NOT-FOR-PROFIT HEALTHCARE
2021 YEAR IN REVIEW / 2022 OUTLOOK

WINTER 2022

Ziegler

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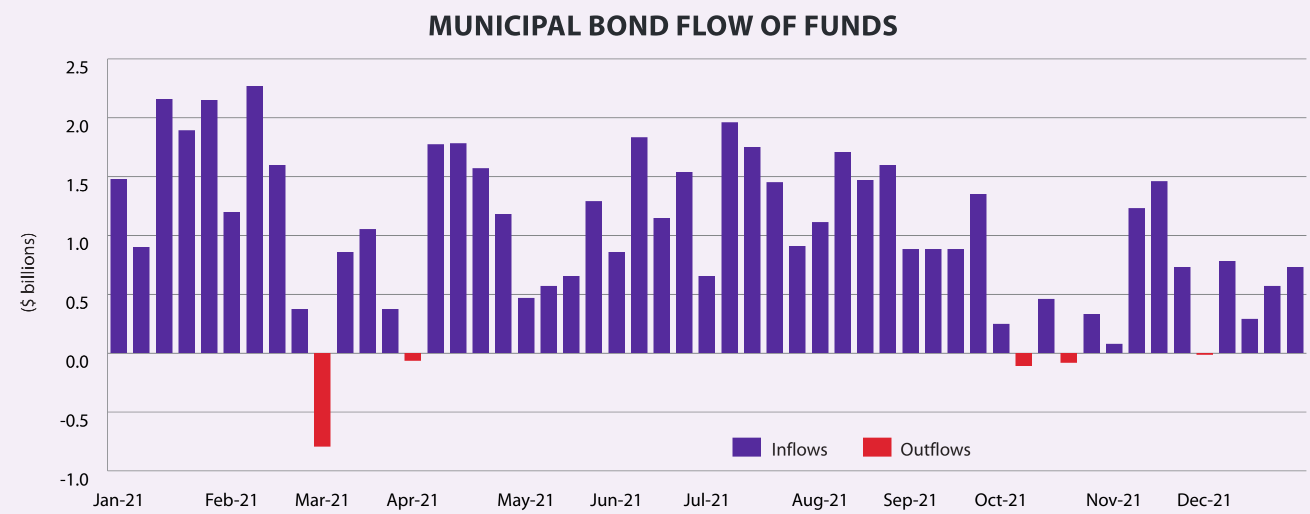
Municipal Market Overview

The municipal bond market in 2021 was virtually drama free, just the way we like it. With demand for municipal bonds far outstripping supply, historically low interest rates and very low volatility, the muni market provided much needed calm in a world of chaos.

In 2021, the new issuance in the muni marketplace was modestly higher compared to 2020 volume ($475.9 billion compared to $451.2 billion, according to Refinitiv). Given the attractiveness of long-term interest rates, 95% of new issuance was fixed rate.

Fueling the market was near-continuous positive cash inflows to municipal bond funds throughout the year, including a stretch of 26 straight weeks. In total over $53.4 billion of new money entered muni bond funds in 2021 compared to $11.6 billion in 2020, according to Lipper fund flow tracking.

The Federal Reserve Bank's easy money policy continued to help the economy as a whole in 2021, and the municipal bond shared in liquidity boom. The benchmark 30-year AAA MMD index started the year at 1.40%, peaked at 1.80% in late February before a steady decline for the remainder of the year, ending at 1.49%. Despite the uptick in the first quarter, the index was steady throughout much of the year and often disconnected from the volatility of Treasury market. The MMD index remained unchanged from the day prior 152 times out of 250 trading days, underscoring its limited volatility. It was a great time to be a borrower.



Source: Refinitiv Lipper

Healthcare Market Review

Following in the general municipal market's footprints, the healthcare bond market was very attractive for borrowers in 2021 as well.

Despite the operational headwinds resulting from the Covid-19 pandemic, our most front-line industry weathered the storm well, largely due to government stimulus, but also nimble, fast acting healthcare leadership. From a credit-rating perspective, the rating agencies acknowledged the industry's agility and healthy balance sheets, which resulted in another year of predominantly rating affirmations. Standard and Poor's reported rating 90% affirmations with a similar ratio of upgrades to downgrades[1].

As investors sought higher yielding muni bonds, more investors looked to invest in stable healthcare credits. As demand for higher-yielding debt increased, the result was a decrease in credit spreads across the rating spectrum with the largest decrease in the 'BBB' category. Per the chart below, 'BBB' rated bonds began year with credit spread of approximately 125 bps and ended near 80 bps. 'A' rated bonds followed the same path, but to a smaller degree, while high-grade healthcare remained relatively flat.

HEALTHCARE SPREADS TO 30 YEAR MMD (BPS)

	BBB	A	AA
Start of 2021	126	65	26
2021 Q1	87	48	29
2021 Q2	77	40	29
2021 Q3	74	62	47
2021 Q4	78	46	25
YoY Difference	-48	-18	-1

Source: Bloomberg, MMD, Ziegler

1 S&P Global Ratings, "Outlook For U.S. Not-For-Profit Acute Health Care: A Booster May Be Needed," January 6, 2022.

Differing from the general market, however, healthcare experienced a decrease in new issuance compared to 2020. According to data from Refinitiv, new public bond issues totaled $36.7 billion in 2021 compared to $50.3 billion in 2020, a decrease of 27%. We attribute this to healthcare providers addressing operational stressors resulting from the Covid-19 pandemic and being more cautious funding bricks and mortar projects. However, over 60% of the total volume was used for new capital projects.

The taxable issuance trend continued in 2021. Over half (53%) of all issuance in the healthcare market was taxable, with a balance between refinancing and new money. The attractiveness of the taxable market allowed borrowers to refinance existing tax-exempt bond issues and provided new capital for strategic deployment without the use limitations and tax compliance associated with tax-exempt debt. We expect this trend to continue in 2022.

VOLUME OF PUBLICLY ISSUED HEALTHCARE BONDS ($MILLION)

	2021		2020	
Tax-Exempt	17,399.8	47.4%	18,828.3	37.4%
Taxable	3,803.3	10.4%	5,163.4	10.3%
Corp Taxable	15,520.4	42.3%	26,333.2	52.3%
Total	36,723.4		50,324.8	

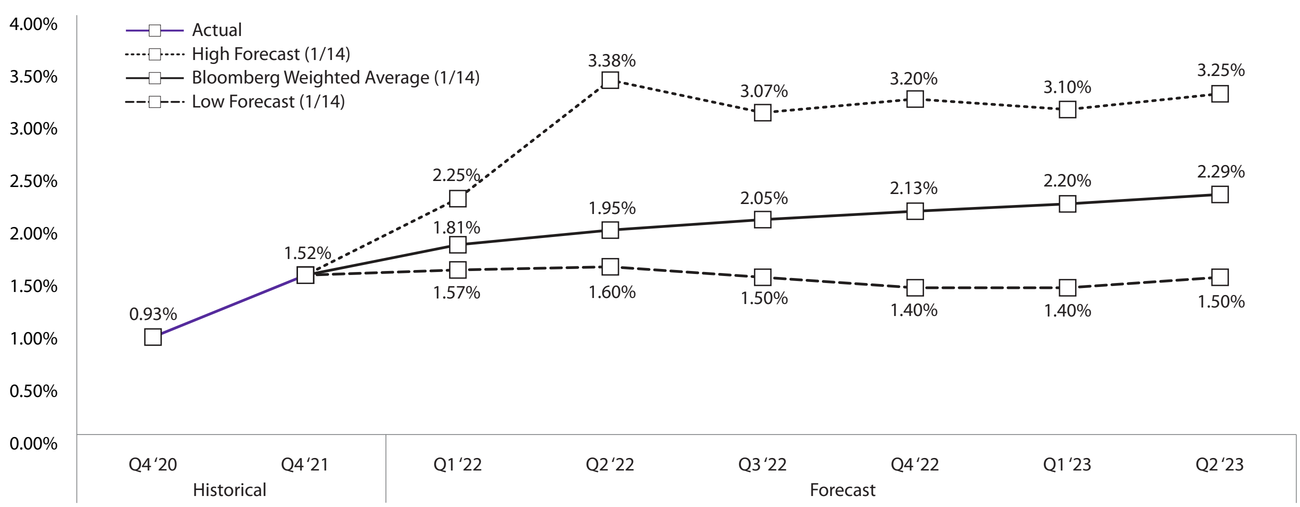
Source: Refinitiv

Outlook for 2022

The discussion about Fed policy and the interest rate outlook in 2022 begins with inflation. The economy in the United States is healthy and growing. Unemployment was a very low 3.9% in December 2021. Gross Domestic Product grew at a robust 8.4% at the end of the third quarter of 2021. However, inflation rose to 6.8% in 2021, the highest level since 1982, and well above the Fed's stated target of 2%. The inflation rate, above many other factors the Fed reviews, are anticipated to result in the Federal Reserve increasing Fed Funds rate and curtailing its asset purchasing program throughout 2022. With these expectations being telegraphed by the Fed, we anticipate interest rates in both the taxable and tax-exempt market to experience upward pressure, but will most likely still remain attractive from a longer view of historical rates.

A recent Bloomberg economist survey suggests the 10-year UST is expected to rise to 2.13% by the end of the year. However, as we experienced in 2021, the supply/demand dynamic could limit the volatility of municipal rates relative to Treasuries.

10-YEAR UST BLOOMBERG ECONOMIST FORECASTS



10-YEAR UST FORECASTED INCREASE/DECREASE FROM Q4 '21

	Historical		Forecast					
	Q4 '20	Q4 '21	Q1 '22	Q2 '22	Q3 '22	Q4 '22	Q1 '23	Q2 '23
High			+73 bps	+186 bps	+155 bps	+168 bps	+158 bps	+173 bps
Average	0.93%	1.52%	+29 bps	+43 bps	+53 bps	+61 bps	+68 bps	+77 bps
Low			+5 bps	+8 bps	-2 bps	-12 bps	-12 bps	-2 bps

Source: Bloomberg

CONTACT US

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