Treasury yields fall to lowest level ever – all yields below 1%. Fed Funds cut 50 bps. Munis can’t keep up – ratios ratchet higher. Credit spreads at widest levels since 2016 in corporate HY.

Bottom Line:
- Treasury fell sharply on both Coronavirus risk perception and poor economic data.
- Muni funds experienced first outflow in 60 weeks.
- S&P Puerto Rico Total Return Index +4.1 % year-to-date.
  - Potential Commonwealth bankruptcy exit in November (pending approvals).

What Happened in the Bond Markets Last Week?
- Treasuries yields fell violently. That is not an exaggeration. The complete yield curve is below 1%. This has never occurred before. The probability for a significant global economic slowdown has accelerated. During the week, economic data were overlooked as being irrelevant going forward. The Fed cut came out with an emergency 50 bps cut on Monday, yet the Fed is expected with near certainty to cut rates again next week.
- Municipal bonds’ yields followed Treasury yields lower.

Yields (Figure 1):
- During the past week up to this morning, Treasury yields fell 2-year Treasury Note yields -61 bps at 0.27%, 5-year Notes yields -57 bps at 0.35%, 10-year Notes yields -67 bps at 0.46% and 30-year bonds yields -76 bps at 0.90%.
- Bloomberg Municipal Index yields fell; AAA-rated GO yields 2-year bonds -16 bps to 0.57%, 5-year bonds -14 bps at 0.61%, 10-year bond yields -9 bps to 0.89% and 30-year bonds were -5 bps at 1.51%.
- The 10yr AAA GO Ratio: 114.5.
One can observe these changes by looking at how rates have changed along the curve for both the Treasury curve and for the AAA-rated G.O. Index since last week. The top panel shows four yield curves; two for the Treasury curve - one for the most current date and one from last week and two for the AAA-rated G.O. - current and last week. The bottom panel of the graph shows changes in the rates along both curves for the week for both Treasuries and the AAA G.O. Index.
Supply (Figure 3) – Bloomberg 30-Day Visible Supply currently stands at $15.4 billion up from $10.7 billion this time last week. The YTD average visible supply is $13.4 billion and the 12-mo average is $12.7 billion.
Articles of Interest

*Muni Fund Flows: *According to Refinitiv Lipper muni funds had the first net outflows in 60 weeks – four weeks shy of the record. Outflows amounted to $250 million after 2.3 billion of net inflows during the previous week.

![Lipper: Muni funds suffer first outflow in 60 weeks](chart)

*Puerto Rico*

- **Puerto Rico Commonwealth May Exit Bankruptcy in November:** The U.S. District Court Judge has adopted recommendations of mediating parties in the bankruptcy case. Exit hearing dates are expected be in the vicinity of late October to early November for debt plan approval.
- **The S&P Municipal Bond Puerto Rico Index** finished at 216.6 vs. 216.1 at the end of February -1.4% and +4.8% YTD.

![S&P Municipal Bond Puerto Rico Index Level (1-year)](chart)
Relative Value by Maturity

Table 1 - AAA Muni Ratios and Spreads by Maturity - Data Source: Bloomberg

<table>
<thead>
<tr>
<th>Maturity (yrs)</th>
<th>Yield-to-worst (%)</th>
<th>AAA Gen. Oblig. (bps)</th>
<th>Treasury (bps)</th>
<th>Spread (bps)</th>
<th>Ratio (%)</th>
<th>0% Tax Rate</th>
<th>Spread (bps)</th>
<th>Ratio (%)</th>
<th>35% Tax Equivalent</th>
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Figure 4 – AAA General Obligation Ratios and Spreads – Data Source: Bloomberg
Relative Value by Rating

Figure 5 – Muni Index Yield Curve by Credit Rating – Data Source: Bloomberg

For more information please contact your Financial Advisor.
Appendix – Important Disclosures

Some of the potential risks associated with fixed income investments include call risk, reinvestment risk, default risk and inflation risk. Additionally, it is important that an investor is familiar with the inverse relationship between a bond’s price and its yield. Bond prices will fall as interest rates rise and vice versa.

When considering a potential investment, investors should compare the credit qualities of available bond issues before they invest. The two most recognized rating agencies that assign credit ratings to bond issuers are Moody’s Investors Service (“Moody’s”) and Standard & Poor's Corporation (“S&P”). Moody’s lowest investment-grade rating for a bond is Baa3 and S&P’s lowest investment-grade rating for a bond is BBB-. Ratings are measured on a scale that ranges from AAA or Aaa (highest) to D or C (lowest).

The Bond Buyer 20-Bond Index consists of 20 general obligation bonds that mature in 20 years. The average rating of the 20 bonds is roughly equivalent to Moody’s Investors Service’s Aa2 rating and Standard & Poor’s Corp.’s AA. The Bond Buyer 11-Bond Index uses a select group of 11 bonds in the 20-Bond Index. The average rating of the 11 bonds is roughly equivalent to Moody’s Aa1 and S&P’s AA-plus. The Bond Buyer Revenue Bond Index consists of 25 various revenue bonds that mature in 30 years. The average rating is roughly equivalent to Moody’s A1 and S&P’s A-plus. The indexes represent theoretical yields rather than actual price or yield quotations. Municipal bond traders are asked to estimate what a current-coupon bond for each issuer in the indexes would yield if the bond was sold at par value. The indexes are simple averages of the average estimated yields of the bonds, are unmanaged and a direct investment cannot be made in them.

This is not a complete analysis of every material fact regarding any sector, municipality or security. The opinions expressed here reflect our judgment at this date and are subject to change. The information has been obtained from sources we consider to be reliable, but we cannot guarantee the accuracy. 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. It is strongly recommended that an investor discuss with their financial professional all materially important information such as risks, ratings and tax implications prior to making an investment. Past performance is not a guarantee of future results.

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