
Signature Bank had a very modest amount of muni holdings of USD 249mn and the disposal should have no or very limited impact on the market. (ddp)

# Regional banking crisis fails to rattle munis

09 May 2023, 2:37 pm CEST, written by UBS Editorial Team

**Banks are significant owners of municipal bonds. Therefore, the recent high-profile regional bank failures of Silicon Valley Bank (SVB), Signature, and First Republic have raised concerns about the forced selling of their municipal portfolios and potential implications for the market as whole. Thus far, the impact to the muni market has been muted.**

For context, the size of the SVB muni portfolio is USD 7.4bn, according to their most recent 10-K. At the same time, market participants expect its muni portfolios to be sold in an orderly manner over the next few weeks rather than an abrupt sale. That said, about 85% of the portfolio consists of longer-dated bonds with low coupons between 1.5%–3.0%, according to our data. However, there is limited appetite for market discount bonds from the dominant investor base for munis (private clients) given the unfavorable tax treatment imposed upon disposition or maturity of the bonds (see *Education note: tax implications on discount munis*, 17 February 2023). By contrast, we think institutional-based buyers (banks and insurance companies) that are less sensitive to the tax consequences are apt to seek buying opportunities in the low coupon space.

Signature Bank had a very modest amount of muni holdings (USD 249mn) and the disposal should have no or very limited impact on the market, in our view.

More recently, First Republic Bank was sold to JPMorgan and their entire muni portfolio was obtained by JPMorgan. Should JPMorgan want to reduce their muni holdings, we also expect them to do so in an orderly fashion over time and without disrupting the market as a whole.

### Tight supply remains a tailwind

The municipal market has been starved for issuance thus far this year (down 25% y/y through April) and would be able to digest SVB's municipal portfolio with ease, in our view, if not for the low coupon long duration structure. As a point of reference, the size of SVB's muni portfolio is a little more than one week of average new issuance supply in 2023. In the next 30 days, funds available for reinvestment exceeds expected new issuance by USD 13.5bn, thus the inflow of available bonds should not have a major impact on the overall market. We are also heading into redemption season, when reinvestment proceeds typically outpace issuance by a large majority and provide a healthy tailwind to municipals in the months of June–August.

Overall, the stress on regional banks thus far has had a muted impact on the broader municipal market. Banks account for about 15% of municipal bond holdings, most of which is concentrated in the large systemically important banks which are in strong financial health.

Main contributors - Ted Galgano, Kathleen McNamara, Sudip Mukherjee

**Content is a product of the Chief Investment Office (CIO).**

Original report - **Regional banking crisis fails to rattle munis, 9 May 2023.**