



# **R**RIEGER **B**REPORT®

**Municipal Bonds v. U.S. Treasury & Corporate Bonds**

**June 12, 2019**

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## Municipal Bond Market: Expensive!

- Relative to other fixed income options, municipal bonds continue to be expensive. This remains particularly evident on the short end of the curve extending into the “belly” of the curve.
- Compared to the 1.94% dividend yield of the S&P 500 Index, AAA munis remain rich from the short end to about 7 years out on the curve.
- Compared to corporate bonds, such as Apple Inc. bond issues, AAA munis remain rich across the curve.
- The muni/U.S. Treasury yield ratio on the long end of the AAA muni curve was about 105% of U.S. Treasury yields in December 2018, that ratio is now 89% (up from 83% at mid-month May) illustrating that munis are still pricey relative to U.S. Treasury bonds.
- Pension obligation shortfall impact: (Key states to watch: Illinois, Connecticut & New Jersey)
  - Yields for Illinois general obligation bonds have fallen and the penalty is still compressing as the market seeks yield paper. The [S&P Municipal Bond Illinois G.O. Index](#) is yielding 2.66% and continues to narrow v. the [S&P Municipal Bond State G.O. Index](#) yield of 1.78%. That spread is now 88bps and was 105bps at the beginning of the year.
  - Yields for Connecticut general obligation bonds are showing a 14bps penalty (cheaper) to the G.O. index and yields for Illinois general obligation bonds are showing a 10bp spread.

Source: [S&P Dow Jones Indices, LLC](#). Data as 6/11/2019.

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## Select Asset Class Total Returns & Yields Year-to-Date

Even at highest tax bracket, munis appear rich when compared to corporate bonds

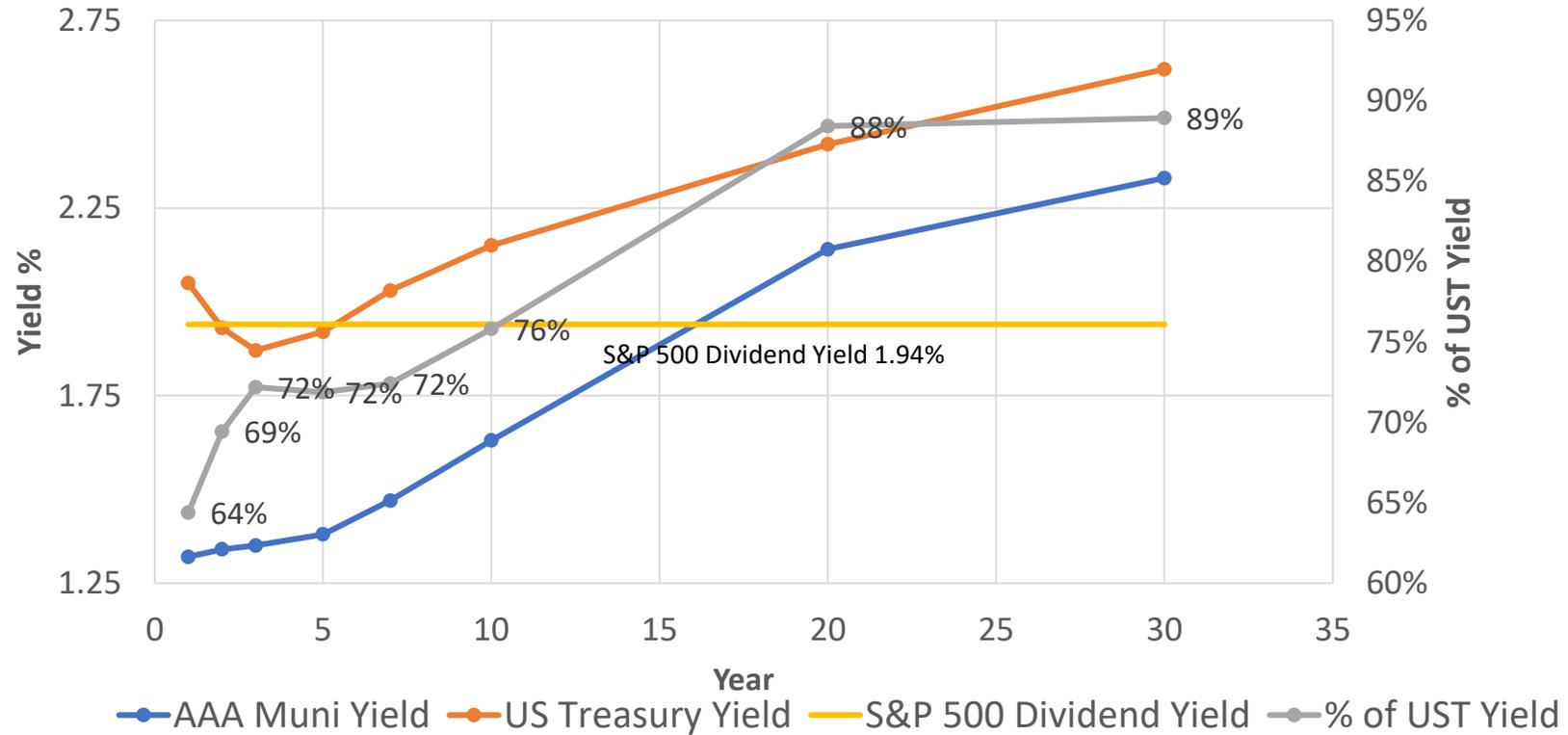
Asset Class	2019 Year-to-Date Total Return	Yield to Worst	Year-to-Date Change in Yield (Bps)	Taxable Equivalent Yield (37% Tax Rate)
S&P Municipal Bond Index	4.6%	2.12%	-60	3.37%
S&P 500 Bond Index (Corporate Bonds)	7.2%	3.39%	-82	
S&P U.S. Treasury Bond Current 10 Year Index	5.87%	2.14%	-55	
S&P 500 (TR)	18.25%	NA		

Source: [S&P Dow Jones Indices, LLC](#). Table is provided for illustrative purposes only. Past performance is not a guarantee of future results. TEY = Taxable Equivalent Yield calculated at assumed tax rate indicated. Data as 6/11/2019.

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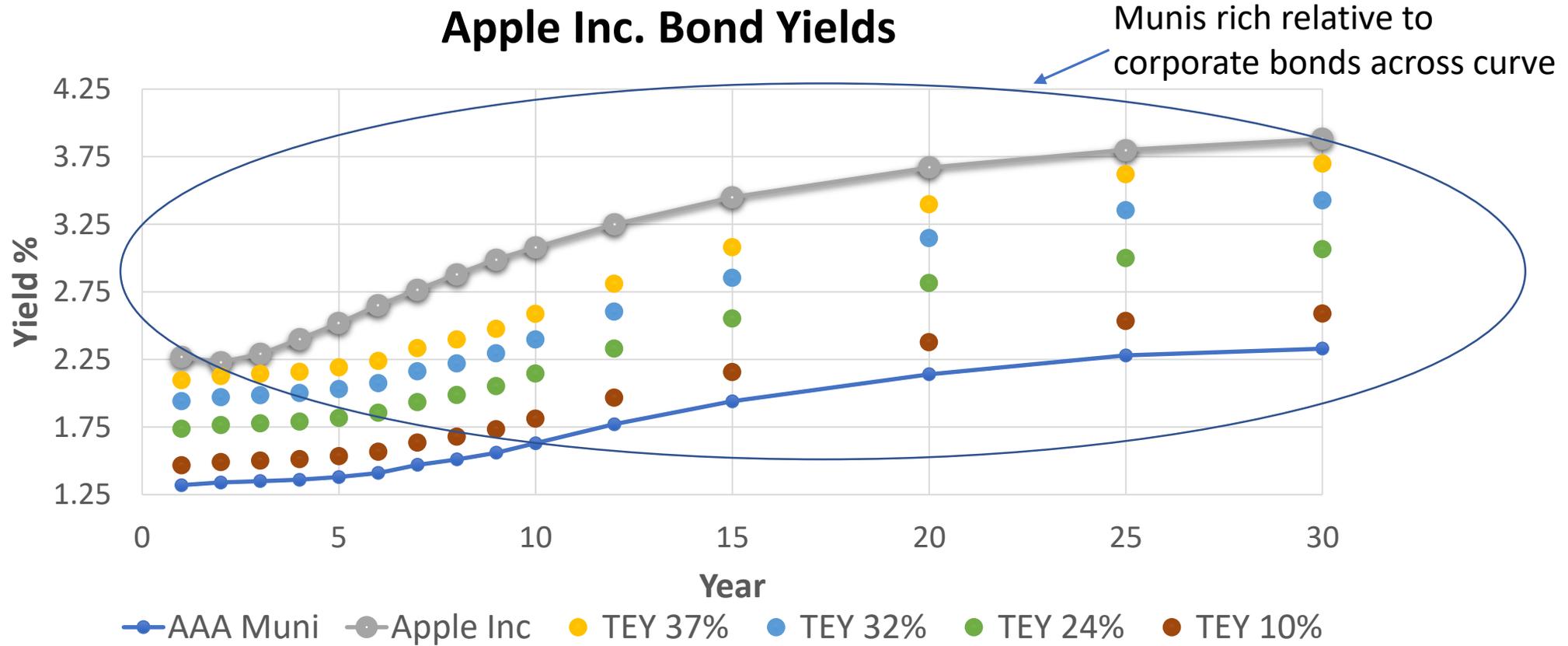
## AAA Municipal Bond Yields Relative to UST Yields & S&P 500 Dividend Yield



Sources: [IHS Markit](#) (Municipal bond yields), [S&P Dow Jones Indices, LLC](#) and the [U.S. Department of Treasury](#). Chart is provided for illustrative purposes only. Past performance is not a guarantee of future results. Data as 6/11/2019.

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# AAA Municipal Bond Yields & Taxable Equivalent Yields v. Apple Inc. Bond Yields



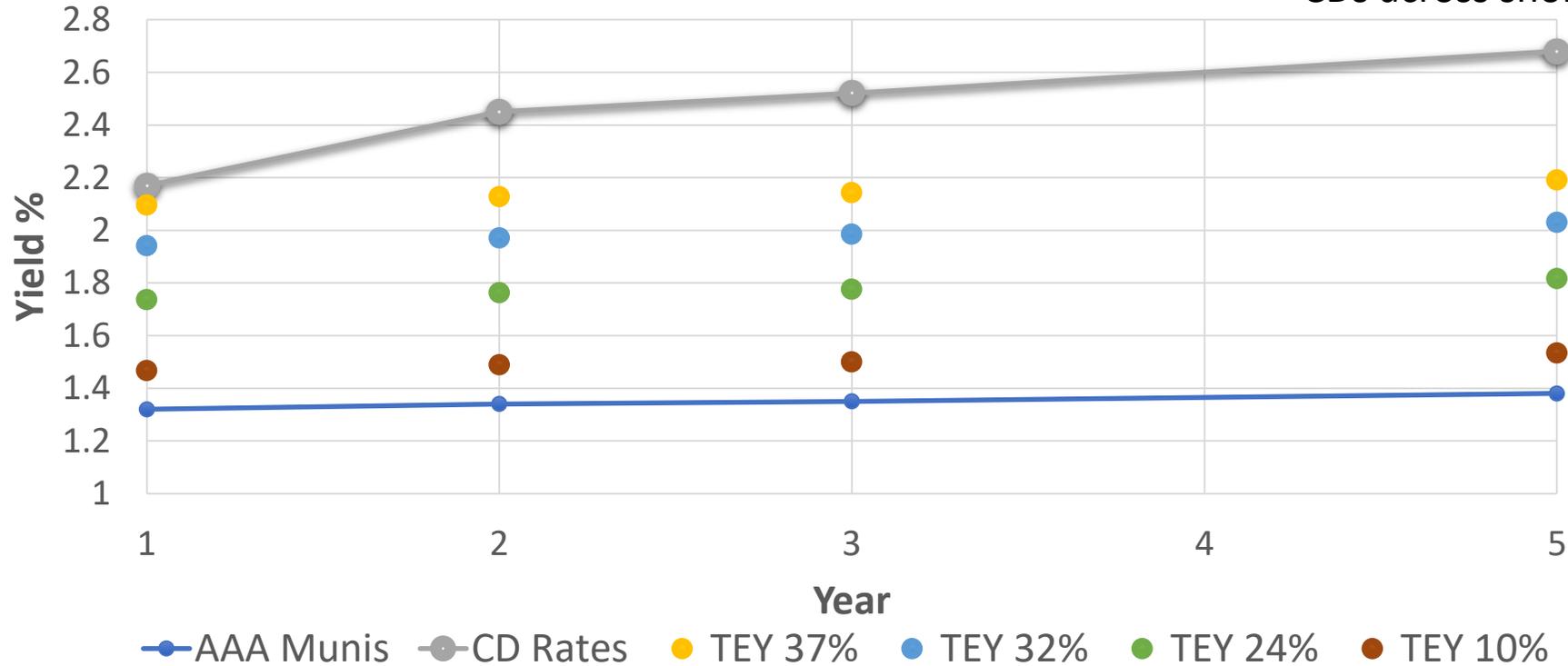
Sources: [IHS Markit](#) (Municipal bond yields) and [Exchange Data International](#) (Apple Inc. bond yields.) Chart is provided for illustrative purposes only. Past performance is not a guarantee of future results. TEY = Taxable Equivalent Yield calculated at assumed tax rates indicated. Data as of 6/11/2019.

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# AAA Municipal Bond Yields & Taxable Equivalent Yields v. Certificates of Deposit

Munis rich relative to CDs across short end



Sources: [IHS Markit](#) (Municipal bond yields) and [Crane Data](#) (Crane CD Indexes). Chart is provided for illustrative purposes only. Past performance is not a guarantee of future results. TEY = Taxable Equivalent Yield calculated at assumed tax rates indicated. Data as of 6/7/2019.

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## Data Resources Used in this Report

- Municipal bond yields: IHS Markit [www.ihsmarkit.com](http://www.ihsmarkit.com)
- Apple Inc. bond yields: Exchange Data International Ltd. (EDI) [www.exchange-data.com](http://www.exchange-data.com)
- U.S. Treasury bond yields: U.S. Department of Treasury <https://www.treasury.gov>
- Certificate of Deposit Yields: Crane Data [www.cranedata.com](http://www.cranedata.com)
- Index data: S&P Dow Jones Indices, LLC. [www.spindices.com](http://www.spindices.com)

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### Notes:

- **Taxable Equivalent Yield = Tax Exempt Yield / (1 – Federal Tax Rate)**
- **2019 tax brackets, however not all tax brackets are represented herein**
- **End of day yields are used**

### Analyst Disclosure:

- **At the time of this writing, JR Rieger owns individual municipal bonds and a municipal bond fund. JR does not own bonds issued by Apple Inc.**

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