



# **R**RIEGER **B**REPORT®

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

**August 31, 2019**

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## Municipal Bond Market: August was “Risk Off”

- Muni yields drop as geopolitical risk overtakes markets driving yields for “risk off” asset classes down. “Surge” of new refunding issues have little impact on supply/demand imbalance.
- Compared to the 1.85% dividend yield of the SPDR S&P 500 ETF, AAA munis remain rich with exception of the extremely long end of the curve.
- Compared to corporate bonds, such as Apple Inc. bond issues, yields for AAA munis are expensive with the exception of the very long end of the curve and only for the higher tax bracket investor base.
- 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 ended August 30, 2019 at 97% illustrating that munis are still pricey relative to U.S. Treasury bonds.
- Pension obligation shortfall impact: (Key states to watch: Illinois, Connecticut, New Jersey & Rhode Island)
  - The [S&P Municipal Bond Illinois G.O. Index](#) is yielding 2.30% and has narrowed in August v. the [S&P Municipal Bond State G.O. Index](#) yield 1.4%. That spread is now 90bps and was 105bps at the beginning of the year.
  - Both Connecticut, New Jersey G.O.s show a spread of 10bps to the broader index.
  - Rhode Island G.O.s are not showing a market penalty at this time.

Source: [S&P Dow Jones Indices, LLC](#). Data as 8/30/2019.

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

Asset Class	2019 Year-to-Date Total Return	Yield to Maturity	Taxable Equivalent Yield (37% Tax Rate)
iShares National Muni Bond (MUB)	7.49%	1.53%	2.43%
iShares iBoxx \$ Investment Grade Corporate (LQD)	16.61%	2.93%	
SPDR Bloomberg Barclays High Yield (JNK)	11.64%	6.22%	
iShares TIPS Bond (TIP)	8.99%	1.54%	
SPDR S&P 500 ETF (SPY)	18.14%	NA	

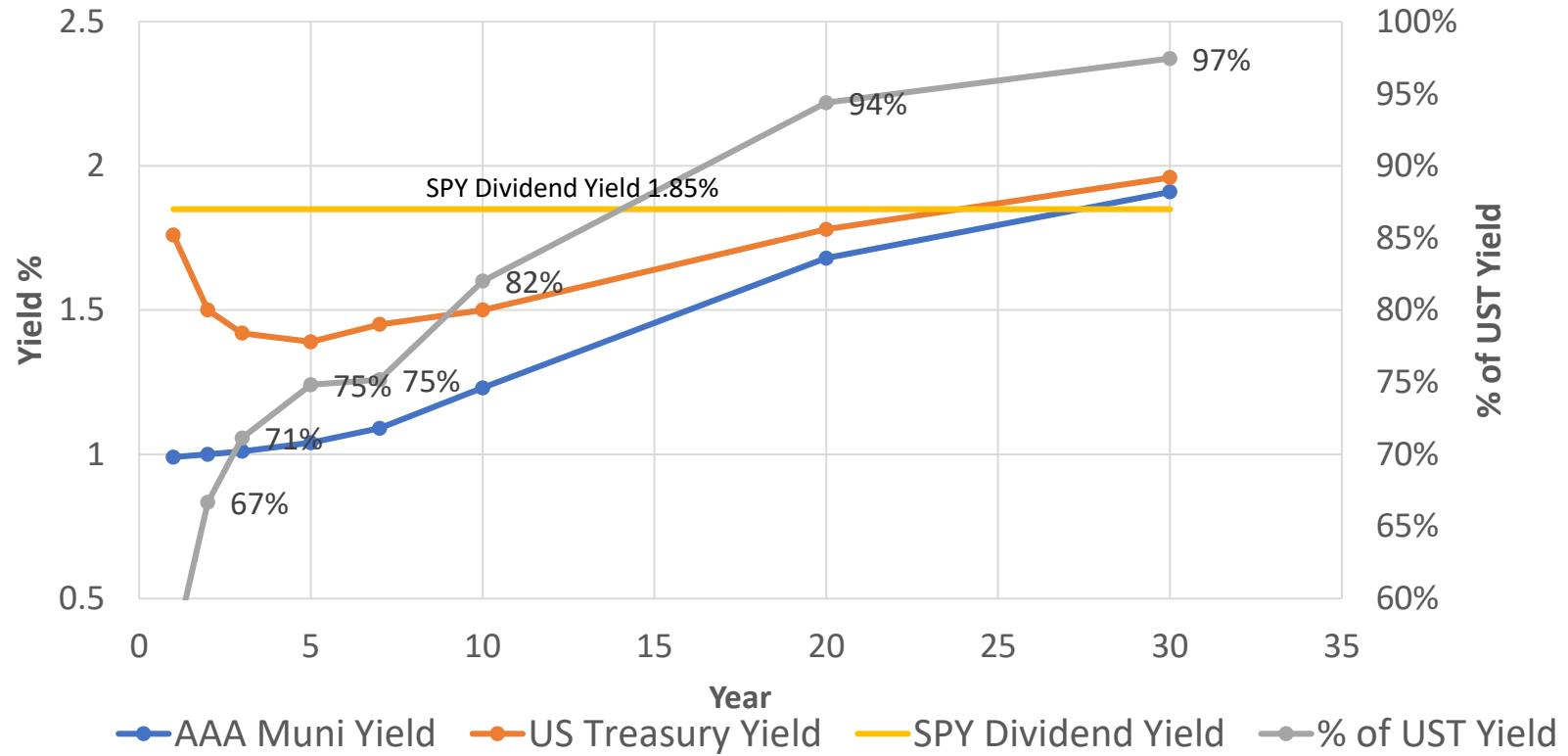
Insight:  
MUB has a duration that is approx. 3 years shorter than LQD

Sources: [iShares by BlackRock](#), [SPDRs](#). 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 8/30/2019.

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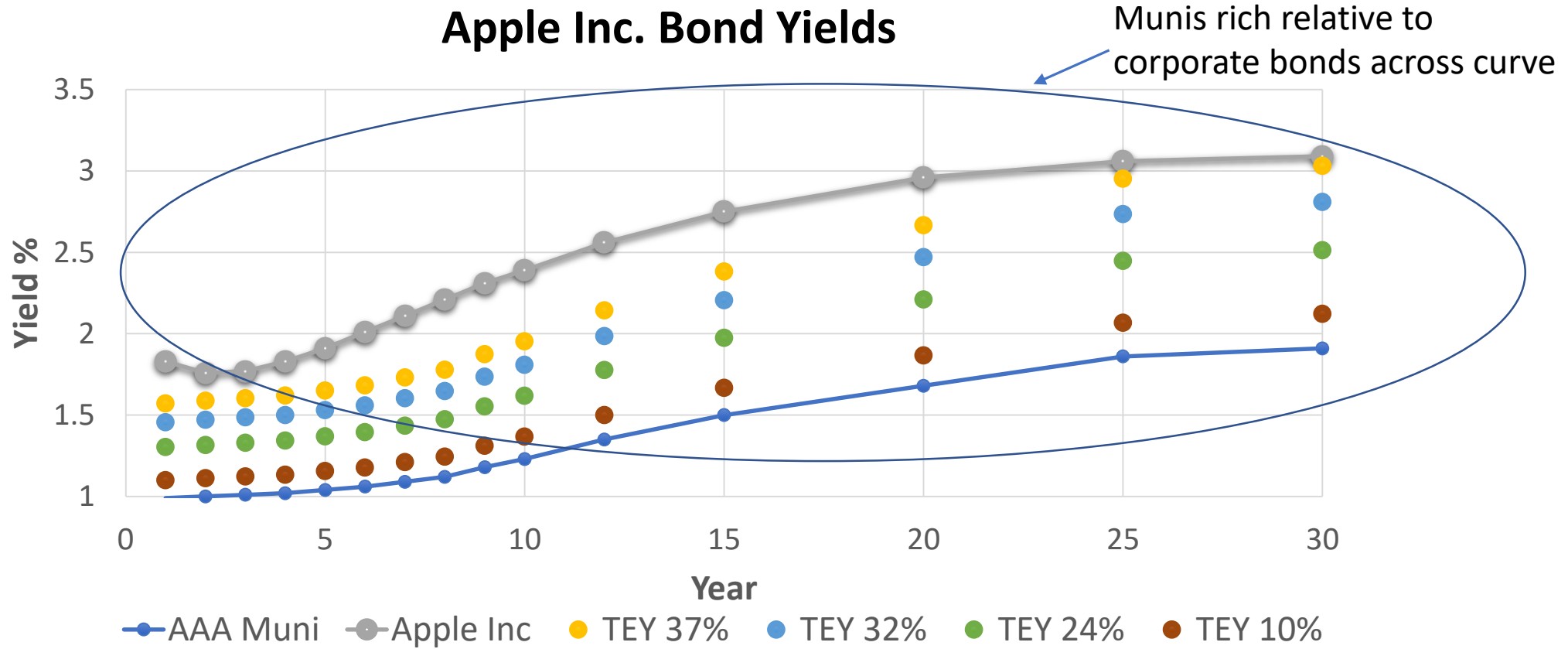
## AAA Municipal Bond Yields Relative to UST Yields & SPY Dividend Yield



Sources: [IHS Markit](#) (Municipal bond yields), [SPDR](#) 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 8/30/2019.

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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 8/30/2019.

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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>
- 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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