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D.A. DAVIDSON & CO.
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D.A. DAVIDSON DEVELOPMENT FINANCE GROUP QUARTERLY MARKET UPDATE: FIRST QUARTER 2024

Market Leadership in The Intermountain West

D.A. Davidson's newly rebranded Development Finance Group (formerly Special District Group) has started the year off strong, leading the execution of 10 transactions totaling over **\$519.2 million** in aggregate principal, during this first quarter alone, nearly equaling 2023's \$536.3 million in aggregate principal.



Featured below are four prominent transactions from the first quarter that highlight the range of our group's financing capabilities provided to our clients across diverse geographies and issuer types.



Miami, FL

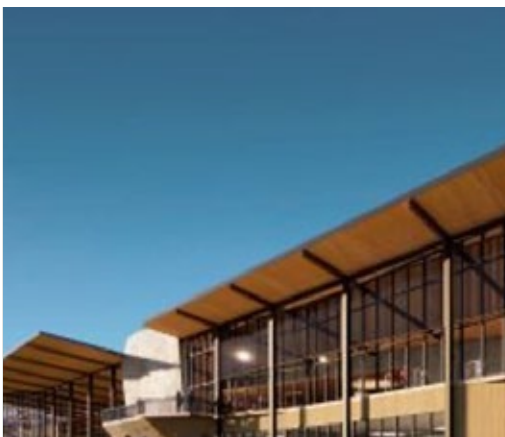
\$246.7 MILLION

Miami Worldcenter

Lead underwriter for \$246.7 million of principal to support improvements for the Miami Worldcenter ("MWC") project located in the heart of Miami, FL.

MWC is a world class urban destination that provides a compelling and unique blend of exceptional entertainment, retail, residential and commercial offerings set among a pedestrian-friendly environment and greenspaces.

The project is planned for 8,574 residential units, 608,362 square feet of office space, 490,032 sq. ft. of retail, and 850 hotel keys to be completed by 2028.



Grand Junction, CO

\$130.6 MILLION

Grand Junction

Delivered more than \$130 million in project funding through the successful closing of two bond series.

The proceeds from the Series 2024 General Fund Revenue bonds, totaling \$68.56 million, will fund the construction of a new 100,000+ square foot community recreation center, approved by voters in 2023 --- a long-awaited project for the community.

Proceeds from the \$62 million Joint Sewer Fund Revenue Bonds will expand the Persigo Water Treatment plant's capacity from 12.5 million gallons per day to 15 million gallons per day, accommodating 20 years of projected growth in the Grand Junction region.



Eagle, ID

\$48.0 MILLION

Spring Valley CID No. 1 Assessment Area #2

Successfully priced and delivered \$48.0 million of principal for the Spring Valley Community Improvement District No. 1 to support infrastructure for the second phase of the Valnova project.

Valnova is a 6,017-acre mixed use master planned community anticipated to contain approximately 7,160 residential units and approximately 1mm square feet of mixed-use commercial space to be completed in three phases over the next 15-20 years.



Aurora, CO

\$31.7 MILLION

Murphy Creek MD No. 3

Raised \$31.7 million in aggregate principal in just 20 days to accommodate the State's mill levy certification deadline of January 11th.

The bond proceeds will be used to refinance the District's 2006 bonds and save taxpayers \$900-\$1,500 in property taxes annually, depending on home value.

Development located in Aurora, Colorado, the District contains 1,398 homes.

Persistent Inflation and Strong Economy Curtail Rate Cut Expectations

Ending 2023, and moving into the start of 2024, the market anticipated that a slowing economy and cooling labor market would force the Fed to cut rates as many as six times in 2024; however, persistent inflation and signs of a robust economy and labor market have curtailed expectations for rate cuts in 2024, with traders penciling fewer than three cuts this year.

At the March 2024 Federal Open Market Committee (FOMC) meeting, the Fed held rates steady at 5.25%-5.50%, marking the fifth consecutive meeting at which the Federal Reserve has held rates. March's blowout jobs report, which showed that employers added 303,000 new workers (nearly 100,000 more than the consensus 205,000 expected), higher readings on inflation, and a cautious FOMC have tempered expectations of any rate cuts occurring until July.

US Treasuries yields climbed across the curve, with front-end inversion remaining present to conclude the quarter. From start of January to end of March 2024, near term maturities rose one to 31 basis points, while longer-dated bonds of 10 and 30-year maturities rose 20 to 26 basis points respectively. The tax-exempt benchmark AAA MMD yields saw substantial increases across the curve, with 13 to 59 basis point increases across all maturities to end the quarter,

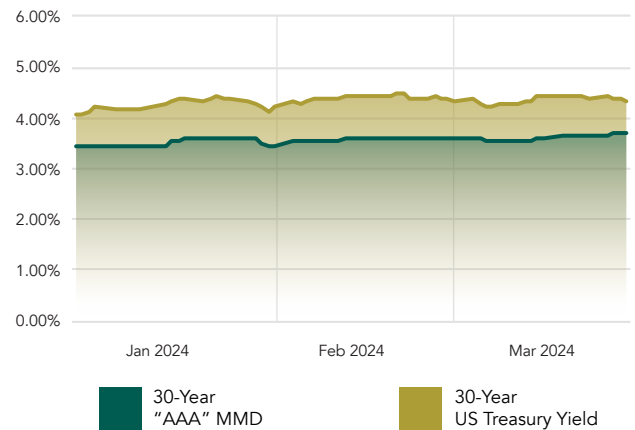
Meanwhile, credit spreads on high-yield municipal bonds remain approximately 50 to 75 basis points wider than spreads in January of 2022, before the current rate hiking cycle, reflecting the additional risk premium demanded by municipal and high yield investors in the current environment.

The US Treasury and AAA MMD yields remained at the high end of their 10-year range. Hovering above 4.00% throughout most of the quarter, the 10-year UST yield briefly dropped to 3.87% in early February before climbing to 4.36% to end the quarter. Similarly, the 30-year AAA MMD remained below 3.5% to start the quarter before climbing to 3.68% to end the quarter.

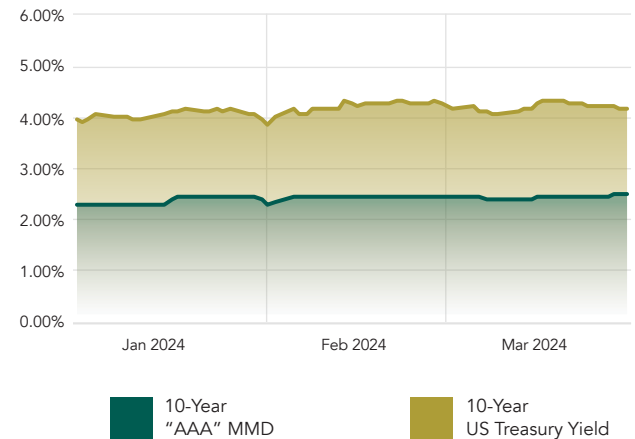
Mortgage rates briefly dipped before climbing slightly to end the quarter increasing from 6.60% in mid-January to 6.70% by end of March, according to the Freddie Mac Primary Mortgage Market Survey.

Though the "AAA" MMD yield curve has flattened somewhat, the front end of the UST and "AAA" MMD yield curves remain high, near the same level as the longer-term maturities (despite carrying lower risk), which signals uncertainty regarding the future direction of the economy and near-term rate cuts.

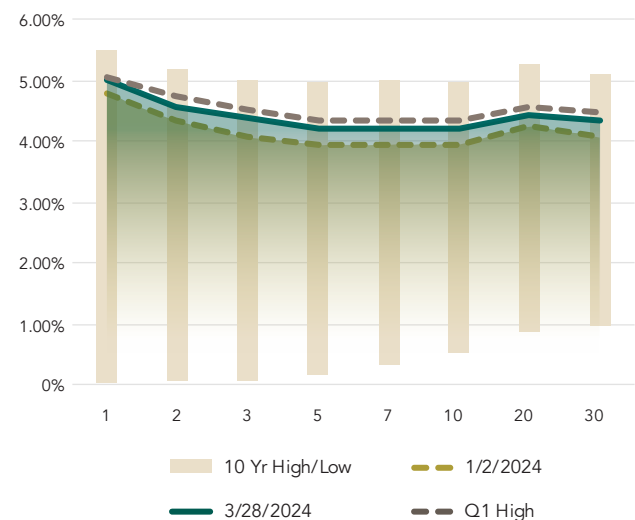
30-Year "AAA" MMD, US Treasury Yields Q1 2024



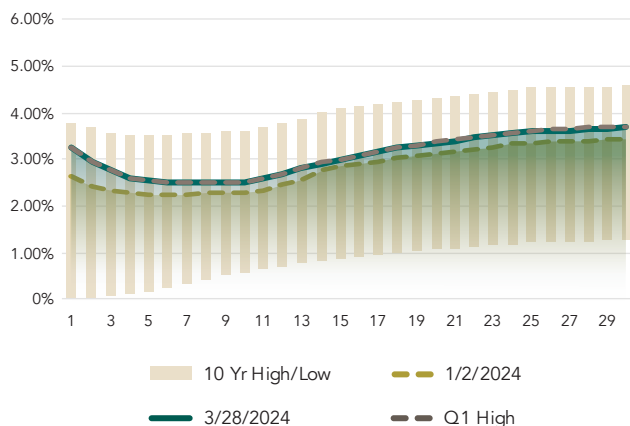
10-Year "AAA" MMD, US Treasury Yields Q1 2024



US Treasury Yield Curve



AAA MMD Yield Curve Muni Benchmark



Sources: TM3, Bloomberg, Lipper, and the BondBuyer

Supply and Demand Rise During First Quarter on Anticipated Conclusion of Current Tightening Cycle in 2024

The Fed signaled intentions to cut rates moving into 2024, and while higher readings on inflation and resilience in the economy have tempered expectations in terms of the number of rate cuts, the market still anticipates a conclusion of the current tightening cycle, driving an uptick in both supply and demand for the municipal asset during the first quarter.

The first quarter of 2024 concluded with five consecutive weeks of inflows to municipal bond mutual funds with inflows in nine of the thirteen weeks and total net inflows of \$3.6 billion during the quarter, a sharp contrast with 2023, which saw outflows in 39 of 52 weeks and total net outflows of \$15.7 billion during the year. Similarly, high-yield funds have seen twelve consecutive weeks of inflows and total net inflows of \$3.7 billion, overall, during the first quarter of 2024.

The weekly average municipal supply is up 17.5% from \$6.3 billion during 2023 to \$7.5 billion during the first quarter of 2024. Overall, municipal supply ended the first quarter at \$97 billion, up from \$77 billion over the same period last year.

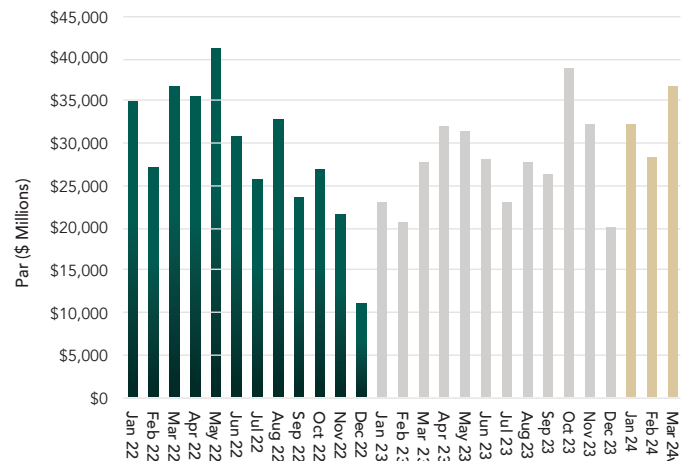
As inflation has persisted above the Fed's 2.00% target, and the U.S. economy has remained more resilient than expected, the Federal Open Market Committee has maintained a target of 5.25% to 5.50% since its July 2023 meeting but has cautiously signaled anticipated rate cuts during 2024.

The market consensus forecasts at the conclusion of the quarter anticipated as many as three rate cuts in 2024 with a target rate of 4.47% by the start of 2025.

While liquidity has remained somewhat limited, consecutive weeks of fund inflows and the anticipation of rate cuts have driven supply and demand for municipal debt. Moving into the second quarter, we anticipate investors will remain cautious and preferential for higher yields and stronger credit quality for new issuances in a still volatile market.

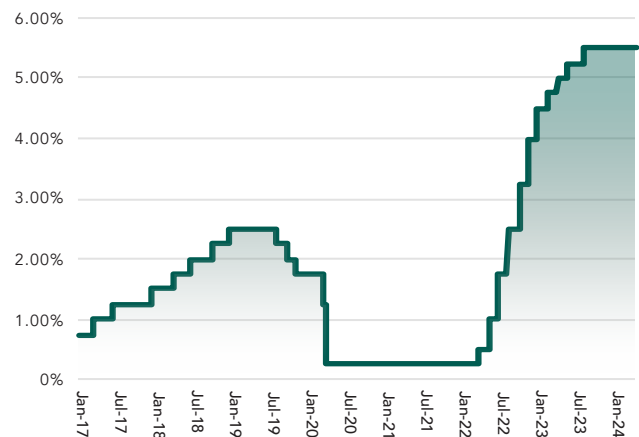
New Issue Supply by Month

Jan 2022 – Mar 2024



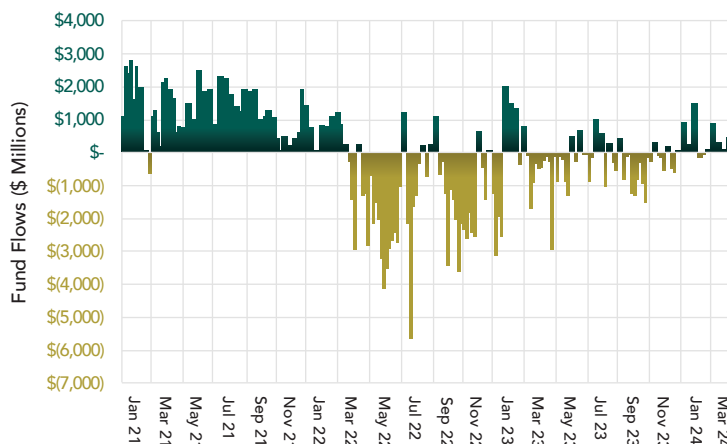
Federal Funds Rate

Jan 2017 – Mar 2024

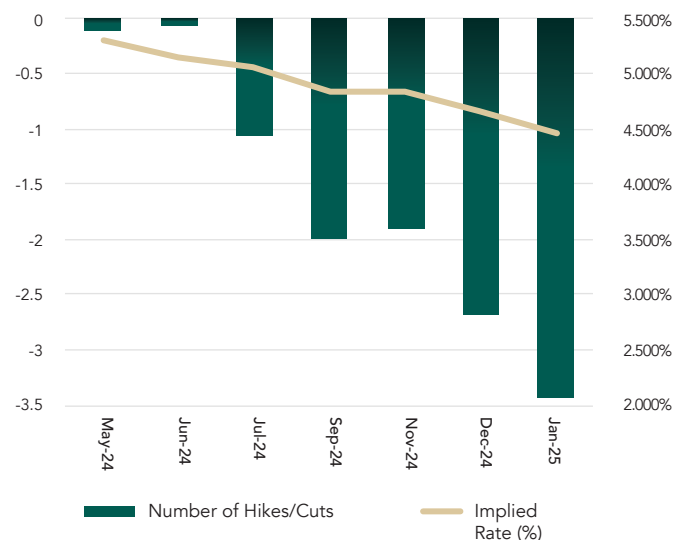


Municipal Fund Net Flows

Jan 2021 – Mar 2024



Implied Overnight Rate & Number of Rate Hikes



Sources: TM3, Bloomberg, Lipper, U.S. Federal Reserve, and the BondBuyer

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