

# Municipal Bond Investor Weekly

High Net Worth Wealth Solutions and Market Strategies // Fixed Income Solutions



**JULIAN JOHNSON**

*Fixed Income Private Wealth*

## THE WEEK AHEAD

1. New issuance this week is expected to be ~\$14.5 billion with total redemptions over the next 30 days totaling \$18.4 billion.
2. Economic calendar begins week with the Conference Board's Leading Index; Wednesday is PMI data; Thursday we get Durable Goods Orders; Friday is University of Michigan Survey data.
3. Purchasing manager indexes from around the world being released Wednesday, giving first glimpse of activity since global tariffs unleashed.



**DREW O'NEIL**

*Director  
Fixed Income Strategy*

## MONDAY'S COMMENTARY

Defining Market Discount and the Opportunities it Provides  
Illustrative Portfolios

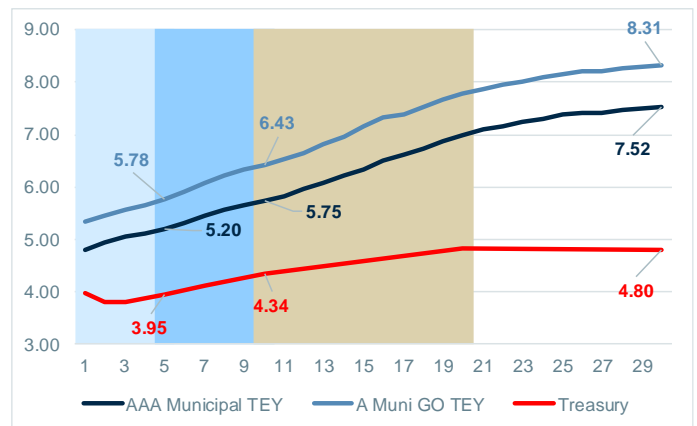
Page 2  
Page 3

## THE NUMBERS THIS WEEK

Treasuries yields fell last week across most maturities with the intermediate part of the curve seeing the biggest drops. The 10-year yield fell 14 basis points while the 5-year yield fell by 20 basis points. Municipal yields followed Treasuries lower, with the benchmark AAA curve moving lower by 15-16 basis points.

Year		Treasury	Municipal (AAA)	Municipal (A)	Municipal TEY* (AAA)	Municipal TEY* (A)	Muni (AAA)/Tsy Ratio	Muni TEY* (AAA)/Tsy Ratio
1	2026	3.99	2.85	3.16	4.81	5.34	71%	121%
2	2027	3.81	2.92	3.23	4.93	5.45	77%	129%
5	2030	3.95	3.08	3.42	5.20	5.78	78%	132%
10	2035	4.34	3.40	3.81	5.75	6.43	78%	133%
20	2045	4.82	4.14	4.60	7.00	7.77	86%	145%
30	2055	4.80	4.45	4.92	7.52	8.31	93%	157%

\*Taxable equivalent yield @ 40.8% tax rate



## DEFINING MARKET DISCOUNT AND THE OPPORTUNITIES IT PROVIDES

Recent volatility in the bond market brings to mind an old classic Latin phrase “caveat emptor” meaning, “let the buyer beware.” With interest rates moving higher, more municipal bonds are now trading at a discount. Those investors who would like to buy a municipal bond offered below par, must be aware of any potential tax implications that might their purchase yield. So, exactly what are **market discount bonds**? It’s when a municipal bond is purchased in the secondary market at a price either below its maturity value or below its revised issue price (for original issue discount bonds).

As you may be aware, interest income produced by municipal bonds is generally excluded from gross income for federal income tax purposes. However, many investors are not aware that under certain circumstances, there can be potential tax ramifications from purchasing market discount bonds. This Wonderland of sorts refers to whether a discount is de minimis, or not.

Determining if a secondary market discount purchase is de minimis will regulate whether that bond’s price accretion is taxed as a capital gain or ordinary income at maturity. The de minimis rule states if a discount is less than a quarter-point (0.25% of face value of the bond) for each full year from the date of purchase to maturity, then the discount is considered de minimis and is treated as a capital gain, not ordinary income. To determine approximate de minimis threshold on a municipal bond, we can use the following formula:

**Multiply the face value by 0.25% (0.0025) and multiply the result by the number of full years between the discounted bond’s purchase date and maturity date. Subtract that amount from the bond’s par value.**

**Example: municipal bond with 15 full years remaining until maturity**

$$100 \times .0025 = .25$$

$$.25 \times 15 = 3.75$$

$$100 - 3.75 = 96.25$$

Purchasing a bond using the example at a price above 96.25 should result in the accretion to par being taxed as a capital gain. Alternatively, for any purchase below 96.25, the accretion would be reported as ordinary income. In either case, it will affect the “net-yield” on the bond due to additional tax liability. It is critical that investors consult their tax advisor before making any investment decisions. De minimis is relevant anytime discount bonds are trading in the secondary market.

The municipal market continues to provide very attractive relative yields and investors should not fear or completely ignore purchasing market discount bonds. They simply need to proceed with caution.

**Example:** Aaa/AAA/AAA Texas State GO 4.00% coupon due 08/01/2040 offered at 96.12 to produce around a 4.35% yield to maturity (YTM), a discount to par. Based on the calculation above the de minimis threshold price would be 96.25. In this example the bond is being offered at a price below 96.25 at 96.12, so the entire accretion from 96.12 to 100.00 (3.88) would be taxed as ordinary income. As a result, the investor would not realize the quoted 4.35% YTM, because of the income tax they would pay when their bond matures. Assuming an investor is in the highest federal tax bracket, their approximate after-tax yield (ATY) would be around 4.27% YTM --- still attractive, but not as attractive given the additional tax liability.

At Raymond James, we follow a best execution policy to ensure our clients receive a fair and reasonable price for their fixed income investments. Our trading platform allows us to assess the de minimis information for each offering. If an offering is not deemed to be fair and reasonable vs current market conditions, our traders will provide an alternative bond for consideration. Taxes are nothing to trifle with --- your financial advisor along with your tax advisor --- and our fixed income professionals --- can help you navigate the opportunities in today’s market with discount bonds.

***This commentary was written to provide general information about the de minimis rule. Raymond James does not provide tax advice, and we are not tax advisors. Always consult with your tax advisor to review how this rule could affect your individual investment decision.***

## ILLUSTRATIVE PORTFOLIOS

Our illustrative proposals reflect three opportunities along the yield curve with bonds maturing from 1 to 30 years. Last week the municipal bond market saw less volatility than recent weeks, but the market rally pushed yields lower by double digits across the curve (all relative!!) Strategically, our 10–20-year maturity illustration continues to offer an excellent tax efficient solution. **Looking to maximize yield?** The 20 – 30-year range offers an additional ~60 basis points (over 10 – 20 years) and may be appropriate for some investors. For a portfolio rated A or better, the tax-free yield to worst is ~4.67%, which equates to a **taxable equivalent yield to worst of ~7.80%** for an investor in the top federal tax bracket and subject to the net investment income tax. If the callable bonds are not called, the yield to maturity increases to ~4.76%, which equates to a **taxable equivalent yield to maturity of ~7.95%**. This option has an average coupon ~4.31% and a market price of ~\$93.76. The **current yield is ~4.60%**. An investment with \$1 million par value (~\$947,907 market value with accrued interest) will generate a federally tax-exempt annual coupon cash flow of \$43,125.

### National Municipal Bond Illustrative Portfolios

*Week of April 21, 2025*

#### 1 – 10 Years

#### 10 – 20 Years

#### 20 – 30 Years

Totals & Averages @ Market	
Summary Totals	
Original Face	\$1,000,000
Current Face (Par)	\$1,000,000
Market Principal	\$1,030,558
Accrued Interest	\$11,375
Cash & Cash Alternatives	\$0
-	-
-	-
Total Portfolio Value	\$1,041,933
Next 12mo Cpn Cash Flow	\$42,000
Generic Annual Cpn Cash Flow	\$43,000
Weighted Averages	
Coupon*	4.300%
Maturity**	4.72 yrs
Duration	3.09
Yield to Worst	3.439%
Yield to Maturity	3.606%
Market Price*	103.056
Tax Lots Holdings Included	20 of 20

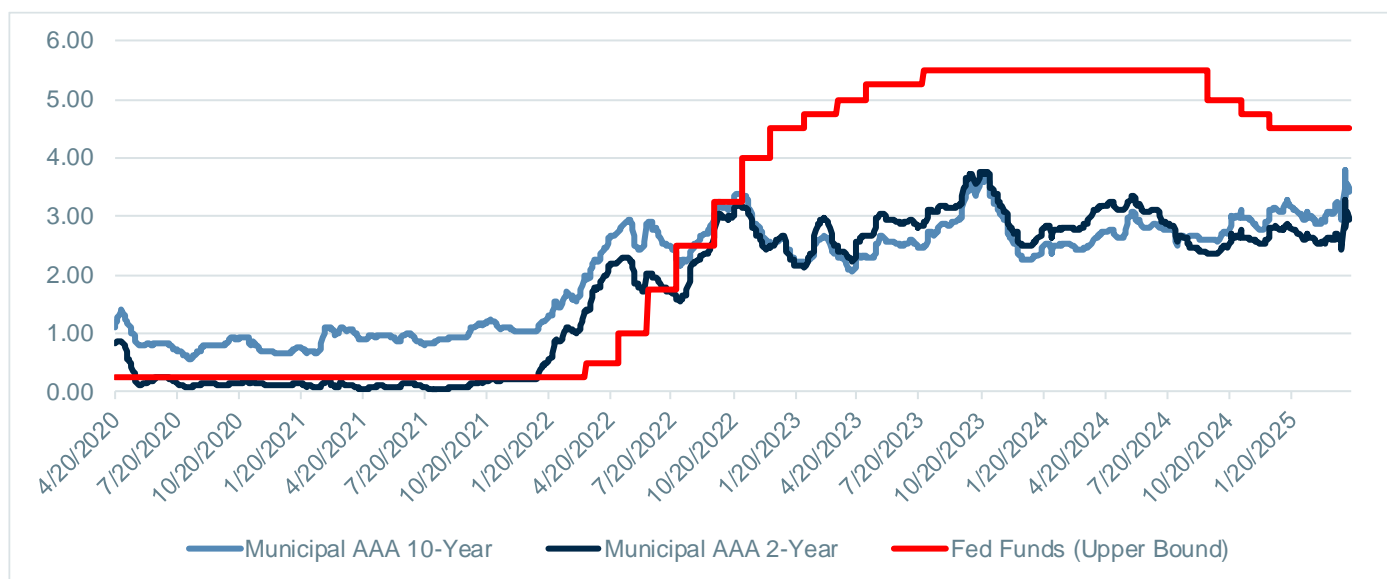
Totals & Averages @ Market	
Summary Totals	
Original Face	\$1,000,000
Current Face (Par)	\$1,000,000
Market Principal	\$1,013,331
Accrued Interest	\$12,144
Cash & Cash Alternatives	\$0
-	-
-	-
Total Portfolio Value	\$1,025,475
Next 12mo Cpn Cash Flow	\$45,000
Generic Annual Cpn Cash Flow	\$45,000
Weighted Averages	
Coupon*	4.500%
Maturity**	13.60 yrs
Duration	7.65
Yield to Worst	4.082%
Yield to Maturity	4.308%
Market Price*	101.333
Tax Lots Holdings Included	20 of 20

Totals & Averages @ Market	
Summary Totals	
Original Face	\$1,000,000
Current Face (Par)	\$1,000,000
Market Principal	\$937,568
Accrued Interest	\$10,339
Cash & Cash Alternatives	\$0
-	-
-	-
Total Portfolio Value	\$947,907
Next 12mo Cpn Cash Flow	\$43,125
Generic Annual Cpn Cash Flow	\$43,125
Weighted Averages	
Coupon*	4.313%
Maturity**	23.73 yrs
Duration	11.52
Yield to Worst	4.679%
Yield to Maturity	4.760%
Market Price*	93.757
Tax Lots Holdings Included	20 of 20

## NAVIGATING TODAY'S MARKET

A large new issue calendar is expected this week, with estimates of around \$14.5 billion. Some of the larger deals include: Connecticut (Aa3/AA-/AA-) is selling \$1.65 billion of general obligation bonds; Massachusetts (Aa1/AA+/AA+) is bringing a \$1.07 billion general obligation deal to market; the Los Angeles Unified School District, CA (Aa2/-/AAA) is issuing \$416 million of general obligation bonds; and the New York City Municipal Water Finance Authority (Aa1/AA+/AA+) is bringing a \$600 million deal to market. See table below for additional new issuance.

## HISTORICAL YIELDS



Date	Amount	Issuer	ST	Description	Moody's/S&P/Fitch	Maturity
04/21	\$15MM	Colonial SD	PA	Colonial School District	Aaa/NR/NR	2026 - 2039
04/22	\$191MM	Fort Bend ISD	TX	Unlimited Tax School Building and	--/AAA/AAA	2026 - 2055
04/22	\$1151MM	Connecticut	CT	General Obligation Refunding Bonds	Aa3/AA-/AA-	2025 - 2035
04/22	\$500MM	Connecticut	CT	General Obligation Bonds (2025 Series A)	Aa3/AA-/AA-	2026 - 2045
04/22	\$7MM	Skokie SD #73 1/2	IL	General Obligation Limited Tax School	Aa2/-/--	2030 - 2034
04/22	\$70MM	Virginia Hsg Dev Aut	VA	2024 SERIES F	Aaa/AAA/--	2026 - 2055
04/22	\$300MM	Connecticut	CT	Taxable General Obligation Bonds	Aa3/AA-/AA-	2026 - 2035
04/22	\$140MM	Virginia Hsg Dev Aut	VA	VIRGINIA HOUSING DEVELOPMENT	Aaa/AAA/--	2026 - 2055
04/22	\$68MM	Washington State Hsg Fin Comm	WA	2025 SERIES 1N (NON-AMT)	Aaa/-/--	2034 - 2055
04/22	\$2MM	Washington State Hsg Fin Comm	WA	2025 SERIES 1A (AMT)	Aaa/-/--	2025 - 2027
04/22	\$50MM	Cornwall-Lebanon SD	PA	Cornwall-Lebanon School District,	--/AA/--	2026 - 2055
04/23	\$428MM	Los Angeles USD	CA	Election of 2024, General Obligation	Aa2/NR/AAA	2028 - 2049
04/23	\$246MM	Los Angeles USD	CA	2025 General Obligation Refunding	Aa2/NR/AAA	2027 - 2040
04/23	\$18MM	Lampeter SD	PA	Lampeter-Strasburg School District	Aa3/-/--	2026 - 2047
04/23	\$158MM	Colorado Hsg & Fin A	CO	2025 SERIES H-1 (FEDERALLY TAXABLE)	Aaa/AAA/--	2026 - 2055
04/23	\$673MM	NYC Muni Wtr Fin	NY	Water and Sewer System Second General	Aa1/AA+/AA+	2028 - 2039
04/24	\$100MM	New Mexico Mtg Fin A	NM	2025 SERIES C (TAX-EXEMPT) (NON-AMT)	Aaa/-/--	2026 - 2056
04/24	\$40MM	New Mexico Mtg Fin A	NM	2025 SERIES D (FEDERALLY TAXABLE)	Aaa/-/--	2027 - 2056
04/24	\$60MM	Encinitas Union School District	CA	General Obligation Bonds	--/AA+/--	2026 - 2054

This offering calendar is for information purposes only, and is not intended as an offer for solicitation with respect to the purchase or sale of any securities. For more information on the new issues go to [www.raymondjames.com](http://www.raymondjames.com).

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Sourced from Bloomberg: Treasuries: US Fed H15 CMT Curve - The H15 curve is comprised of the constant maturity treasury rates as published daily by the Federal Reserve in the H15 report. Municipal (AAA): BVAL Municipal AAA Yield Curve (Callable) - The curve is populated with high quality US municipal bonds with an average rating of AAA from Moody's and S&P. The yield curve is built using non-parametric fit of market data obtained from the Municipal Securities Rulemaking Board, new issues, and other proprietary contributed prices. The curve represents 5% couponing. The 3 month to 10 year points are bullet yields, and the 11 year to 30 year points are yields to worst for a 10-year call. Municipal (AA): US General Obligation AA Muni BVAL Yield Curve - The BVAL curve is populated with pricing from uninsured AA General Obligation bonds. Municipal (A): US General Obligation A+ A A- Muni BVAL Yield Curve - The BVAL curve is populated with pricing from uninsured A+, A, and A-rated General Obligation bonds. Fed Funds (Upper Bound): The federal funds rate is the short-term interest rate targeted by the Federal Reserve's Federal Open Market Committee as part of its monetary policy. US Treasury securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance.

The illustrative portfolios are intended as a starting point for a conversation on individual bonds. They are not intended as specific recommendations and bonds are shown for illustration purposes only. The bonds listed in the illustrative portfolios are rated A or better, with average ratings from Moody's and Standard and Poor's of Aa2 / AA. The yields shown in the proposals are based on pricing models, not current market offers. Yields shown are indicative of general market levels but are not a guaranteed result. Prices and yields are not inclusive of any fees or commissions.

US Treasury securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value. The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ. The NASDAQ Composite is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance.

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INTERNATIONAL HEADQUARTERS: THE RAYMOND JAMES FINANCIAL CENTER  
880 CARILLON PARKWAY // ST. PETERSBURG, FL 33716 // 800.248.8863 // RAYMONDJAMES.COM

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