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CAPITAL MANAGEMENT

# Muni Market Update

Q2 2025

## Muni Market Highlights

- Munis experienced a sharp sell-off in early April because of uncertainties associated with tariffs.
- As the month wore on, the municipal bond market regained stability and the new issue market normalized.
- Coming off a record year of tax-exempt issuance in 2024, the new issue market continues at its torrid pace. So far this year, new issue supply is up more than 15% over the record year we had in 2024.
- We continue to see alpha opportunities in the new issue market, which remains a primary focus in our strategies.
- We also see value in AMT, pre-paid gas, and puttable housing bonds.

As we closed the first quarter, the tone in the tax-exempt market was strong. The AAA benchmark curve rates fell significantly on the last few trading days in March, with a "risk-off" sentiment taking hold. With the tariff uncertainty, investor sentiment seemed to go from a 'risk-off' mentality to cash. Other than the earliest days of the COVID outbreak, we are hard pressed to recall such a sharp sell-off. For a brief moment, it froze the new issue market. Still, as the month wore on, the tax-exempt market stabilized and the new issue market normalized. The entire market was down for the month, with short-dated and higher-rated securities being the outperformers.

**AAA benchmark curve changes for the month of April.\***

Tenor	AAA Curve 4/1/2025	AAA Curve 5/1/2025	Change bps
2026 (1yr)	2.53	2.85	32
2027 (2yr)	2.62	2.90	28
2028 (3yr)	2.71	2.95	24
2029 (4yr)	2.77	2.98	21
2030 (5yr)	2.83	3.02	19
2032 (7yr)	2.96	3.14	18
2035 (10yr)	3.16	3.33	17
2040 (15yr)	3.57	3.74	17
2045 (20yr)	3.92	4.10	18
2050 (25yr)	4.13	4.32	19
2055 (30yr)	4.22	4.42	20



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## IMPACT OF TARIFFS ON STRATEGY

To pin the selloff in the tax-exempt market to the tariff and trade war headlines is somewhat misleading. We agree that a slowdown would weaken state and local budgets, but the fiscal health of municipalities is on stable footing. While it remains to be seen what the knock-on effects will be for the municipal market, our baseline view is that the fiscal well-being of municipalities is not tethered to tariff and global trade. The job market has remained stable, and with it, tax collections. In Q1 2025, the upgrade/downgrade ratio for municipalities was favorable, with upgrades outnumbering downgrades by a factor of 1.5x.

In 2024, our new issue participation more than doubled from the year prior. The new issue market continues to offer excellent alpha opportunities in our marketplace. We took full advantage of the elevated supply last year which was one of the key attributions to our performance. Through the end of April 2025, our new issue participation is running at the same levels as last year. Other sectors that we have been focusing on, given their attractive relative value, quality, and yield, are pre-paid gas bonds, AMT, and puttable housing bonds.

## SAMPLE NEW ISSUE PURCHASES IN APRIL (SPREADS QUOTED AS OF TRADE DATE TO AAA)

### CA

Sante Fe Spring CA PFA RV 5% 2029 (AGC insured) AA with A1 under **3.39% (+31bps)**

Riverside CA Lease RV 5% 2030 AA- **3.46% (+30bps)**

Riverside CA Lease RV 5% 2035 AA- **3.79% (+31bps)**

River Islands CA CFD 5% 2040 (AGC insured) AA with A- under **4.60% (+87bps)**

### NATIONAL

Volusia Co FL Edu Fac RV 5% 2028 Baa1/BBB+ ® **3.66% (+96bps)**

Volusia Co FL Edu Fac RV 5% 2030 Baa1/BBB+ ® **3.84% (+102bps)**

Hope AR Sales Tax RV 5% 2035 AA **3.97% (+78bps)**

Harvest-Monrovia Water & Sewer AL 5% 2039 (AGC insured) AA with A+ under **4.14% (+71bps)**

## GENTER PORTFOLIO STATS AS OF 5/7/25\*

Municipal Quality Intermediate-California: YTW 3.57%, Duration 3.74

Municipal Quality Intermediate-National: YTW 3.82%, Duration 3.80

Average credit quality in both strategies: AA-

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