

Municipal Bond Investor Weekly

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



JULIAN JOHNSON

Fixed Income Private Wealth

THE WEEK AHEAD

1. Markets are not expecting the Fed to cut rates at Wednesday's FOMC meeting.
2. Data releases to watch: retail sales, business inventories, import/export prices, jobless claims, and housing data throughout the week.
3. New issue calendar is currently projected at just under \$10 billion.



DREW O'NEIL

*Director
Fixed Income Strategy*

MONDAY'S COMMENTARY

Certificates of Participation
Illustrative Portfolios

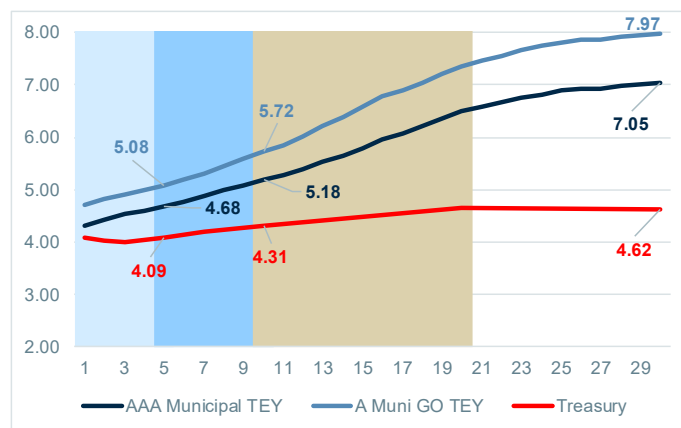
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THE NUMBERS THIS WEEK

Short-term Treasury yields edged higher by 3 to 4 basis points while yields from 5 to 30 years moved a basis point or less. The municipal market saw yield increases outpace their taxable counterparts as the benchmark AAA curve moved 6 to 20 basis points higher for the week, with the larger moves on the longer end of the curve.

Year		Treasury	Municipal (AAA)	Municipal (A)	Municipal TEY* (AAA)	Municipal TEY* (A)	Muni (AAA)/Tsy Ratio	Muni TEY* (AAA)/Tsy Ratio
1	2026	4.09	2.55	2.80	4.30	4.72	62%	105%
2	2027	4.02	2.62	2.86	4.43	4.83	65%	110%
5	2030	4.09	2.77	3.01	4.68	5.08	68%	115%
10	2035	4.31	3.07	3.39	5.18	5.72	71%	120%
20	2045	4.65	3.84	4.36	6.49	7.37	83%	140%
30	2055	4.62	4.17	4.72	7.05	7.97	90%	152%

*Taxable equivalent yield @ 40.8% tax rate



CERTIFICATES OF PARTICIPATION

As uncertainty continues to permeate our financial markets, it is important to reinforce why investors utilize individual fixed income securities. They provide dependable interest income over the life of a bond, while ultimately returning principal when called or at maturity (barring a default). Because portfolios evolve over time through calls, maturities and transactions, it is important to periodically review which bonds are still long in your portfolio and whether they remain consistent with your investment objectives.

This week we are going to explore a common type of issue called certificates of participation (COP). Issued by state and local governments, COPs are lease-financing agreements that do not require voter approval. They are used to finance various projects from equipment purchases to facility construction and are typically quicker to issue than referendum bonds. Municipalities do not pledge their full faith and credit or taxing powers to these issues. They must budget for their COP obligations and appropriate the necessary proceeds every year.

Because of this annual appropriation, COPs are not legally viewed as debt of the government body and often carry ratings that are a notch or two below an agency's general obligation (GO) rating. For example, the ratings on unlimited GO debt issued by the The State of Florida are AAA/Aaa/AAA by Fitch, Moody's and S&P, respectively. Florida's COP obligations are rated one notch lower at AA+/Aa1/AA+. Note that the security description for the GO bonds is quite different than the COPs: The bonds are secured by both a Gross Receipts Tax and by the full faith and credit of the State of Florida. The COPs have a much more detailed security description outlining the obligations under the terms of the lease. Notably, the offering documents note that payments on the certificates "are subject to annual appropriation by the state legislature." In theory a COP investor could foreclose on the project financed in the event of default, but so far no investor has ended up owning a piece of a school or a storm drainage system.

Some issuers have built into their COP obligations features that attempt to mitigate non-appropriation risk. Take Florida school districts, for example. School districts can use COP financing to fund their infrastructure needs and issue them under what's called a Master Lease Program. Under a master lease structure, a school district must annually budget for and appropriate to its COP obligations on an all or none basis, so it either funds all of the educational facilities and related equipment under the Master Lease or none of the facilities and equipment. That's generally viewed a more resilient legal structure for investors, since the district can't "cherry pick" to pay the obligations supporting some facilities over others. When evaluating COPs, credit professionals --- like your Fixed Income team --- look at the "essentiality" of the project to the municipality and its citizens. We also look at the resiliency to economic downturns given the "narrower" stream of revenues pledged to investors. Non-appropriation is a risk factor and highlights the importance of knowing what is in your portfolio or what you are considering as a potential investment. It is highly likely that elected officials will continue to appropriate funds for essential community projects and services, even during periods of economic stress. To reinforce this: there have been no reported incidences of communities defaulting on investment-grade COPs as a result of the economic stress from the COVID pandemic.

Why should investors consider COPs? COPs provide municipalities with a flexible and efficient financing tool for funding public infrastructure and facilities. With a notch or two differential between GO and COP credit ratings, investors can currently expect to pick up around 15 to 20 basis points in yield. By understanding the risks and benefits of COPs, investors can make informed decisions as to whether these investments are aligned with their financial goals and strategies --- a conversation that's always welcomed by your financial advisor!

ILLUSTRATIVE PORTFOLIOS

Our illustrative proposals reflect three opportunities along the yield curve with bonds maturing from 1 to 30 years. Last week municipal bond yields moved higher by ~6-20 basis points (bp) with larger moves in longer maturities. Strategically, our 10–20-year maturity illustration continues to offer an excellent tax efficient solution. **Looking to maximize yield?** The 20 – 30-year range continues to offer an additional 64 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 ~4.35%, which

equates to a **taxable equivalent yield to worst of ~7.31%** 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 ~4.51%, which equates to a **taxable equivalent yield to maturity of ~7.58%**. This option has an average coupon ~4.31% and a market price of ~\$97.10. The **current yield is ~4.44%**. An investment with \$1 million par value (~\$982,540 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 March 17, 2025

1 – 10 Years

10 – 20 Years

20 – 30 Years

Totals & Averages @ Market	
Summary Totals	
Original Face	\$1,000,000
Current Face (Par)	\$1,000,000
Market Principal	\$1,043,624
Accrued Interest	\$11,564
Cash & Cash Alternatives	\$0
-	-
-	-
Total Portfolio Value	\$1,055,188
Next 12mo Cpn Cash Flow	\$42,000
Generic Annual Cpn Cash Flow	\$43,000
Weighted Averages	
Coupon*	4.300%
Maturity**	4.83 yrs
Duration	3.19
Yield to Worst	3.032%
Yield to Maturity	3.267%
Market Price*	104.362
Tax Lots Holdings Included	20 of 20
*Par-Wtd, all else Mkt-Wtd.	
**Avg life used for principal paydowns, and perpetual securities are assigned a 40 year maturity.	

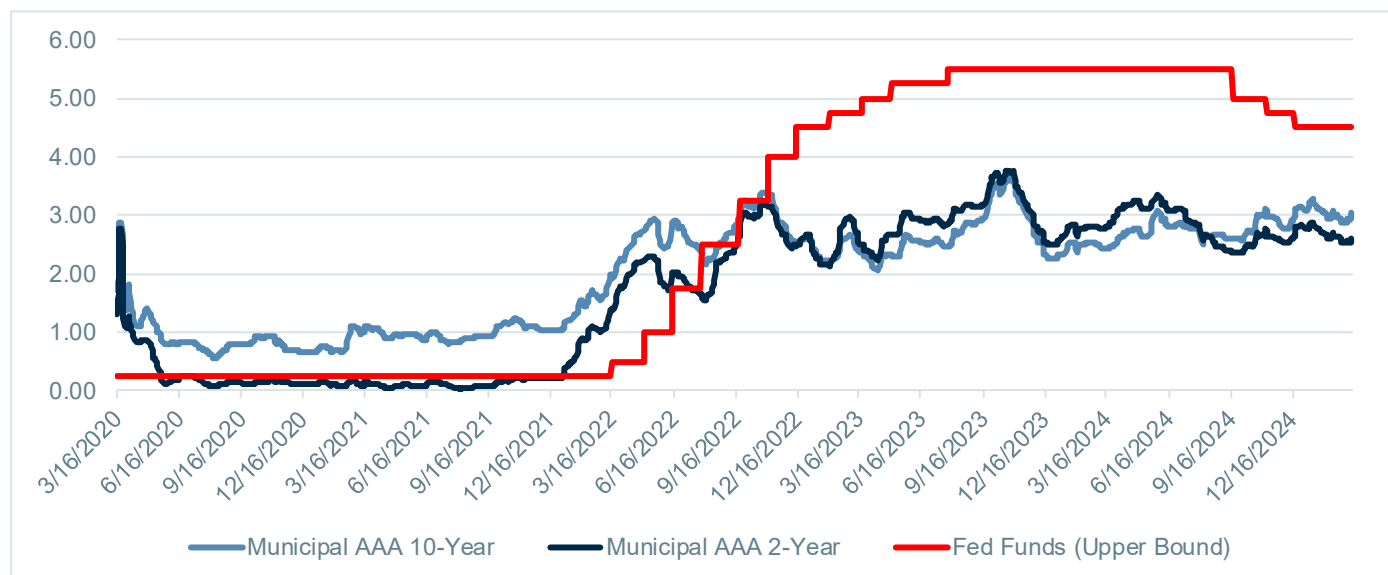
Totals & Averages @ Market	
Summary Totals	
Original Face	\$1,000,000
Current Face (Par)	\$1,000,000
Market Principal	\$1,039,656
Accrued Interest	\$12,644
Cash & Cash Alternatives	\$0
-	-
-	-
Total Portfolio Value	\$1,052,300
Next 12mo Cpn Cash Flow	\$45,000
Generic Annual Cpn Cash Flow	\$45,000
Weighted Averages	
Coupon*	4.500%
Maturity**	13.70 yrs
Duration	6.77
Yield to Worst	3.714%
Yield to Maturity	4.054%
Market Price*	103.966
Tax Lots Holdings Included	20 of 20
*Par-Wtd, all else Mkt-Wtd.	
**Avg life used for principal paydowns, and perpetual securities are assigned a 40 year maturity.	

Totals & Averages @ Market	
Summary Totals	
Original Face	\$1,000,000
Current Face (Par)	\$1,000,000
Market Principal	\$971,024
Accrued Interest	\$11,516
Cash & Cash Alternatives	\$0
-	-
-	-
Total Portfolio Value	\$982,540
Next 12mo Cpn Cash Flow	\$43,125
Generic Annual Cpn Cash Flow	\$43,125
Weighted Averages	
Coupon*	4.313%
Maturity**	23.81 yrs
Duration	11.73
Yield to Worst	4.353%
Yield to Maturity	4.514%
Market Price*	97.102
Tax Lots Holdings Included	20 of 20
*Par-Wtd, all else Mkt-Wtd.	
**Avg life used for principal paydowns, and perpetual securities are assigned a 40 year maturity.	

NAVIGATING TODAY'S MARKET

New issuance for the week is expected to come in at just under \$10 billion according to The Bond Buyer. Some of the larger issues include: the Alabama Federal Aid Highway Finance Authority (Aa2/AAA) is selling \$608 million of special obligation revenue bonds; the San Diego Unified School District (Aa2/-/AAA) is bringing a \$509 million general obligation refunding deal to market; the Arlington Higher Education Finance Authority (Aaa/AAA) is selling \$139 million of PSF backed Riverwalk Education Foundation revenue bonds; and the Illinois Housing Development Authority (Aaa/-) is bringing a \$116 million taxable social revenue bond deal to market. See table below for additional new issuance.

HISTORICAL YIELDS



Date	Amount	Issuer	ST	Description	Moody's/S&P/Fitch	Maturity
03/17	\$294MM	National Finance Authority (NH)	NH	SERIES 2025-1	--/AA/--	2041 - 2041
03/17	\$45MM	National Finance Authority (NH)	NH	SERIES 2025-1	--/BBB/--	2041 - 2041
03/17	\$45MM	West Virginia Hsg Fu	WV	Housing Finance Bonds	Aaa/AAA/--	2026 - 2055
03/17	\$45MM	West Virginia Hsg Fu	WV	Housing Finance Bonds	Aaa/AAA/--	2026 - 2055
03/18	\$10MM	North Penn SD	PA	North Penn School District	Aa1/NR/NR	2026 - 2050
03/18	\$5MM	West Haven	CT	General Obligation Bond Anticipation	--	2026 - 2026
03/18	\$12MM	West Haven	CT	General Obligation Bonds, Issue of 2025	Baa2/A/--	2026 - 2045
03/18	\$38MM	Glasscock Co. ISD	TX	Unlimited Tax School Building Bonds,	--/AAA/--	2025 - 2035
03/18	\$117MM	Illinois Hsg Dev Aut	IL	ILLINOIS HOUSING DEVELOPMENT	Aaa/NR/NR	2036 - 2055
03/18	\$7MM	Community FD No. 2022-2	CA	Community Facilities District No. 20222	NR/NR/NR	2025 - 2055
03/18	\$11MM	Clarion Co Indl Dev	PA	Series 2025C	A1/AA/--	2026 - 2033
03/18	\$1073MM	Metro Trans Auth	NY	METROPOLITAN TRANSPORTATION	A3/A-/AA	2029 - 2055
03/18	\$75MM	Arkansas Dev Fin Aut	AR	Single Family Mortgage Revenue Bonds,	--/AA+/-	2026 - 2056
03/18	\$0MM	Clarion Co Indl Dev	PA	Series 2025B	A1/AA/--	2027 - 2028
03/18	\$12MM	Clarion Co Indl Dev	PA	Series 2025A	A1/AA/--	2029 - 2045
03/18	\$117MM	Illinois Hsg Dev Aut	IL	Illinois Housing Development Authority	Aaa/NR/NR	2026 - 2041
03/18	\$32MM	City of El Paso, TX	TX	City of El Paso, Texas	--/AA+/-	2026 - 2050
03/20	\$39MM	Cobb Co Dev Auth	GA	Development Authority of Cobb County	A1/NR/NR	2027 - 2056
03/20	\$11MM	BYRON UNION SCHOOL	CA	General Obligation on Bonds Election of	A1/--/-	2026 - 2049
03/24	\$34MM	Mississippi Home Cor	MS	Single Family Mortgage Revenue Bonds	Aaa/--/-	2025 - 2055
03/24	\$100MM	Mississippi Home Cor	MS	Single Family Mortgage Revenue Bonds	Aaa/--/-	2031 - 2053

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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880 CARILLON PARKWAY // ST. PETERSBURG, FL 33716 // 800.248.8863 // RAYMONDJAMES.COM

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