

NH&RA Annual Meeting • February 22-24, 2024 • The Breakers • Palm Beach, Florida

RISING AND INVERTED YIELD CURVES – DERIVATIVES ARE BACK! NEW DECLINING RATE IMPACTS AND OPPORTUNITIES Part 1*

February 24, 2024

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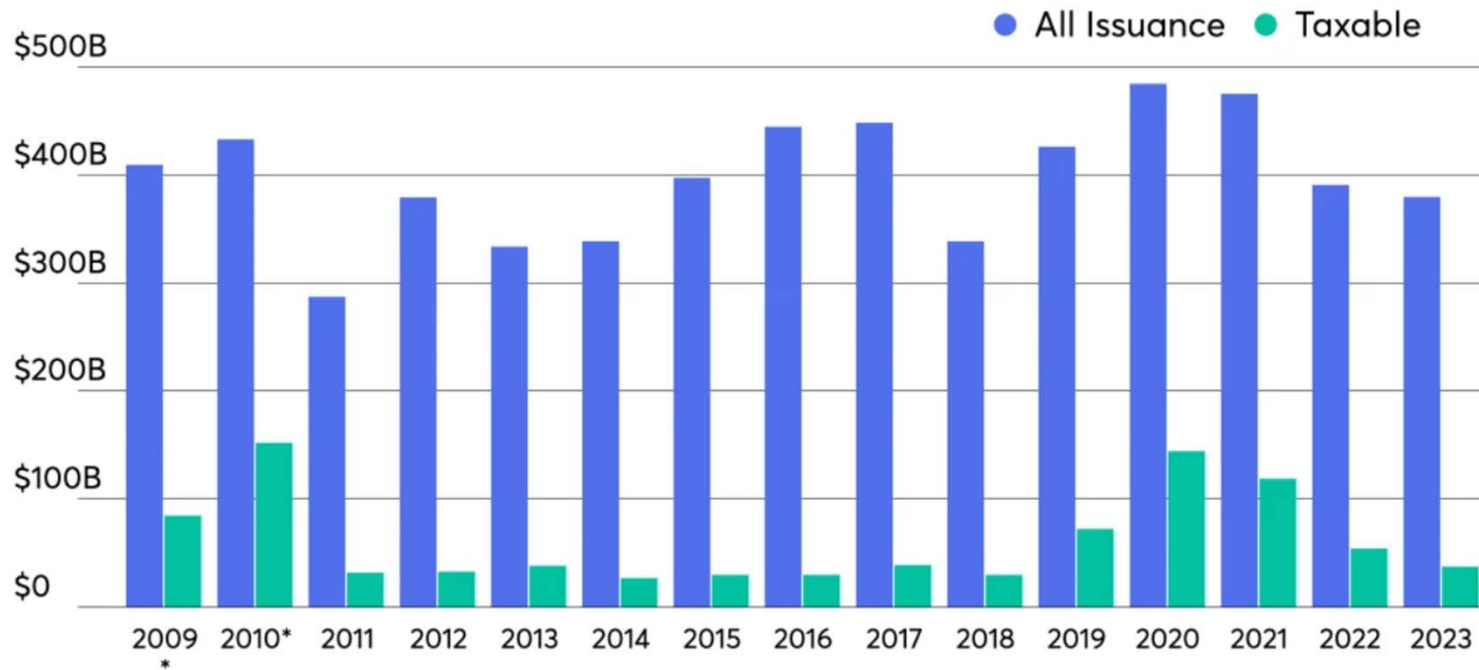


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ANNUAL MUNI BOND ISSUANCE

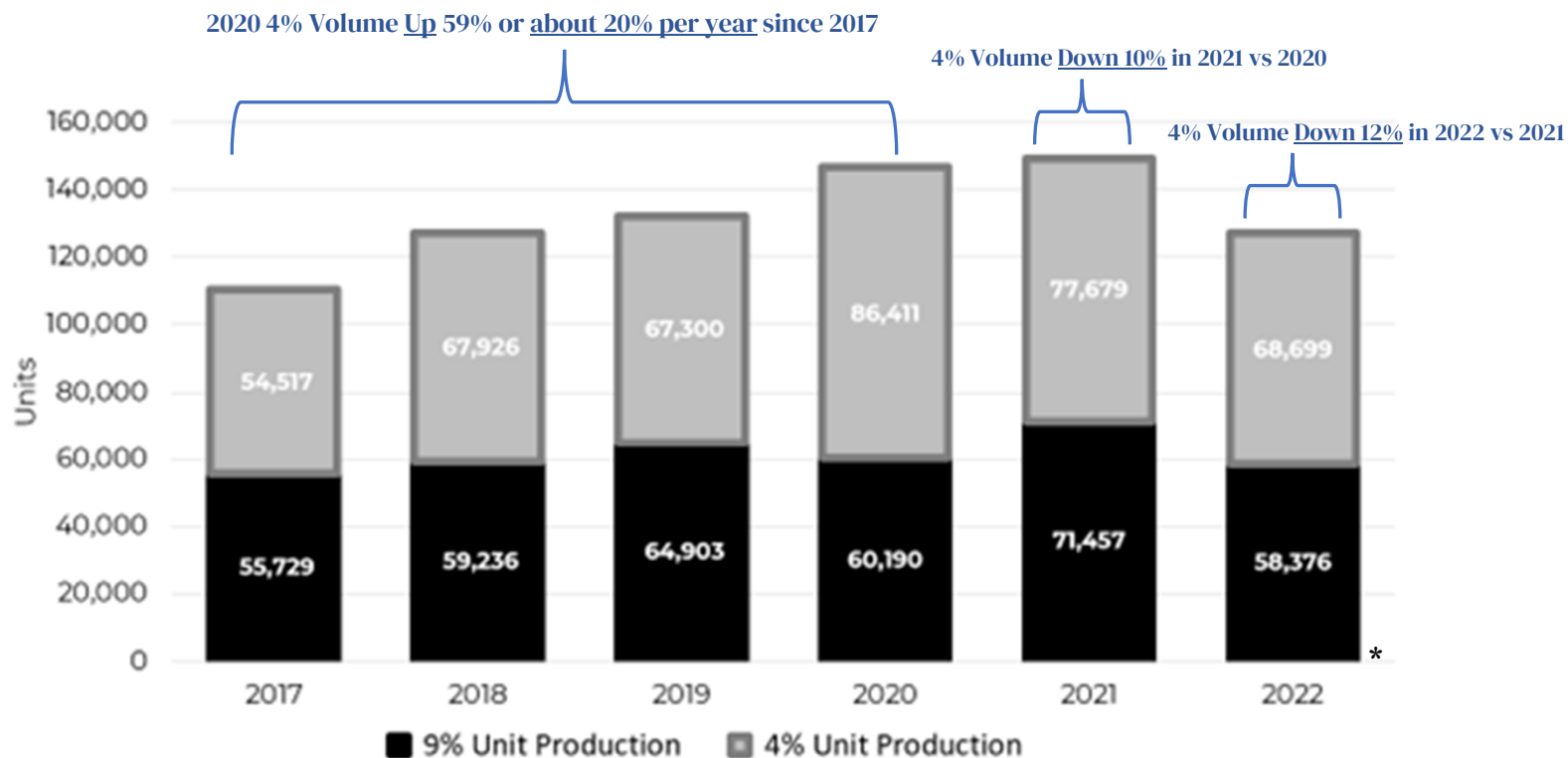
Down From 2020 High



Source: Refinitiv *Includes BABs* Year-to-Date; *The Bond Buyer* 1/2/2024



4%/9% LIHTC UNIT PRODUCTION BY CREDIT TYPE



* Probably down another 10-15% in 2023

Source: NCHSA 2023 Factbook

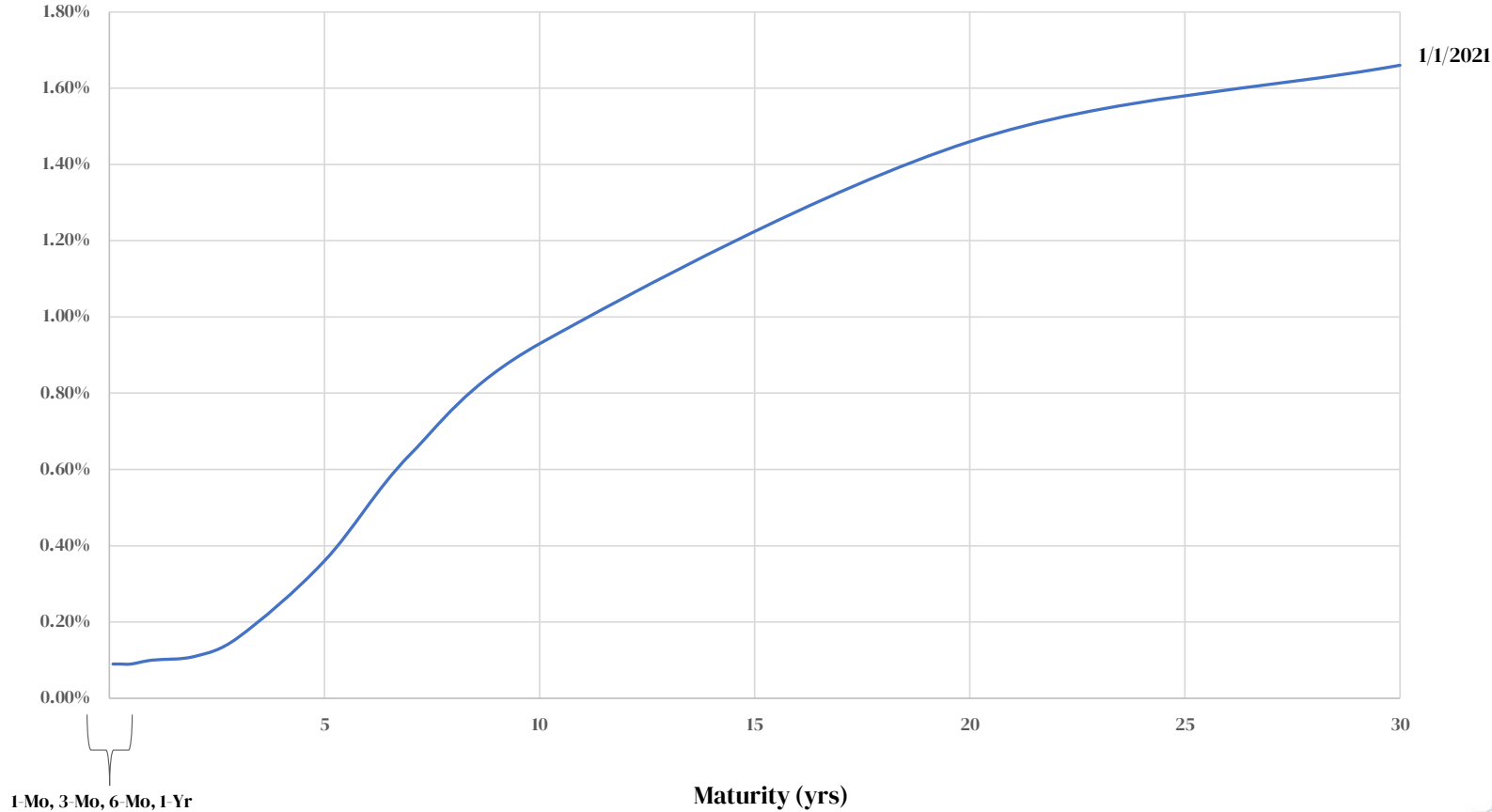


Yield Curve Movements

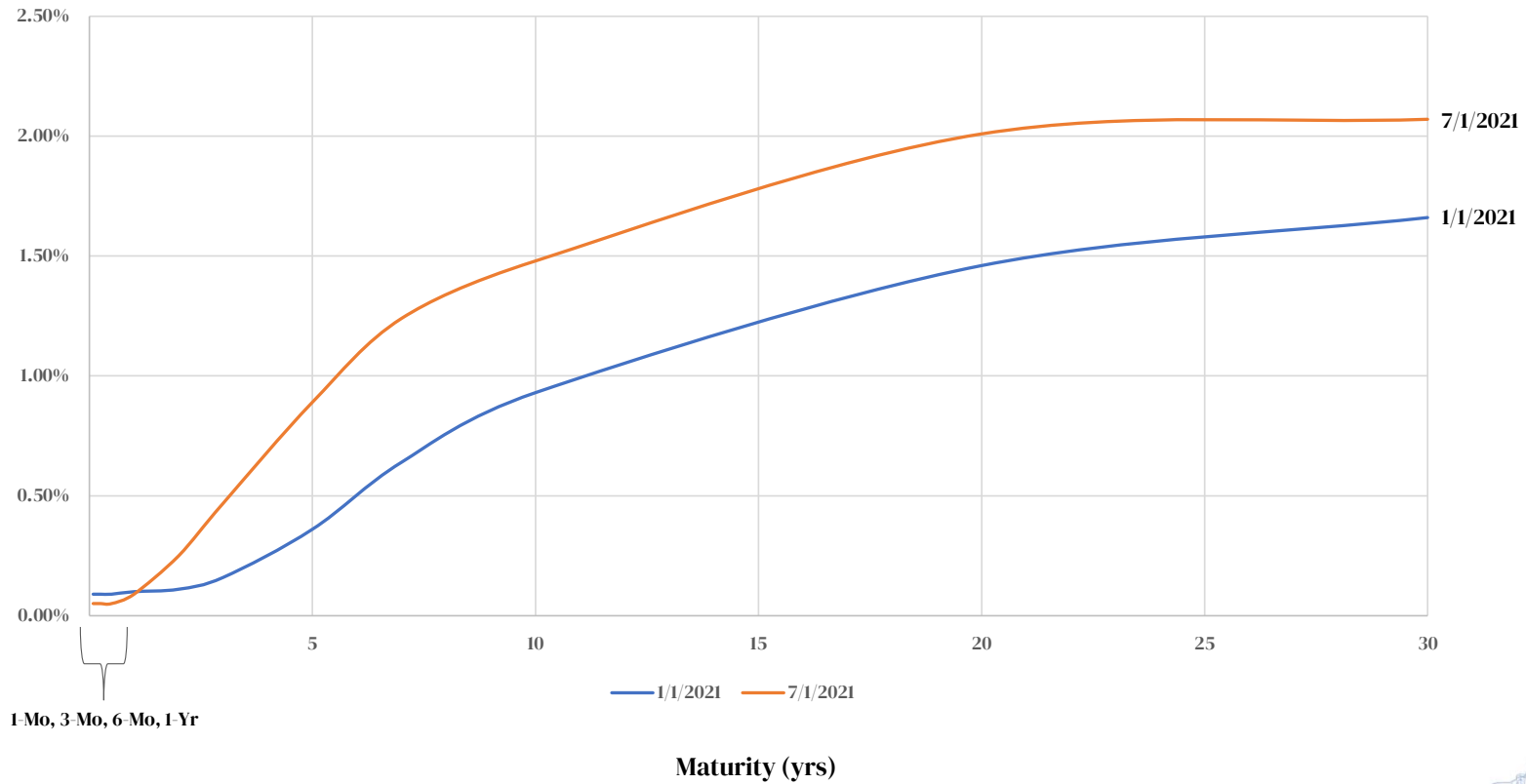
2021-2023



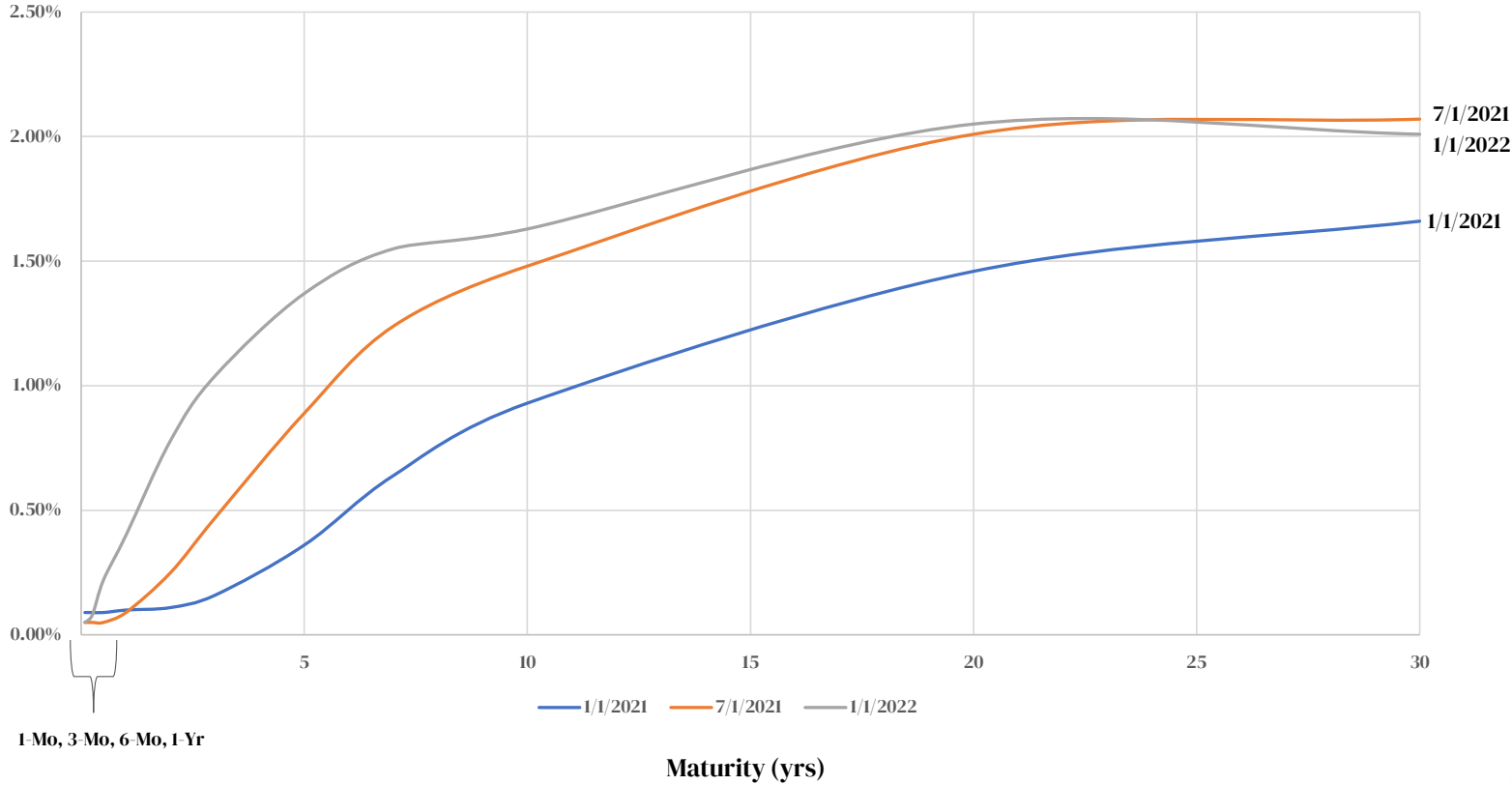
Rising, Inverted Treasury Yield Curves – 1/1/2021



Through 7/1/2021



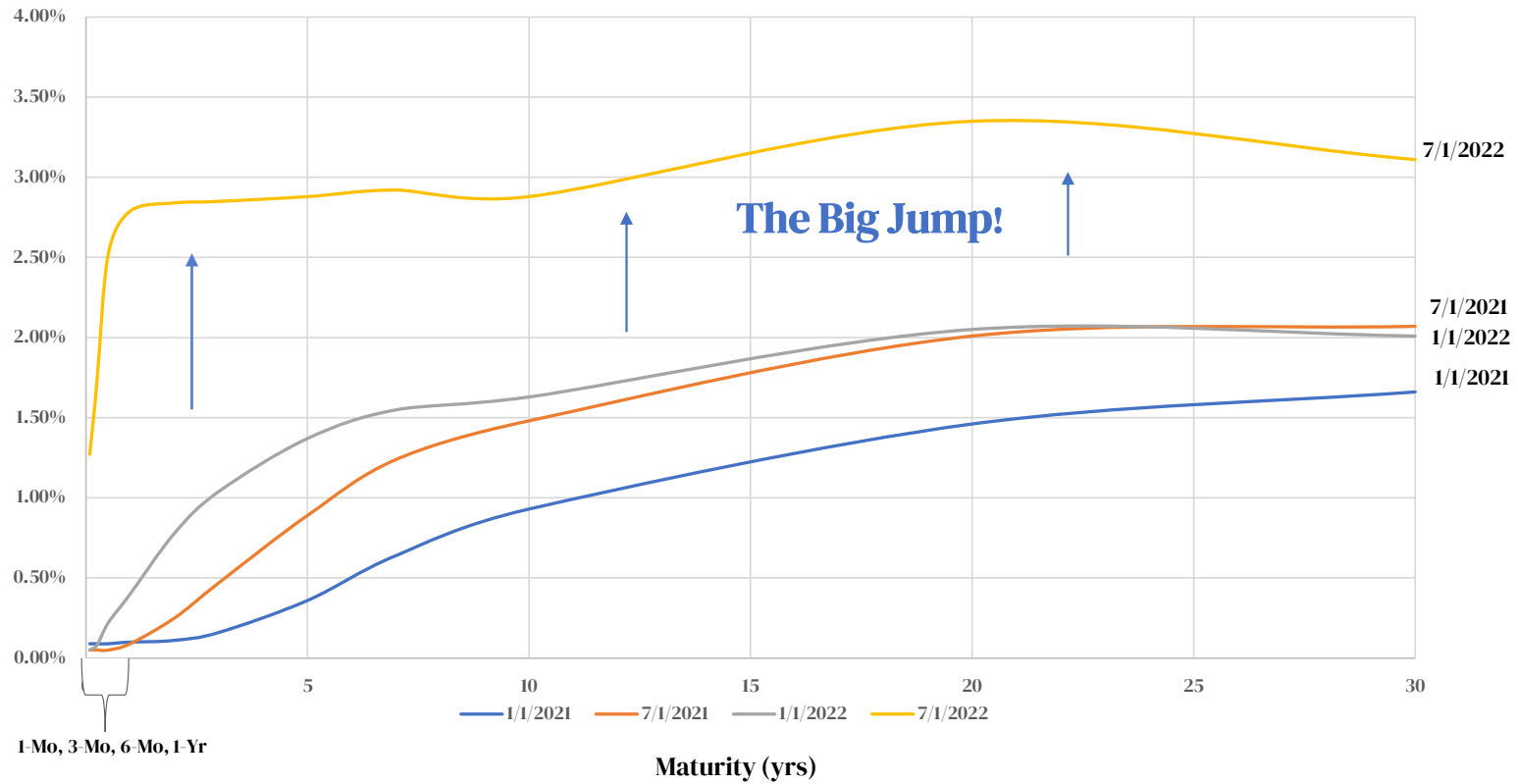
Through 1/1/2022



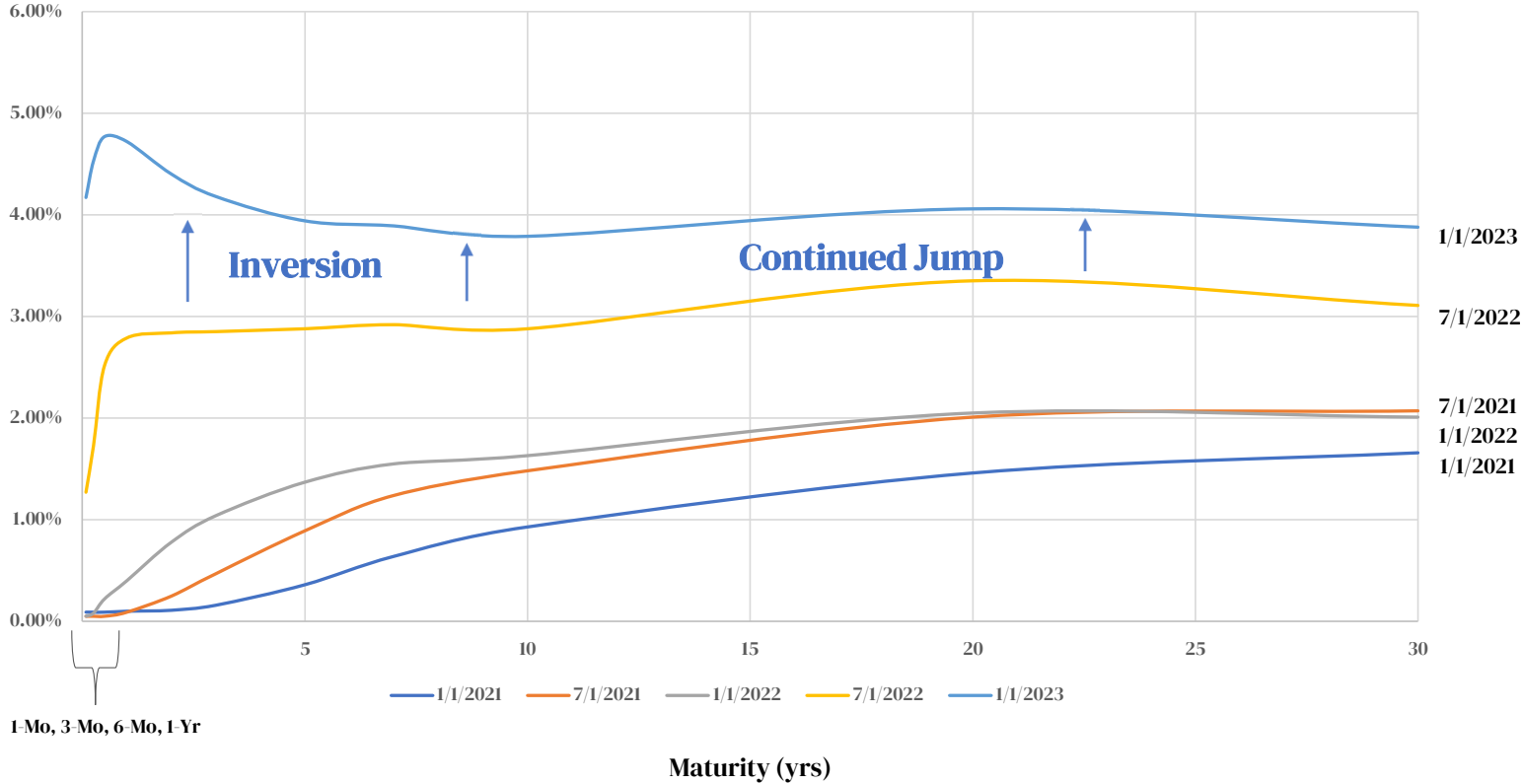
1-Mo, 3-Mo, 6-Mo, 1-Yr



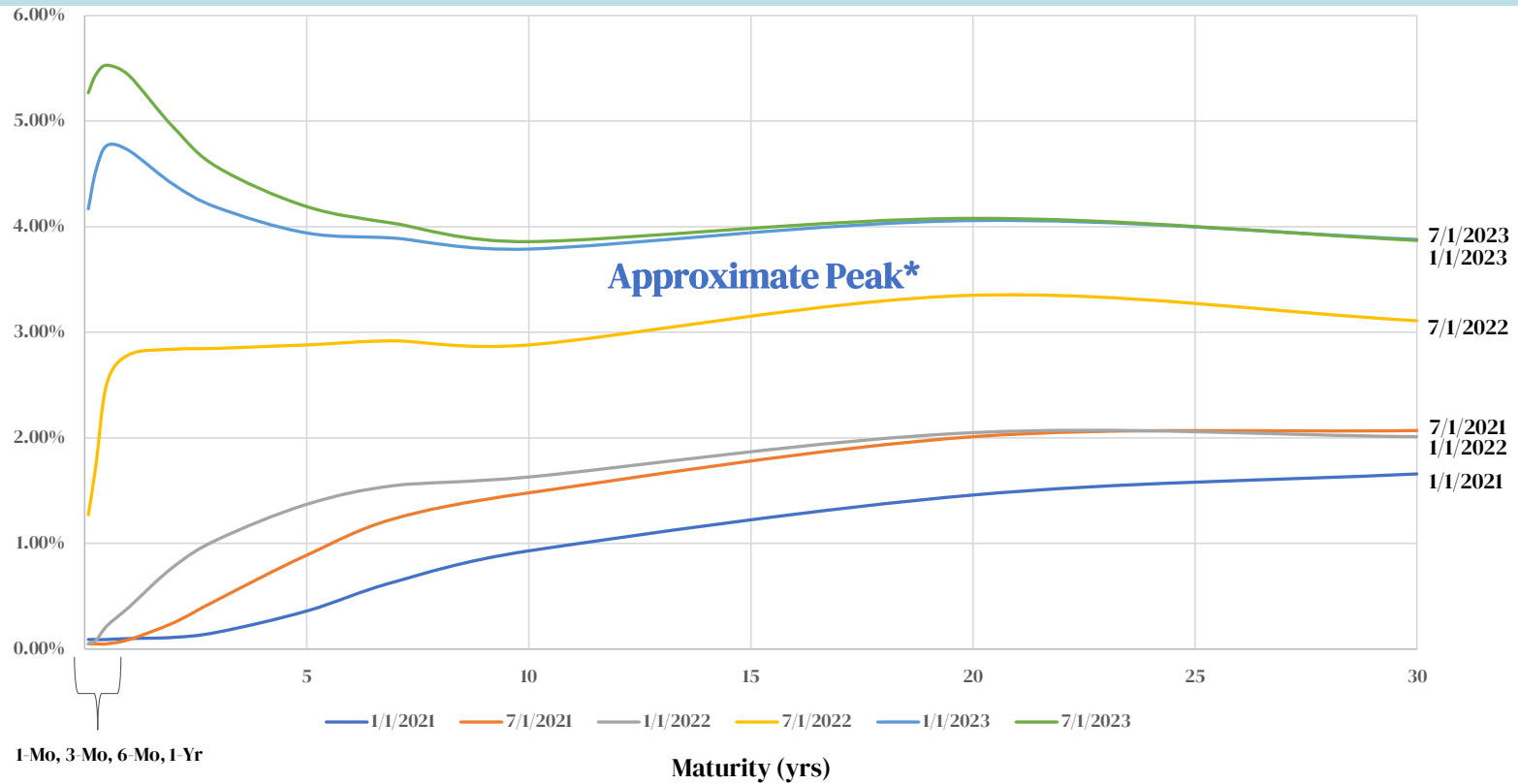
Through 7/1/2022



Through 1/1/2023



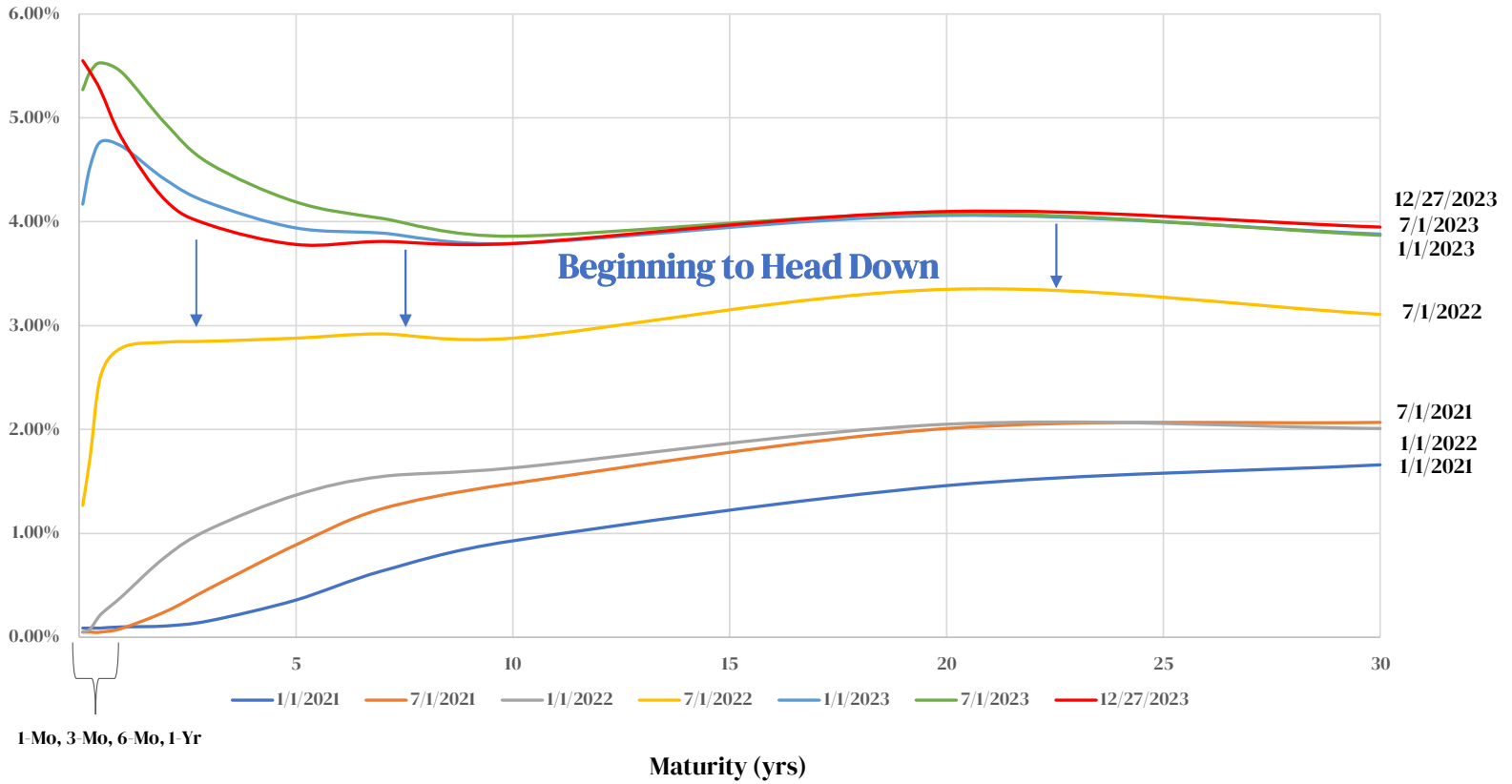
Through 7/1/2023



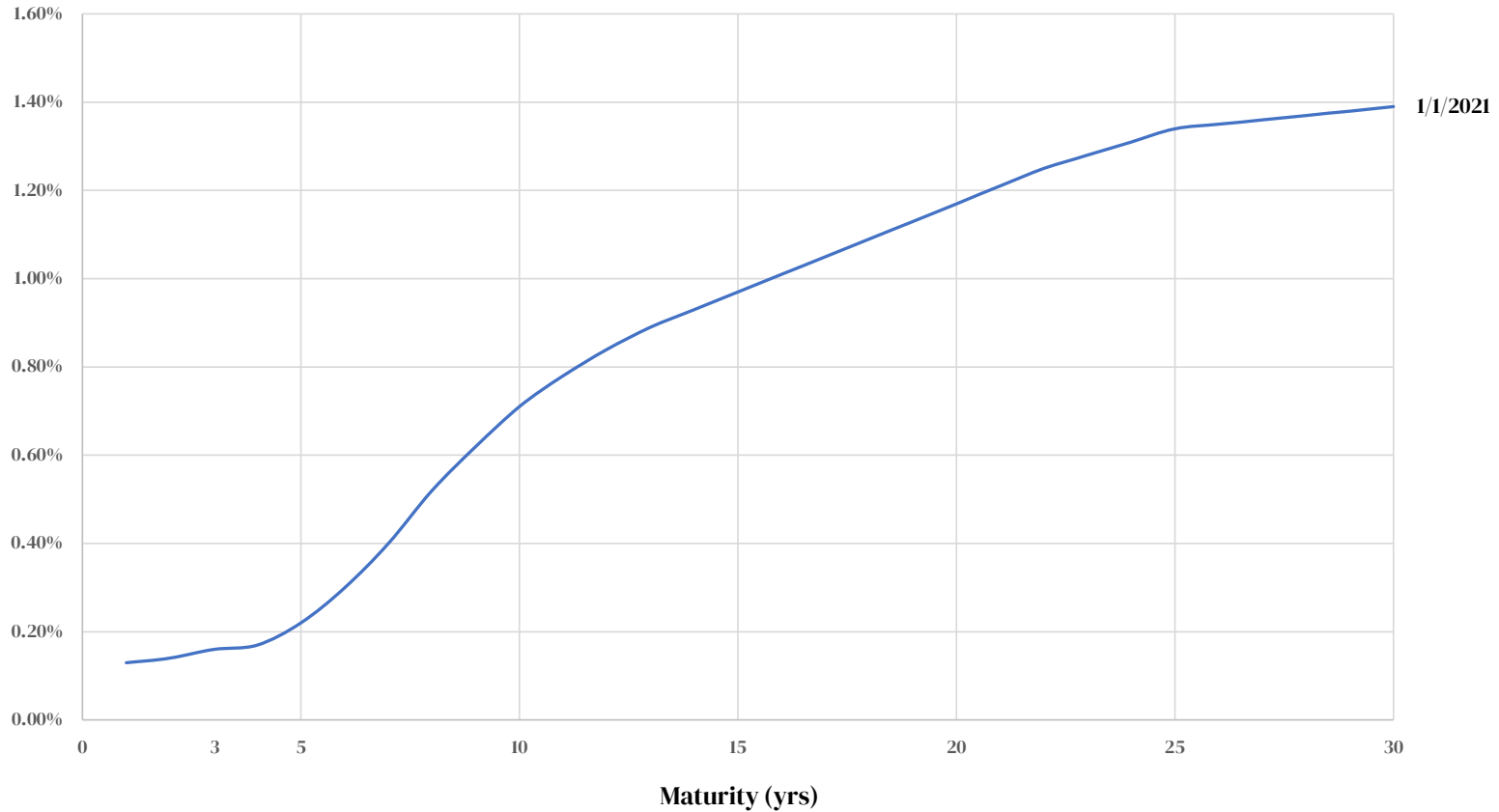
*Note in the last half of 2023, the 10-year Treasury yield hit a high of 4.98% on October 25, 2023 before falling back to close to 4% at the end of the year.



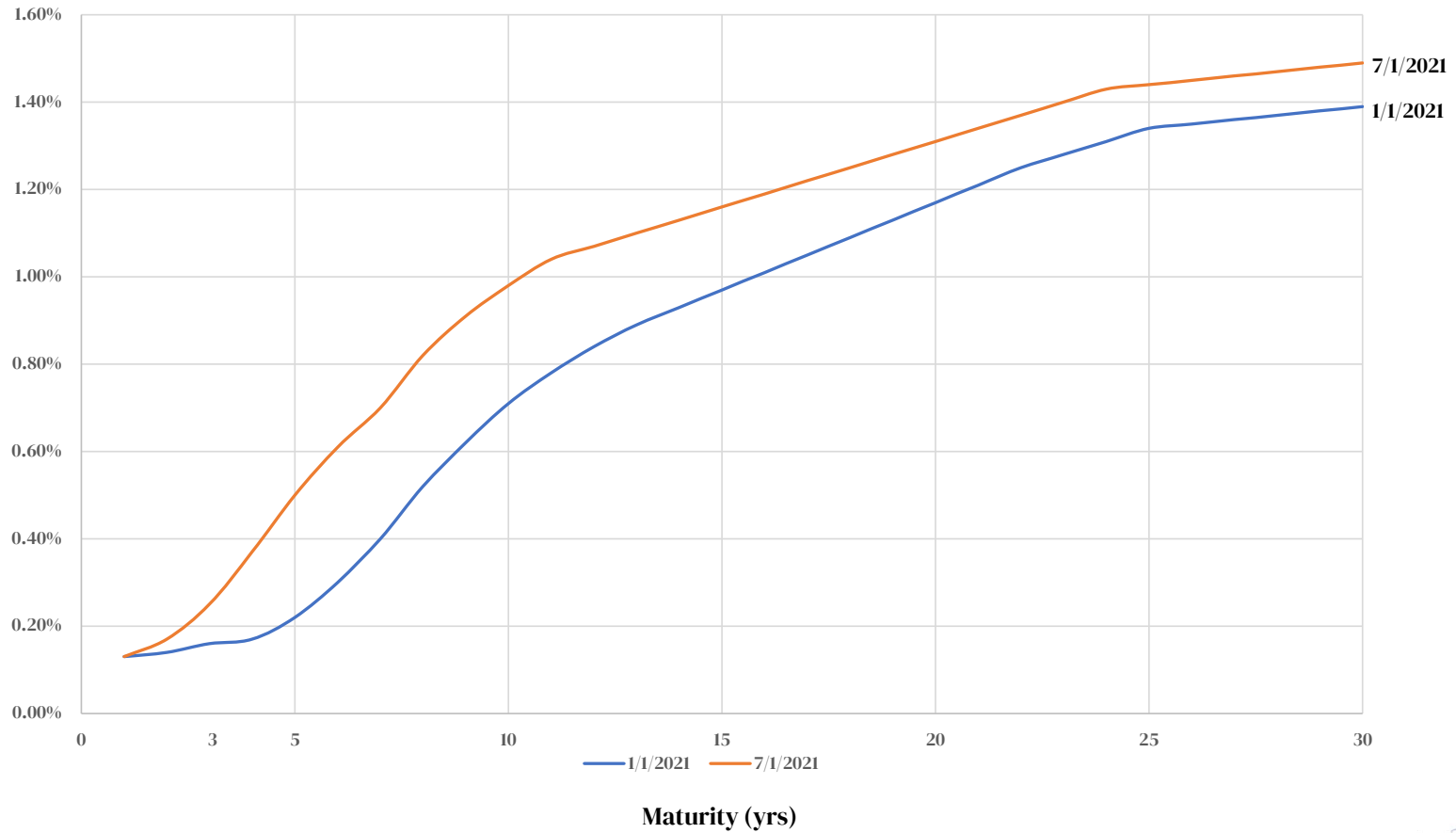
1/1/2021 – 12/27/2023



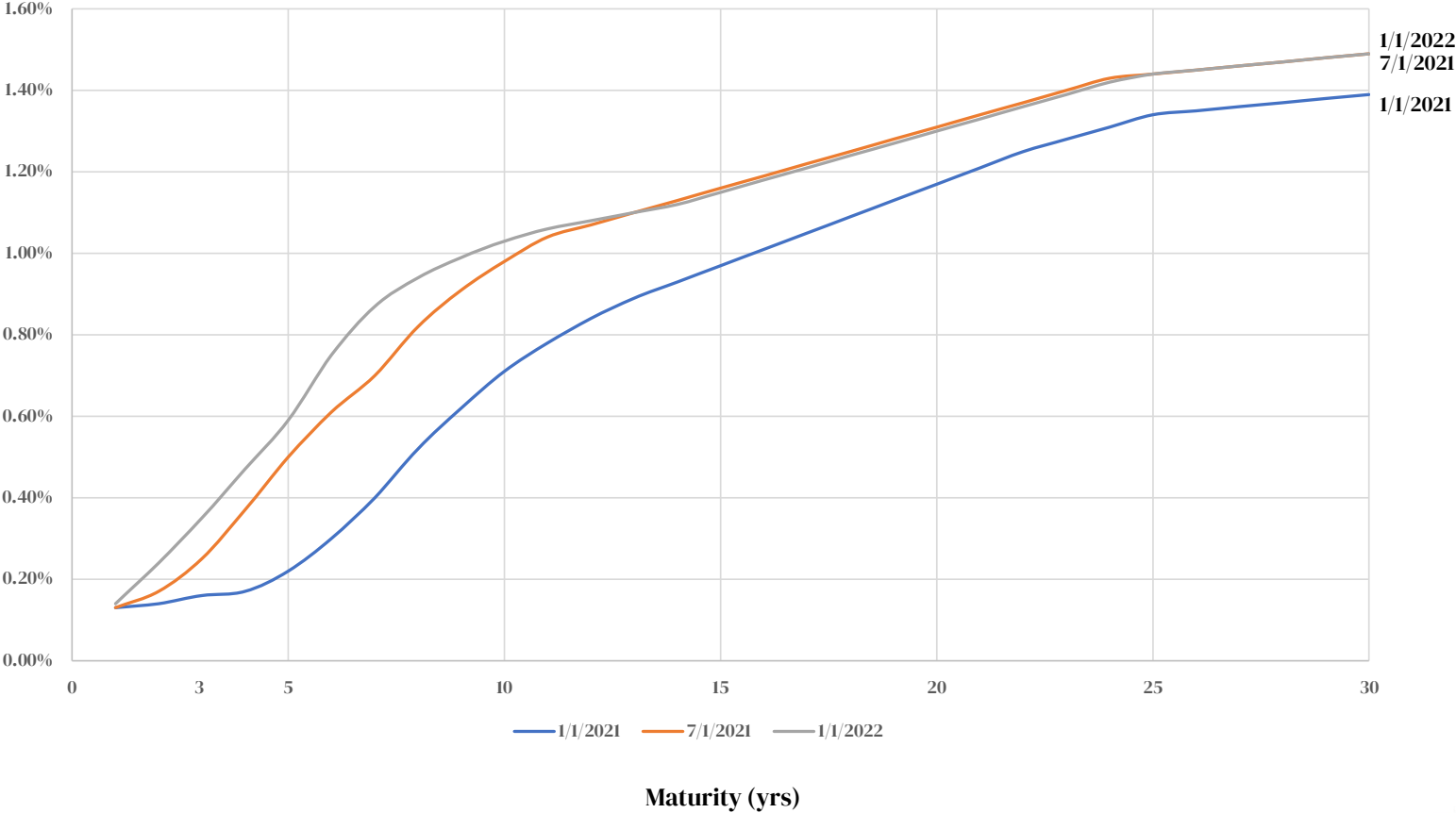
MMD Yield Curve – 1/1/2021



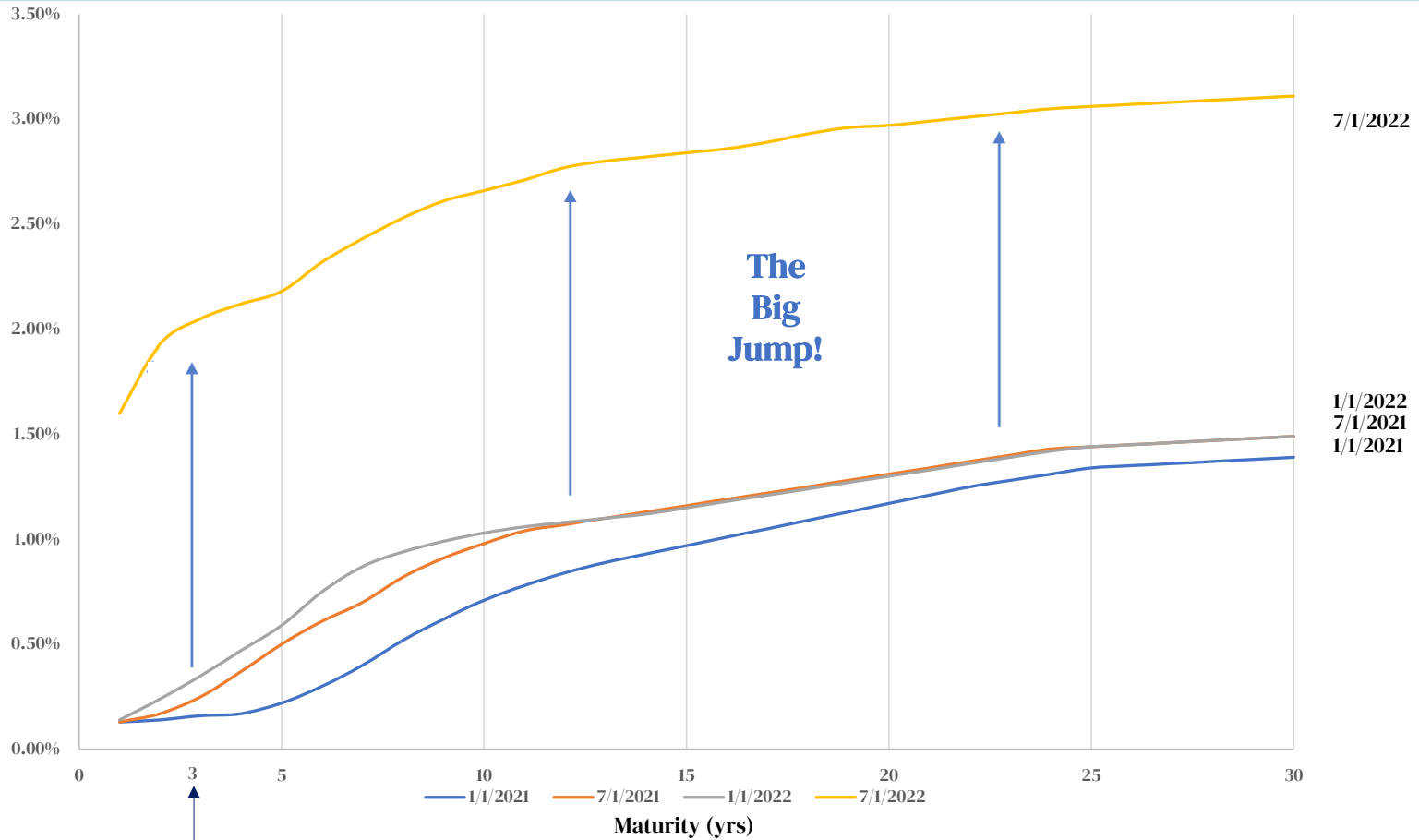
Through 7/1/2021



Through 1/1/2022



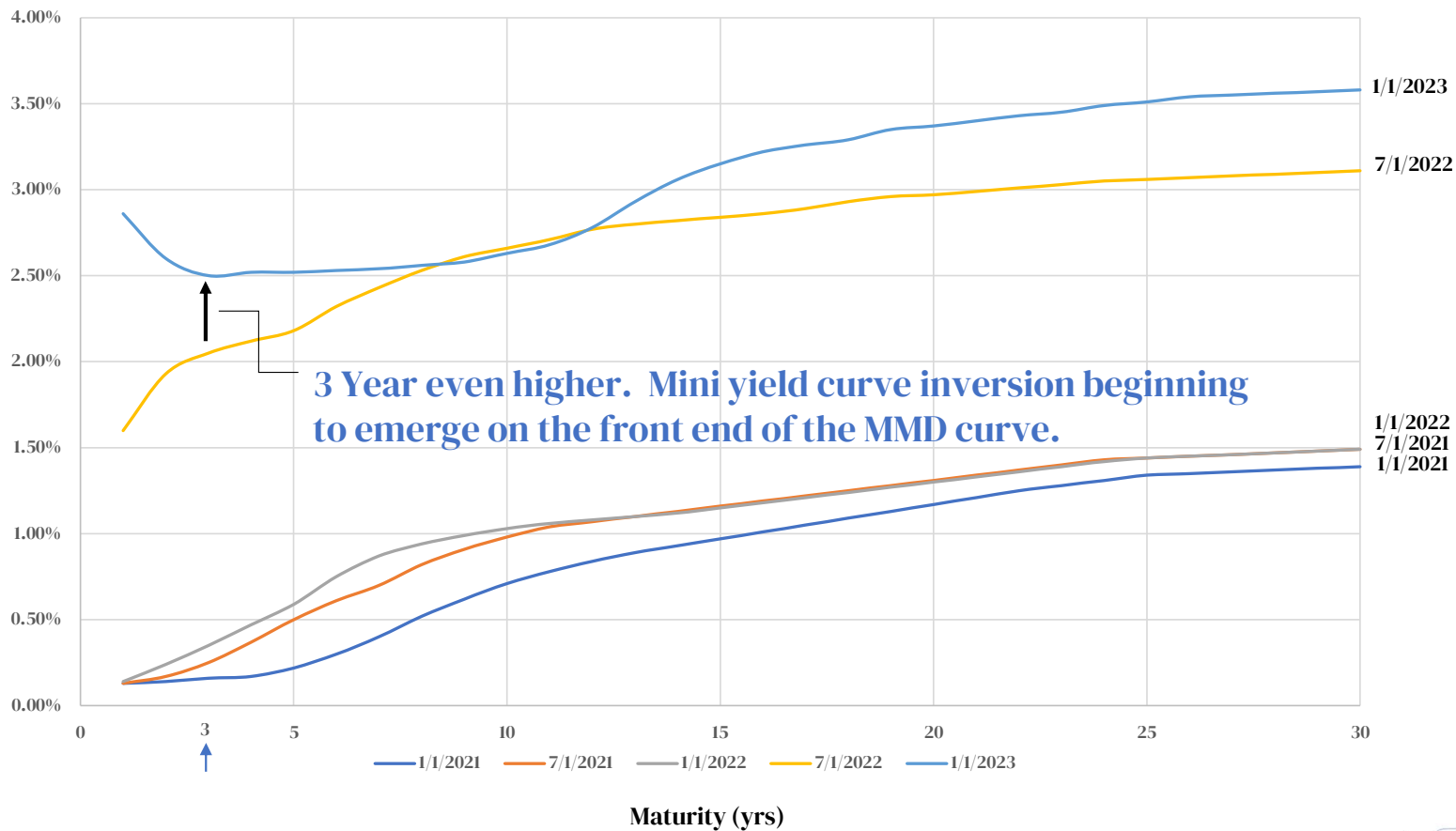
Through 7/1/2022



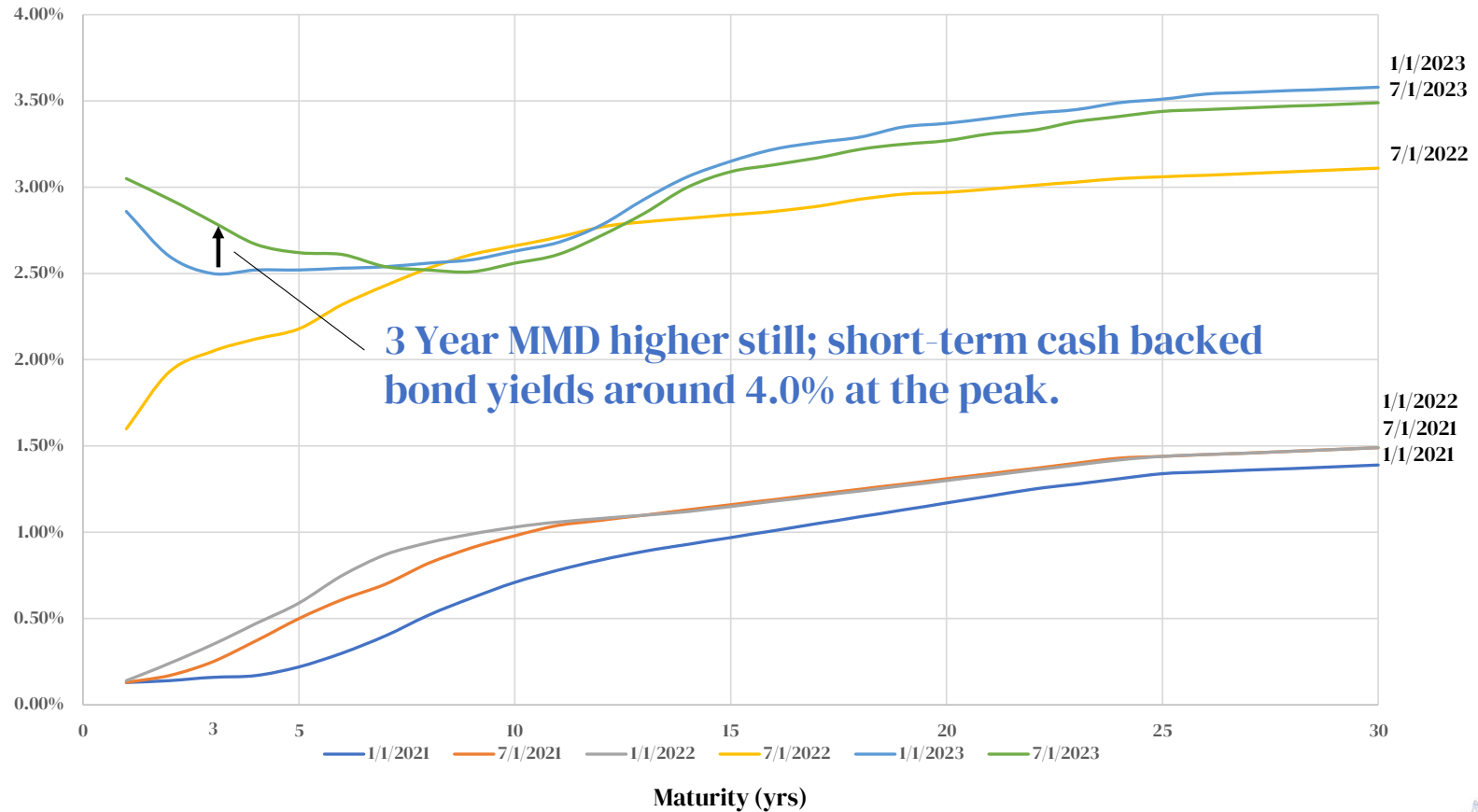
Note jump in the 3-year MMD. Short term cash backed bonds generally trade about 100 BPS over the MMD. So cash backed bond yields shot from roughly 1% to over 3% in the first half of 2022.



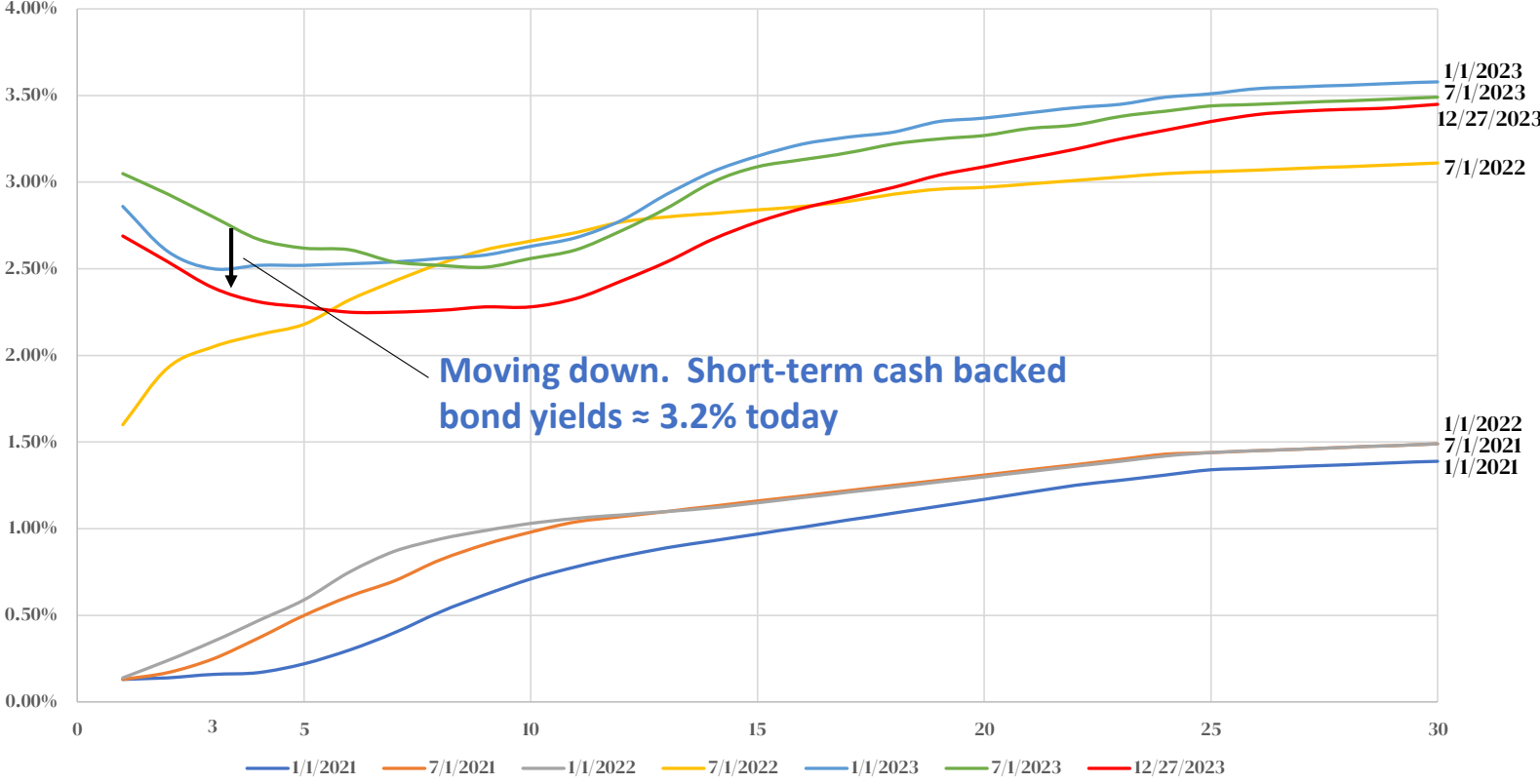
Through 1/1/2023



Through 7/1/2023



Through 12/27/2023



Macro Observations

- **2022 Taxable US Treasury Yields.** The big move up in rates occurred in the first half and to a degree the second half of 2022. The 10-year Treasury moved up 125 BPS in the first half and an additional 91 BPS in the second half – a 216 BPS increase in 2022. The one-year Treasury rose even more – 244 BPS in the first half and 222 BPS in the second half - An almost 500 BPS increase in the 1-year Treasury yield in 2022. This is when the Treasury yield curve inversion occurred.
- **2022 Tax Exempt MMD Yield Curve.** The 10-year MMD rose about 163 BPS in the first half of 2022 to around 2.63% and then held steady for the second half. The short end of the Tax-Exempt MMD yield curve really powered up in first half of 2022 – 150 basis points or so for the 1, 2 and 3-year maturities during the six months ending 7/1/22. Another 45 BPS for the 3-year in the second half – a total increase of about 200 BPS for the 3-year MMD in 2022. This is what created the strong increased basis play from using cash-backed bonds with tax-exempt permanent loan private placements or using other cash-backed bond structures versus structures which don't involve cash-backed bonds.
- **2023 Taxable US Treasury Yields.** The 10-year Treasury yield barely moved up in the first half of 2023, hovering just under 4.0%. But it shot up to a peak of 4.98% on October 19, 2023 (not shown), before falling back to around the 4.0% level at the end of 2023. But the 1-year Treasury yield moved up another 75 BPS to around a peak of 5.50% at mid 2023 – the rough peak of the inversion before falling back to around a 4.75% level at the end of the year.
- **2023 Tax Exempt MMD Yield Curve.** The 10-year MMD held firm at around the 2.60% level; then fell 30 BPS to about a 2.30% level at the end of the year. The 3-year MMD moved up about 30 BPS from 2.50% to 2.80% in the first half of 2023, and at the end of the year fell about 50 BPS to around 2.30%, taking a little wind out of the increased basis play.
- **The Big Picture:** Long term rates on both taxable and tax exempt financings appear to be on the way down. The 10-year US Treasury has fallen from 4.98% on October 19 to around 4.0% today. And the 1-year US Treasury is down 75 BPS from its peak last summer to around 4.75%. On tax exempts, the 10-year MMD is down 30 BPS to around 2.30% and the 3-year MMD is down 50 BPS to about 2.30%. With inflation coming under control, we expect these favorable downward trends to continue in 2024.

