mischler Financial Group	26	10	19,419.79	29	0.96%

TOTAL PAR AMOUNT UNDERWRITTEN⁽¹⁾



*SOURCE: BLOOMBERG