Seelaus Asset Management Municipal Bond Market Commentary

SEELAUS ASSET MANAGEMENT

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Market Recap

- We have seen substantial outperformance in the front end of the muni curve (1-7yrs) in the period April through the end of July. Ratios* have tightened 16 ratios in 2030 and 9 ratios in 2032 with the majority of that tightening coming in the last month. At the same time, we have seen relative underperformance in the 12-15 year part of our curve with ratios unchanged to 3 ratios wider. When looking at the 20-30 year part of the muni curve, we see similar underperformance of unchanged to 3 ratios wider.
- Uncertainty around tariff policy, as well as the backdrop of the rates environment, has caused a substantial number of participants in the municipal bond market to shift risk to the front end of the curve. This, coupled with the dynamic of increased issuance (running 21% over last year YTD), and coming in large part in the second half of our 30-year curve has caused the significant underperformance we have seen on the long end.
- Municipal bond supply year to date stands at $339B, tracking to eclipse last year's record issuance of ~$535B. Notably, July priced $53B in new issue deals which, as compared to July of 2024 ($46B) and 2023 ($27B), is a strong issuance number. This unusual dynamic of outsized summer issuance is poised to continue through the end of August with $18B in 30-day visible supply.
- Amid this wash in supply, fund flows have remained relatively strong. This has resulted in a gradual but consistent ratio widening in the 10-30yr part of the curve. We have not seen a market-dislocation type spread event where spreads have gapped substantially wider. The long end of the curve is feeling moderately heavy at this point, and there has been talk of the market reaching an "inflection point" at which time large new issue supply can no longer be absorbed in an orderly manner leading to spread widening. The substantial 30-day net negative supply of -$2.2B that contradicts this narrative pointing towards continued orderly primary market pricing through the end of August.
- As we approached 100% ratios on the long end in mid-late April, we did see the traditional taxable "cross-over" buyers come in and buy certain credits behind 100% ratios. This support, along with overall strong municipal bond fund flows tamped down any further widening and buoyed the market in the 90-95% ratio range on the long end.

Investment Strategy:

- Our approach in this dynamic market has been to selectively put money to work in the cheaper part of our intermediate strategy curve (12-15yrs). We aim to confront risk in credits we are comfortable with from a fundamental standpoint, and in structures that allow us to pick up yield while maintaining duration parameters and meeting individual investor objectives. While doing this, we still aim to participate in the short end of our 1-15yr curve purchasing bonds that display attractive yields and fit our overall strategy. This "barbell" approach has allowed us to maintain performance and duration targets while opportunistically looking for attractive spread.
- As an example, we purchased GA Main Street Natural Gas pre-pay bonds with Citigroup guarantee (A3 Moody's) 5% coupons of 2034 final at 4.35% or taxable equivalent of 6.90%. We have also extended longer on the 1-15yr part of the curve to capture spread in Sutter Health (A1/A+) 5% coupons of 2038 (27c) at a 4.79% or 7.60% taxable equivalent yield. Other purchases have been in similar duration range and structure. Longer bonds purchased with 12-15yr finals generally have 1-5yr calls in order to manage duration. This combined with bullets (non-callable bonds) in 1-5yrs allows us to maintain duration while searching for attractive yield levels.

Commentary as of 8/07/25. Data as of 8/07/25, per Bloomberg.

- Purchases in the month of July displayed weighted average coupon of 4.46%, spread to an MMD (Municipal Market Data) of 109bps duration of 6.11yrs.

Interesting Observations:

- The large $3.5B AMT Baa3 rated deal issued through WI PFA for GA SR400 Express Lanes Toll Road was priced the last week of July. Notable characteristics of the deal included the long construction completion period of 6 years and the fact that it came through the WI Public Finance Authority conduit despite being located just outside Atlanta, Georgia. This is typical of muni deals that do not qualify for state tax exempt status in their home state. The deal came with long 6.5s and 5.75s coupon in both 30 and 40years. Bonds priced in the 6.03-6.08% for 30yr and 6.13-18%in 40yrs. The deal traded up 2+points in the secondary on the break. This is yet another example of our market starved for yield and indicative of credit spread compression that will persist going forward.
- NY Thruway PITs priced a large $2.933B Aa1 rated competitive deal in six parts with JP Morgan, Jefferies, RBC, Morgan Stanley, and Bank of America winning at least one series each. Clearing level in the competitive market for the 10-year part of the curve for 5.00% coupon was 3.50% or +22/MMD scale while the long end priced 5.00% coupons at 5.10% or +45/mmd scale in 30 years. This represented 103% of treasuries on 7/17/2025 and was substantially cheaper than comps seen trading in the secondary market. The most recent trades on these 30-year bonds are in the 4.95% context or 15bps better than their new issue level.
- Brightline Florida disclosed that they incurred an event of monetary default on their bonds after missing the July 1st coupon payment. The long-struggling high speed rail deal with Fortress as equity sponsor, traded down to the low $80s for the senior bonds and low $70s for the subordinate bonds. Largest holders include First Eagle and Nuveen. Assured Guaranty also has substantial exposure to the credit having wrapped ~$1.2B of the structure at the end of 2024.
- President Trump announced a $15,000 VISA fee that has concerning implications for schools where foreign students represent larger portions of enrollment than peers. Colleges and Universities across the U.S. have made statements regarding the punitive nature of the VISA fee and related impact to declines in enrollment. This comes on the back of the recent spat between the White House and Universities regarding threats to their tax-exempt financing access. We have been proactively monitoring our credit exposure in the higher education sector to mitigate any potential negative impact to credits we own.
  As always, we are happy to discuss any of these recent muni market dynamics in more depth.

- Seelaus Asset Management, Intermediate Municipal Bond Strategy

*We use the ratio of our muni MMD scale as compared to treasuries of the same maturity as a measure of relative value to the taxable market.

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Our Vision

To be a best-in-class asset manager that leads with value in a client driven, partnership model.

Our Values

- *Innovative*
- *Diverse Perspective*
- *Impactful*
- *Authentic*

Our Mission

To be an agent for change in the finance industry by demonstrating a straight line between the support we receive as a women-owned firm and the support we provide to women in the industry and in the community.

To learn more about our investment offerings, please call 212-935-0755, email ir@seelausam.com or visit https://www.rseelaus.com/asset-management/

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