



Municipal Securities Rulemaking Board



APRIL 2024

# First Quarter 2024 Municipal Securities Market Summary

## Yields

Tax-exempt benchmark yields rose sharply in the first quarter, up 25-62 basis points, as shown in Figure 2. Tax-exempt yields were largely in line with the movement of yields in the Treasury bond market for maturities of five years and out. However, the short end of the tax-exempt curve underperformed the Treasury market likely due to the extremely low Muni/Treasury ratios we saw at the end of 2023.

As seen in Figure 3, tax-exempt yields rose more than 18 basis points through January 24. Then rates dropped about 18 basis points by February 1 only to rise back to levels seen in February by the middle of the month. Yields did decline slightly toward the end of the quarter, but volatility declined sharply.

The underperformance of tax-exempt securities in the short end of the market led to a rise in Muni to Treasury (Muni/TSY) ratios, which were at or near historic lows at the end of 2023. The 1-year Muni/TSY ratio rose to 63% from 54% at year-end. Similarly, the 3-year ratio rose from 59% and 58% to 65% and 64%, respectively.

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## Introduction<sup>1</sup>

In the first quarter of 2024, tax-exempt benchmark yields started the year volatile but barely moved from February 5 to the end of the quarter. Although trading volume is down from the record levels we saw in the fourth quarter of 2023, the number of trades remains strong and consistent. The new issue calendar rebounded from extremely low levels in the first quarter of 2023, and tax-exempt mutual funds and exchange traded funds (ETFs) saw positive net inflows.

## Trade Volume

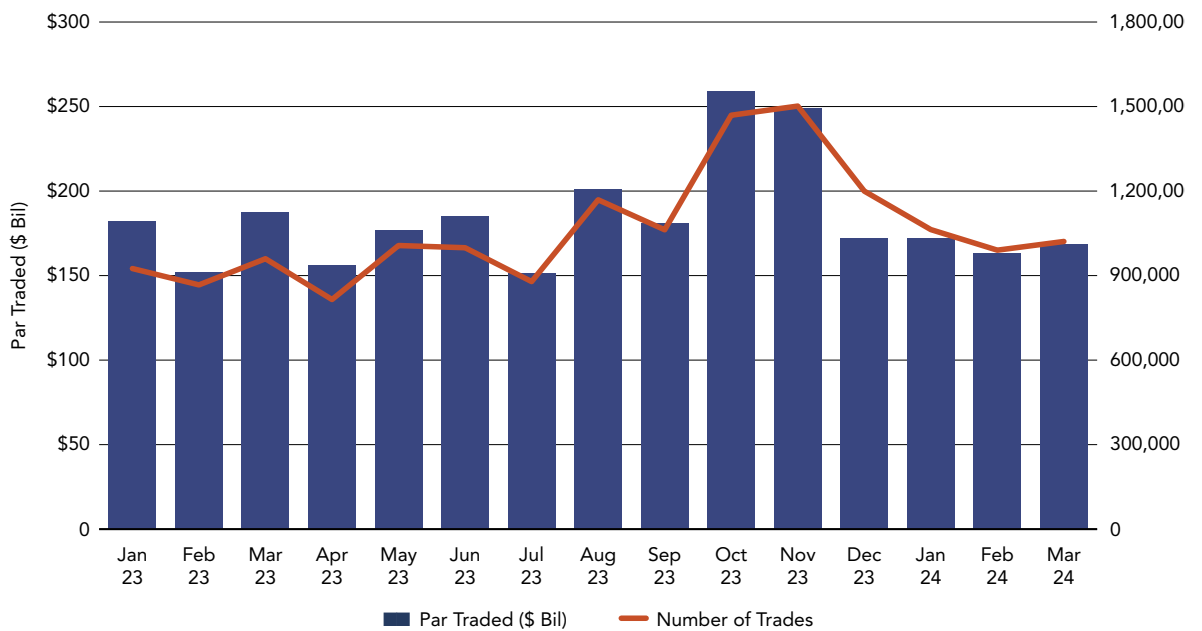
Although total trade count for the first quarter of 2024 increased by almost 12% compared to the same period in 2023, it decreased by 26% compared to the record volume in the fourth quarter of 2023.<sup>2</sup> Interestingly, although trade count rose in the first quarter of 2024 compared to the same period in 2023, the par amount traded in the first quarter of 2024 declined by 3%. Higher trade count with slightly lower par amount traded potentially reflects an increased demand for municipal securities from individual investors. The par amount of bonds traded in the first quarter of 2024 declined 26% compared to the fourth quarter of 2023, in line with the reduced number of trades.

Trade count was very consistent in all three months, and the total trade count year-to-date is more than 3 million trades. Figure 1 shows monthly trade count from January 2023 through March of this year. As you can see, trading levels were very elevated in the fourth quarter of 2023, likely aided by increased trading activity related to tax loss swaps to enable investors to realize losses for tax purposes in their portfolios.

<sup>1</sup> The views expressed in the research papers are those of the author(s) and do not necessarily reflect the views and positions of the MSRB Board and other MSRB staff.

<sup>2</sup> The MSRB's analysis excludes trading in variable rate securities and commercial paper.

**Figure 1. Monthly Municipal Market Activity, Fixed-Rate Securities, January 2023–March 2024**



## Yields

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As seen in Figure 3, tax-exempt yields rose more than 18 basis points through January 24. Then rates dropped about 18 basis points by February 1 only to rise back to levels seen in early February by the middle of the month. Yields did decline slightly toward the end of the month and volatility declined sharply.

The underperformance of tax-exempt securities in the short end of the market helped to slightly raise Muni to Treasury (Muni/TSY) ratios, which were at or near historic lows at the beginning of the year. The 1-year Muni/TSY rose to 63% from 54% at year-end. Similarly, the 2- and 3-year Muni/TSY ratios rose from 59% and 58% to 65% and 64%, respectively.

**Figure 2.** Bloomberg BVAL® AAA Callable and U.S. Treasury Yields

Year	BVAL 03/28/24	TSY 03/28/24	Muni/TSY Ratio	BVAL 2024 Change BPS	TSY 2024 Change BPS
1	3.191	5.030	63%	62	24
2	2.975	4.590	65%	49	36
3	2.794	4.400	64%	46	39
5	2.499	4.210	59%	31	37
10	2.498	4.200	59%	25	32
20	3.387	4.450	76%	30	25
30	3.670	4.340	85%	33	31

Sources: Bloomberg Finance L.P., U.S. Department of the Treasury

**Figure 3.** Bloomberg BVAL 10-Year Callable Yields, January 2021–March 2024



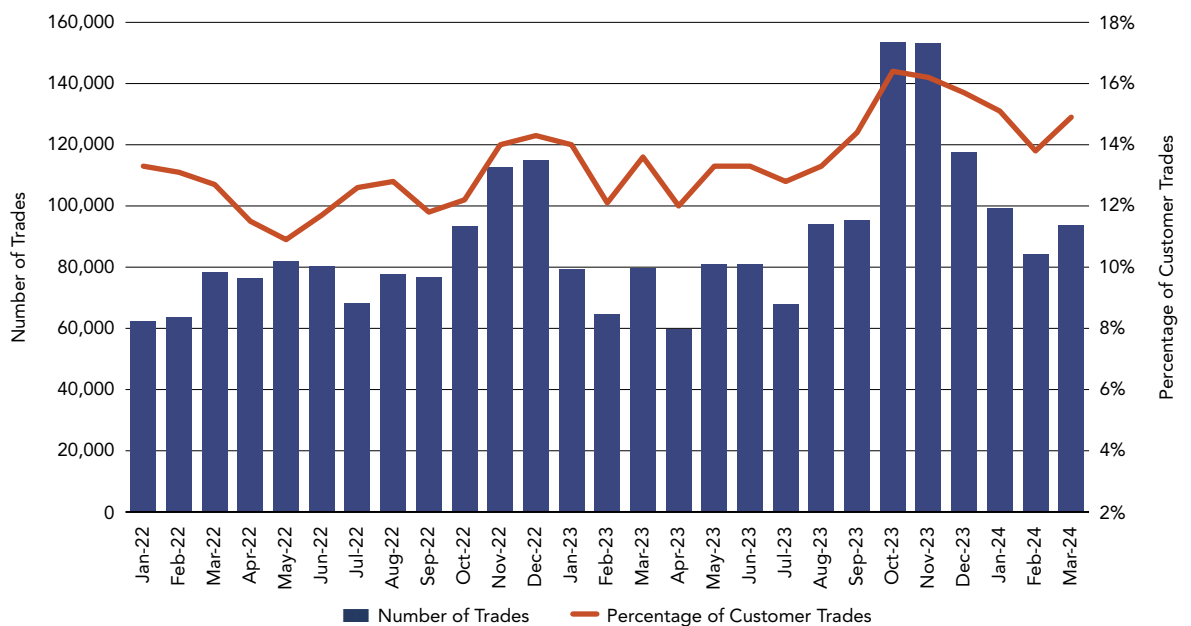
Source: Bloomberg Finance L.P.

## Trading on Alternative Trading Systems

Alternative Trading Systems (ATSs) continue to be a primary source of liquidity for individual investors and an increasing source of liquidity for institutional investors. For the first quarter of 2024, trading on ATSs accounted for 55-57% of all inter-dealer transactions, down slightly from 2023.

Figure 4 shows the number of customer trades with a dealer of an ATS as well as the percentage of customer trades executed with a dealer associated with an ATS. Of all customer trades executed in the first quarter, almost 15% were executed with dealers associated with an ATS, down slightly from 16% in the fourth quarter of 2023 but higher than any other quarter in 2022 and 2023.

**Figure 4.** Institutional Customer Trades Executed on ATS, January 2023–March 2024



## Mutual Fund and Exchange Traded Fund Flows

In 2024, we have seen a return to net inflows, though moderate, into tax-exempt mutual funds. According to the Investment Company Institute (ICI), year-to-date net inflows are almost \$10 billion through March 27.<sup>3</sup> This follows two consecutive years of net outflows, including record-breaking outflows in 2022. A return to net inflows is a positive for the municipal market, especially for the long end of the market because mutual funds are normally the biggest buyers in the long end.

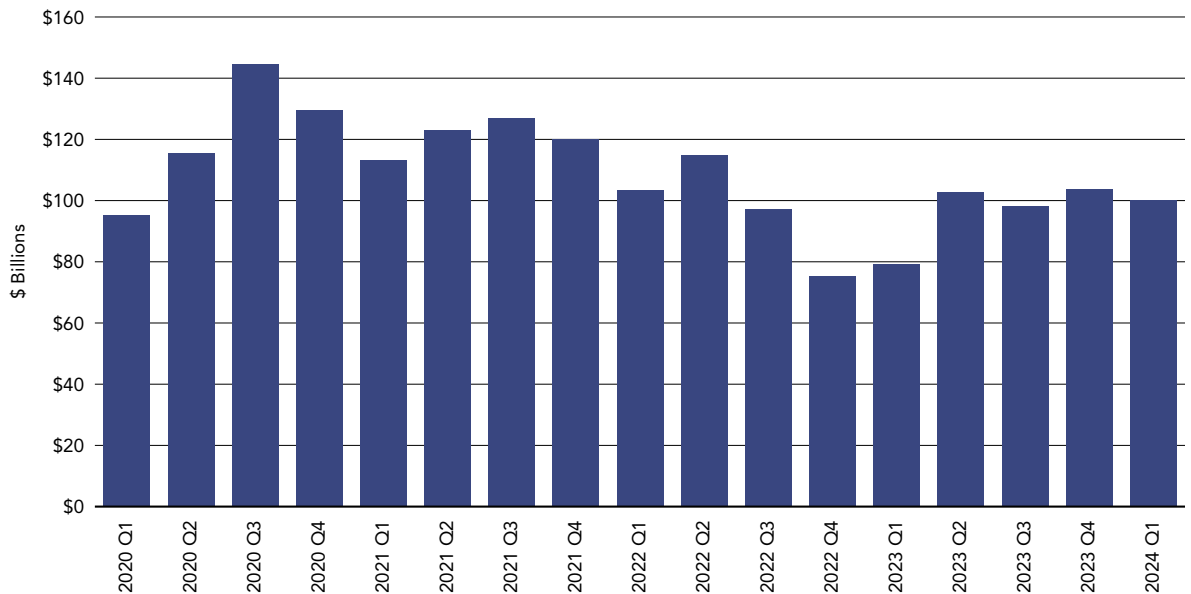
<sup>3</sup> Investment Company Institute: [Long-Term Mutual Fund Net Cash Flow](#)

Tax-exempt ETFs have seen net inflows every year since 2014, despite the net outflows from mutual funds. This year, however, ETF flows lagged mutual fund flows, with ICI showing only a small amount of net inflows into ETFs through March 27.

## New Issue Volume

Total new issue volume for the quarter topped \$100 billion, up 25% from the first quarter of 2023. Although total new issue volume is up dramatically from the first quarter of 2023, it is in line with the previous three quarters, where total volume ranged from \$98 billion to \$104 billion. The increase in volume from the same time last year was due to a dramatic increase in tax-exempt debt, up 47%. Meanwhile, taxable issuance was down more than 60% from the first quarter of 2023. Year-to-date, new money issuance was up slightly from 2023, but refunding volume was up more than 50%.

**Figure 5. Municipal Market Issuance, January 2020–March 2024**



Source: Refinitiv

## Conclusions

The municipal bond market saw a number of key developments in the first quarter of 2024:

- There was a move to higher yields and higher Muni/TSY ratios on the short end of the curve.
- The number of trades increased 12% compared to the first quarter of 2023 but declined 26% from the record trade count in the fourth quarter of 2023, indicating continued strong demand from individual investors directly and through separately managed accounts.
- Tax-exempt mutual funds and ETFs saw net inflows.
- New issue volume increased significantly compared to the first quarter of 2023 but was in line with new issue volume for the last three quarters of 2023. First quarter 2024 new issue volume included a significant increase in tax-exempt issuance coupled with a large decrease in taxable issuance vs the first quarter of 2023.

The municipal market enters the second quarter with some stability but weaker fundamentals because of a lower number of securities maturing or being redeemed than during the first quarter of the year. What happens in the Treasury market is likely to impact the direction of tax-exempt yields, as well.

## ABOUT THE MSRB

The Municipal Securities Rulemaking Board (MSRB) protects and strengthens the municipal bond market, enabling access to capital, economic growth, and societal progress in tens of thousands of communities across the country. The MSRB fulfills this mission by creating trust in our market through informed regulation of dealers and municipal advisors that protects investors, issuers and the public interest; building technology systems that power our market and provide transparency for issuers, institutions, and the investing public; and serving as the steward of market data that empowers better decisions and fuels innovation for the future. The MSRB is a self-regulatory organization governed by a board of directors that has a majority of public members, in addition to representatives of regulated entities. The MSRB is overseen by the Securities and Exchange Commission and Congress.



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