Municipal Bond Investor Weekly

High Net Worth Wealth Solutions and Market Strategies // Fixed Income Solutions

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THE WEEK AHEAD

1) It's another FOMC meeting week. The "data dependent" Fed is struggling with data moving in multiple directions amidst policy uncertainty. Futures market suggests next cut at July 30 meeting.

2) Supply and demand dynamics improve with $9 billion in new issue this week. Reinvestment demand picks up in May ahead of large redemptions for June – August. Attractive entry point before increased demand could push prices higher, yields lower.

3) It's May --- and lots of celebrations. Happy Cinco de Mayo!!

MONDAY'S COMMENTARY

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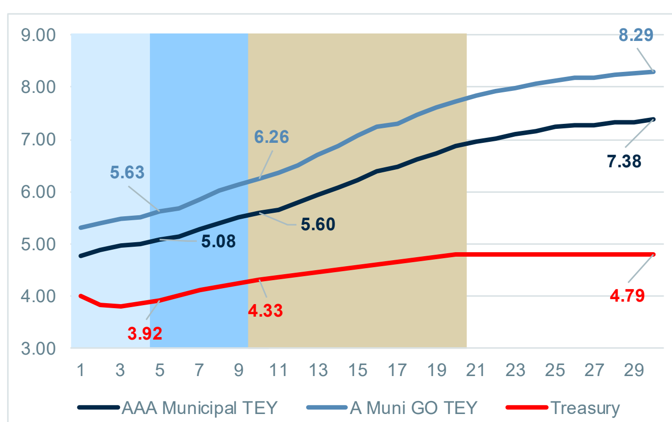
THE NUMBERS THIS WEEK

This week muni yields moved in one direction: Lower. Meanwhile, **Treasuries moved higher** shifting the relative value ratios lower, i.e. munis got a bit "richer." **Opportunity focus is in the 10 - 20 year** where AAA muni ***taxable equivalent yields*** are 125 – 200 basis points better than Treasuries. We can create customized solutions with **Current Yields** greater than 4.50% --- see our **Illustrative Portfolios** on page 3.

Year		Treasury	Municipal (AAA)	Municipal (A)	Municipal TEY* (AAA)	Municipal TEY* (A)	Muni (AAA)/Tsy Ratio	Muni TEY* (AAA)/Tsy Ratio
1	2026	4.00	2.83	3.15	4.79	5.32	71%	120%
2	2027	3.83	2.89	3.20	4.88	5.40	75%	127%
5	2030	3.92	3.01	3.33	5.08	5.63	77%	130%
10	2035	4.33	3.32	3.71	5.60	6.26	77%	129%
20	2045	4.81	4.06	4.58	6.86	7.73	84%	143%
30	2055	4.79	4.37	4.91	7.38	8.29	91%	154%

*Taxable equivalent yield @ 40.8% tax rate



A LOT TO CELEBRATE!!

May is a celebratory month, including everything from the well-deserved Mother's Day celebration (shouldn't that be everyday?!?!) to Memorial Day when we remember and honor fallen service members.

Throughout the month, millions of people celebrate as their family members graduate from college --- whether from two-year, four-year, graduate or professional colleges and universities.

Given everything that's going on in Washington --- *including an FOMC meeting this week!* ---- we thought it would be appropriate to **review the higher education sector** within the municipal bond market.

A few facts for context: In the Fall of 2024, the U.S. Department of Education, National Center for Education Statistics (NCES) reported just over 19 million undergraduate students nationwide. That's down about 8% from the peak enrollment in 2010 (est. 21 million). That said, projections for 2025 enrollments indicate a slight increase continuing a multi-year trend that is projected to continue through 2031 for a decade long increase of ~9% --- this despite the general concerns about the higher cost of higher education. In the US, according to the most recent data from the NCES, there were 5,916 postsecondary institutions (associate's degree and higher) in the country --- approximately 1,900 public, 1,750 private non-profit and 2,300 for-profit. That number is down by more than 1,100 institutions (16%) since 2010-11 --- the time of peak postsecondary enrollment.

In our world of municipal bonds, the issuers in the higher education sector are just a slim slice of the postsecondary universe. As noted below, Moody's and S&P rates between 400-500 colleges and universities --- well under 10% of all postsecondary institutions. Investors still have a lot to work with in this sector, including both tax-exempt and taxable bonds. According to the Municipal Securities Rulemaking Board (MSRB), last year ~$34 billion was issued in higher education bonds, accounting for 8% of the tax-exempt market. An additional $2.6 billion was issued as taxable municipal bonds (7% of taxable market.)

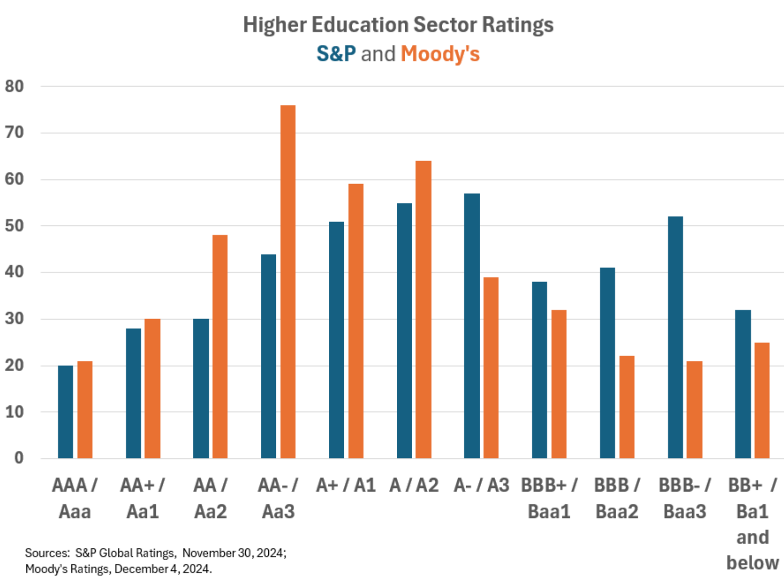
Investors are attracted to the higher ed sector for various reasons: high credit quality, slightly higher risk / adjusted yields, and for some, the emotional appeal of investing in one's alma mater. For those investors who prefer revenue bonds over general obligations (or vice versa!) we have both in this sector. Some colleges offer bondholders the security of all the university's resources (general obligation), others may focus on a dedicated revenue stream, like tuition, or specific fees dedicated to pay bondholders. *(Note: there are a variety of bonds in the broader higher education sector, including those for bonds issued in conjunction with university medical institutions, private student housing bonds, and special education facilities, to name just few. Each present unique opportunities and risks. Our focus here is on the "traditional" college and university issuers and not the broader range of issuers just mentioned.)*

The **first quarter of 2025 was particularly active in the sector.** Municipal Market Analytics (MMA) reported $11.6 billion of tax-exempt issuance (an increase of 45% over 1Q 2024), plus an additional ~$800 million in taxable bonds. According to the MMA report, 90% of the higher ed borrowers have been in the AAA and AA categories. Among the many issuers, Harvard University (AAA / Aaa) has issued bonds twice this year, tax-exempt and taxable, raising just under $ 1 billion. In February, Stanford University (AAA) issued $327 million in taxable bonds, followed by Northwestern University (AA+) issuing $500 million taxable bonds in March. As noted in the our weekly calendar further below, Yale University and Massachusetts Institute of Technology plan on issuing bonds for a combined issuance of ~$1.5 billion.

Driving the increased issuance has been the Trump Administration's changes in education policies. Headlines have focused on Executive Orders taking away federal funding from certain higher profile colleges and universities. In some cases, these actions create revenue shortfalls in the hundreds of millions --- in larger institutions, that is magnified to multiple billion-dollar shortfalls. Revenue sources at risk include research grants --- direct funding and indirect cost recovery, potentially smaller federal student loan programs, and in some cases, the elimination at non-profit colleges of their tax-exempt status, which would have profound effects on their endowments and overall tax liability profile. These actions have created a "**heightened risk environment for US**

colleges and universities" according to a Moody's. In a sector update released April 25th, their analysts stated:

> *"These actions, which led to **a change in our sector outlook to negative**, represent the most substantive short-term challenges to higher education since the early days of COVID-19 pandemic. Multiple policies, proposals and actions could have negative effects on higher education enrollment, liquidity and financial flexibility. **Despite the increasingly fraught landscape, the sector's inherent strength remains**. Overall, the value of a college degree remains robust and demand is strong across much of the sector."*
>
> (Note: sector outlooks reflect Moody's view of credit fundamentals in the sector over the next 12 months, this is distinct from individual issuer rating outlooks. A sector outlook does not represent a sum of upgrades, downgrades or ratings under review or an average of rating outlooks.)



What does the "inherent strength" of the sector look like? Among the more than 400 colleges and universities across the country that issue bonds, more than 90% are rated investment grade (Baa3 or higher rated) Fully 40% of Moody's ratings are in the Aa category or higher (S&P ~30%) --- renown private institutions like Harvard, MIT and Stanford --- all rated Aaa, stable, but also well-known public universities, like University of Michigan, University of Texas System (both Aaa, stable), Ohio State University and University of Florida (both Aa1 stable), University of Georgia and University of California (both Aa2 stable) to name just a few. Smaller, selective private colleges, admittedly with fewer bonds outstanding to support their institutions, also have high credit ratings, e.g. Amherst College (Aaa stable). Simply for reference --- and not a recommendation --- there are plenty of well-known schools, of differing size, focus and geographic location across the ratings spectrum that are frequently seen in bond portfolios: Vanderbilt University (Aa1), Auburn University (Aa2), Boston College (Aa3), Tulane (A1) and University of Miami (A2).

The credit concerns are, not surprisingly, generally found in lower rated albeit still investment grade rated credits. By definition, these schools have weaker financial metrics, their enrollments may be flat or declining such that they have to offer additional tuition assistance / discounting, they may lack a distinctive attraction, or have seen turnover in management, and have smaller endowments / weak fundraising performance. Any or all of these can result in credit deterioration and future downgrades (although downgrades do not mean default). In the first quarter, S&P noted it downgraded 10 institutions while only upgrading 3. Only two downgrades occurred in the A rating category with both institutions moving from A to A- due to weakening financial performance. The remaining 8 downgrades were in the BBB category and below. **This is why when we look for investment opportunities in the higher education sector, we are primarily focused, although not exclusively, on colleges and universities in the AA and higher categories, with stronger enrollments trends, solid financial metrics and substantial endowments to help offset unexpected developments like the present environment.** There are plenty of options as indicated in the ratings chart. S&P's rating profile tends to be a bit more "conservative" for the sector, with a lower percentage of ratings in the Aa/AA category and higher percentage in the Baa/BBB category.

What does this mean for investors? Clearly, **the higher education sector will see more volatility in 2025 than at any time since the COVID-19 pandemic**. We are seeing some signs of bonds trading slightly cheaper due to the heightened risk concerns, but not dramatically cheaper. We expect there will be more credit divergence and ratings downgrades, particularly among schools that are smaller, more regionally focused, private with less selective profiles that require greater resources to attract students--- which adds to weaker financial performance. But as we've seen, those downgrades tend to be "one-notch" moves --- for example, A to A-, A2 to A3 and occasionally "across a rating threshold" crossing from the AA category to A, or from A into BBB land. The majority of recent downgrades have been in the Baa/BBB categories. And as we frequently note in our commentaries, **downgrades do not equal defaults**. While there have been defaults among a a very limited number of smaller colleges rated below investment grade, ***there have been no defaults among the investment grade issuers***. Higher education bonds can have a place in any client portfolio given the range of opportunities available in the market. Which bonds are right for you? That's a great conversation to have with your financial advisor!

Do you have higher education bonds in your portfolio --- do you know what you own? Once the graduation celebrations are over, let us review your portfolio and assess the quality of your bonds.

ILLUSTRATIVE PORTFOLIOS – May 05, 2025

Our illustrative proposals reflect three opportunities along the yield curve with bonds maturing from 1 to 30 years. Last week the municipal bond market saw rates lower across the curve by 4 to 11 basis points. Strategically, our 10–20-year maturity illustration continues to offer an excellent tax efficient solution. **Looking to maximize yield?** The 20 – 30-year range offers an additional ~60 basis points (over 10 – 20 years) and may be appropriate for some investors. For a portfolio rated A or better, the tax-free yield to worst is ~4.60%, which equates to a **taxable equivalent yield to worst of ~7.69%** for an investor in the top federal tax bracket and subject to the net investment income tax. If the callable bonds are not called, the yield to maturity increases to ~4.70%, which equates to a **taxable equivalent yield to maturity of ~7.85%**. This option has an average coupon ~4.31% and a market price of ~$94.52. The **current yield is ~4.56%.** An investment with $1 million par value (~$955,228 market value with accrued interest) will generate a federally tax-exempt annual coupon cash flow of $43,125.

National Municipal Bond Illustrative Portfolios

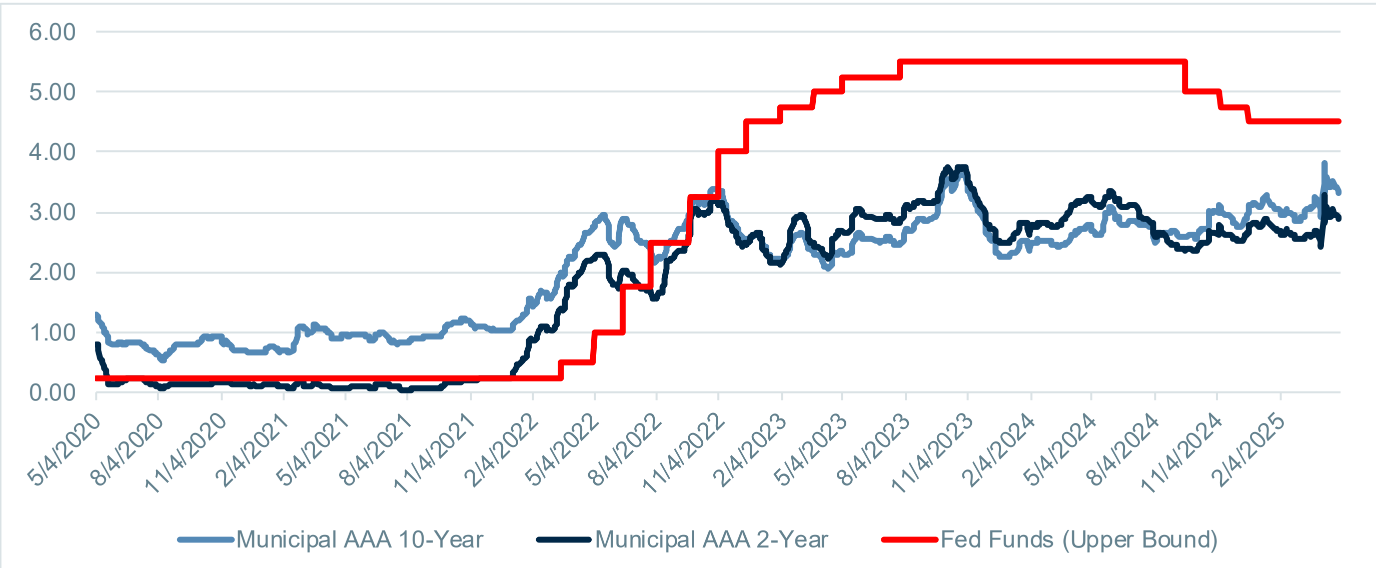
Week of May 05, 2025

Totals & Averages @ Market	1 – 10 Years	10 – 20 Years	20 – 30 Years
Summary Totals			
Original Face	$1,000,000	$1,000,000	$1,000,000
Current Face (Par)	$1,000,000	$1,000,000	$1,000,000
Market Principal	$1,032,766	$1,017,843	$945,212
Accrued Interest	$11,297	$12,894	$10,016
Cash & Cash Alternatives	$0	$0	$0
-	-	-	-
-	-	-	-
Total Portfolio Value	$1,044,063	$1,030,737	$955,228
Next 12mo Cpn Cash Flow	$41,250	$45,000	$43,125
Generic Annual Cpn Cash Flow	$43,000	$45,000	$43,125
Weighted Averages			
Coupon*	4.300%	4.500%	4.313%
Maturity**	4.68 yrs	13.57 yrs	23.68 yrs
Duration	3.12	7.54	11.56
Yield to Worst	3.336%	4.024%	4.608%
Yield to Maturity	3.519%	4.265%	4.702%
Market Price*	103.277	101.784	94.521
Tax Lots Holdings Included	20 of 20	20 of 20	20 of 20

NAVIGATING TODAY'S MARKET

The higher education sectors leads the way this week with Yale University (AAA / Aaa) offering an $850 negotiated deal in two tax-exempt series and one taxable. Yale joins other large issuers in the higher education sector as noted in our weekly commentary, including MIT (AAA/ Aaa) with a $750 million bond issue on tap. Louisiana Public Facilities Authority (A3 / A) will be pricing ~$380 million for revenue and refunding bonds for the Ochsner Clinic Foundation. Palm Beach Co FL Schools (Aa3 / AA-) plans to issue $278 million in certificates of participation.

HISTORICAL YIELDS



Date	Amount	Issuer	ST	Description	Moody's/S&P/Fitch	Maturity
05/05	$4MM	Florida Development Finance Corp	FL	Educational Facilities Revenue Bonds	NR/NR/NR	2058 - 2058
05/05	$86MM	Tuloso-Midway ISD	TX	TULOSO-MIDWAY INDEPENDENT	Aaa/NR/NR	2027 - 2055
05/06	$60MM	Iowa Finance Authori	IA	Single Family Mortgage Bonds, 2025	Aaa/AAA/NR	2030 - 2055
05/06	$64MM	Iowa Finance Authori	IA	2025 Series D (Taxable)	Aaa/AAA/NR	2026 - 2055
05/06	$10MM	Mississippi Dev Bank	MS	Special Obligation Bonds, Taxable Series	--	2026 - 2045
05/06	$105MM	Reg Sch Unit 14 Windham	ME	Regional School Unit No. 14	Aa2/AA/--	2026 - 2045
05/06	$35MM	Mississippi Dev Bank	MS	Special Obligation Bonds, Series 2025A	Aa2/--/--	2026 - 2045
05/07	$8MM	Gwinnett Co Dev Auth	GA	Development Authority of Gwinnett County	NR/A+/NR	2026 - 2042
05/07	$2MM	Climax Springs R-IV Sch Dist	MO	Climax Springs R-IV School District,	--/A+/--	2040 - 2050
05/08	$108MM	Denton County	TX	DENTON COUNTY, TEXAS	Aaa/AAA/--	2026 - 2045
05/08	$76MM	Phoenix/Maricopa IDA	AZ	PHOENIX, ARIZONA (CITY OF)	Aa1/--/--	2027 - 2056

This offering calendar is for information purposes only, and is not intended as an offer for solicitation with respect to the purchase or sale of any securities. For more information on the new issues go to www.raymondjames.com.

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Sourced from Bloomberg: Treasuries: US Fed H15 CMT Curve - The H15 curve is comprised of the constant maturity treasury rates as published daily by the Federal Reserve in the H15 report. Municipal (AAA): BVAL Municipal AAA Yield Curve (Callable) - The curve is populated with high quality US municipal bonds with an average rating of AAA from Moody's and S&P. The yield curve is built using non-parametric fit of market data obtained from the Municipal Securities Rulemaking Board, new issues, and other proprietary contributed prices. The curve represents 5% couponing. The 3 month to 10 year points are bullet yields, and the 11 year to 30 year points are yields to worst for a 10-year call. Municipal (AA): US General Obligation AA Muni BVAL Yield Curve - The BVAL curve is populated with pricing from uninsured AA General Obligation bonds. Municipal (A): US General Obligation A+ A A- Muni BVAL Yield Curve - The BVAL curve is populated with pricing from uninsured A+, A, and A-rated General Obligation bonds. Fed Funds (Upper Bound): The federal funds rate is the short-term interest rate targeted by the Federal Reserve's Federal Open Market Committee as part of its monetary policy. US Treasury securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance.

The illustrative portfolios are intended as a starting point for a conversation on individual bonds. They are not intended as specific recommendations and bonds are shown for illustration purposes only. The bonds listed in the illustrative portfolios are rated A or better, with average ratings from Moody's and Standard and Poor's of Aa2 / AA. The yields shown in the proposals are based on pricing models, not current market offers. Yields shown are indicative of general market levels but are not a guaranteed result. Prices and yields are not inclusive of any fees or commissions.

US Treasury securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value. The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ. The NASDAQ Composite is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance.

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