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Are you ready for some... muni bonds!?

By Warren Lovely

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It's September and football is back! So too is Canada's muni bond market, or more precisely the 'municipal and local government authority' sector. That's a mouthful we realize, but the MLGA label more accurately reflects the fact that the single biggest player in the space (Municipal Finance Authority of BC) could rightly be looked as an SSA, while another major name (First Nations Finance Authority) slots into the 'federal' index.

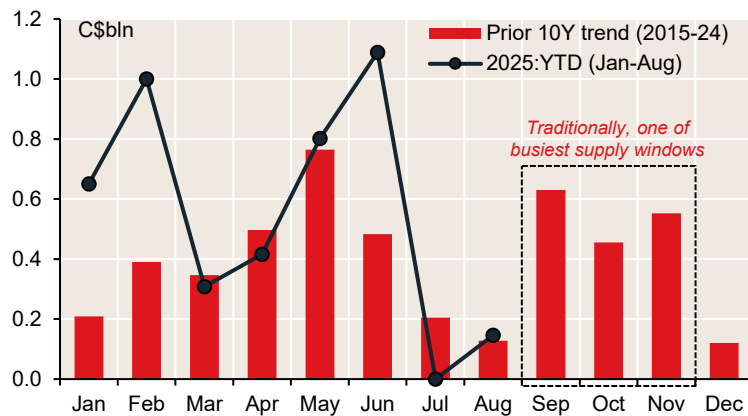
Supply kicks off (again)

After the customary summer lull, primary activity is kicking off again in the muni/local government authority market. The City of Ottawa recently got back in the game via a \$220 million re-opening of a 2034 sustainable bond. The City of Toronto has also just hit the field with a \$200 million re-opening of a 2034 green bond. As an aside, the recent Ottawa and Toronto trades remind us that the MLGA sector remains an important source of ESG labeled product in Canada. Other issuers could join the field of play soon enough. To us, ongoing geopolitical uncertainty might argue for taking your shot when/where you can—the bond market equivalent of adopting a hurry up offense and/or audibling as needed—with underlying market conditions always a consideration.

There's nothing terribly unusual about a pick-up in MLGA supply at this time of year. In an 'average' year, September to November is typically one of the busiest 3-month issuance windows for this sector (Chart 1).

Chart 1: Expecting plenty of action in MLGA sector

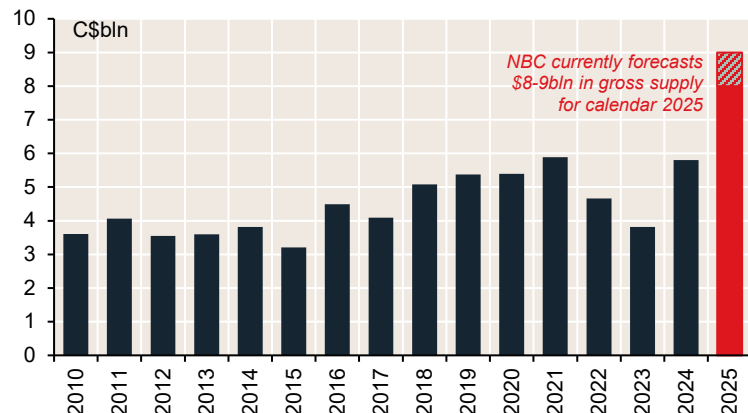
Monthly pattern of municipal & local government authority gross bond supply



Source: NBC, BBG | Note: 2025 is YTD through Aug

Chart 2: 2025 a record-breaking year for MLGA supply

Municipal & local government authority gross bond supply, incl. NBC forecast



Source: NBC, BBG | Note: 2025 is anticipated range; YTD supply is \$4.6bln thru 5-Sep

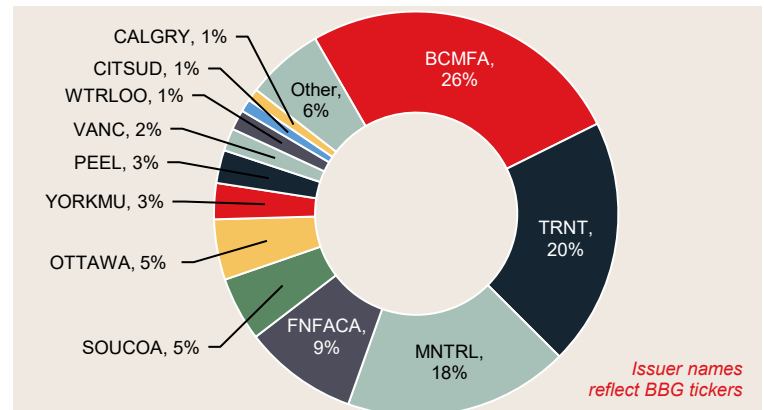
With a host of issuers eager to play and expected deal sizes stepping up, the seasonals should be working overtime in 2025. Prospective near-term supply will build on what has already been record-setting year-to-date issuance pace. Through September 5th, \$4.6 billion of MLGA debt had already been priced in calendar 2025. Layering in our expectations for the balance of the year, the bond supply scoreboard should read \$8-9 billion when we hit full-time (the upper end of our range more likely). In the end, it looks to be an unprecedented MLGA bond tally for 2025, with plenty of spread over the prior high score (2021's \$5.9 billion) (Chart 2).

A highly rated roster

The established roster of MLGA issuers remains a bit top heavy, with issuance and outstandings somewhat concentrated. (The same holds for the provincial bond market mind you.) When it comes to Canada's municipal and local government authority sector, four names have accounted for almost three-quarters of total supply in the past few years: BCMFA, Toronto, Montreal and FNFA (Chart 3). But as in football, a compelling team (sector) often includes a larger roster of motivated players (issuers), each with unique attributes/characteristics.

Chart 3: Some of the major/regular players in MLGA space

Share of municipal & local government authority gross bond supply since 2020



Source: NBC, BBG | Note: Based on >\$30bln in gross supply from Jan-20 to 5-Sep-25

Scanning the stat sheet, there were 18 unique MLGA issuers last year. When all is said and done, the active issuer list should be at least as long in 2025. Through September 5th, this year's MLGA deal list was populated with 16 unique issuers and 20 marketed offerings... and counting.

What MLGA issuers tend to share are sterling and generally stable long-term credit ratings. This ratings backdrop is presumably a comfort to some. Here at home (in Canada), provincial credit quality has (on average) softened and the federal government's fiscal outlook has darkened. Beyond our borders, government finances in many instances appear in disarray, be it in the United States, across Europe and/or Asia. Stable credit quality shouldn't be taken for granted then.

Refer to NBC's *Municipal Ratings Snapshot* for a detailed look at idiosyncratic rating drivers for many of the largest MLGA issuers.

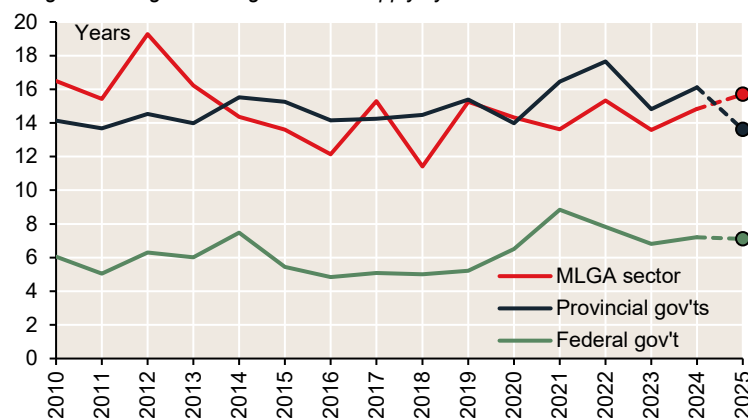
The issuer's play call: Go long!

When it comes to funding strategy, the most natural call involves going long, as in further out the yield curve. Again, there's nothing terribly new there, as the strictly capital-driven nature of MLGA borrowing requirements makes long(er)-term issuance a good fit. Reminder: Municipal governments are required to balance operating budgets and generally fund only a portion of capital needs via fresh debt.

While it's natural to see these issuers going deep, the 15.7-year weighted average term of this year's MLGA bond crop is at the longer end of the established range (Chart 4).

Chart 4: MLGA issuers have had success 'going long'

Weighted average term of gross bond supply by sector



Source: NBC, BBG, BoC | Note: 2025 is YTD based through 5-Sep; MLGA excl. auctions; provincial based all currencies; federal based on conventional nominals only

Note that provincial governments generally seek to get term too. For this reason, we're keenly aware of the federal government's shifting (read deteriorating) fiscal reality, which has already spawned no little amount of GoC bond supply and could ultimately trigger a marginal drift out the curve. After all, the Prime Minister's ambitious capital plans might argue for longer-term financing, all else equal. A fall budget will allow us to reassess federal funding needs and the related borrowing strategy.

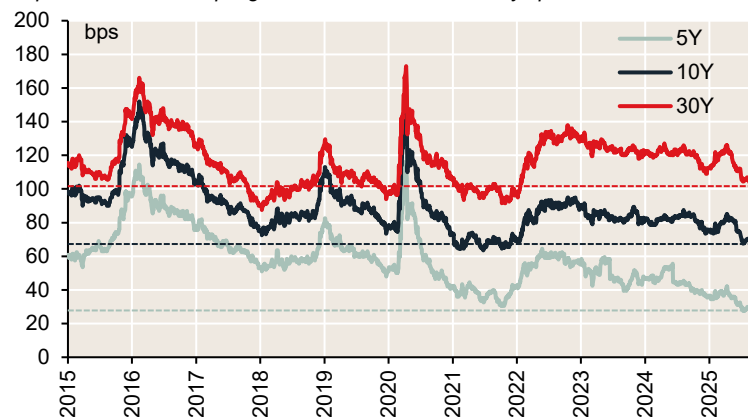
Lofty valuations for this bond franchise?

These days, risk assets (like football teams) are valuable assets. Equities sit at lofty levels, while credit spreads trade relatively tight to underlying risk-free curves. It's within this broader context that we assess relative value in Canada's municipal and local government authority franchise.

No question, MLGA bonds reside at historically tight(ish) levels on G-spread basis. A representative triple-A Ontario municipal government might indicatively issue at the following levels vs. the GoC curve: 5Y ~28 bps; 10Y ~67 bps; 30Y ~103 bps. (Explicit new issue levels would control for issuer-specific fundamentals, deal size/structure, secondary liquidity considerations, etc.) While not necessarily the tightest ever, this is a distinctly tighter-than-average spread environment (Chart 5).

Chart 5: Tighter-than-average spread environment...

Representative municipal government constant maturity spread vs. GoC curve

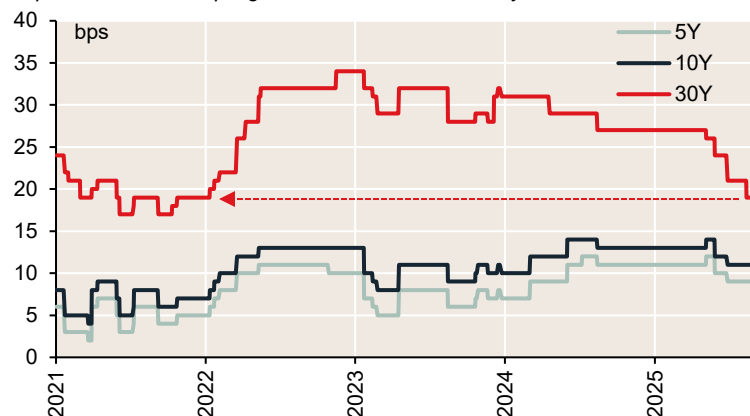


Source: NBC | Note: Based on NBC's daily NI indications for representative issuer to 8-Sep-25

MLGA bonds have likewise been repriced vs. the underlying provincial government credit curve. Of note, the 30-year MLGA basis to Ontario (the provincial bellwether) has snuggled up to multi-year tights (Chart 6).

Chart 6: ... with long muni basis to provis snuggling up

Representative municipal government constant maturity basis vs. Ontario



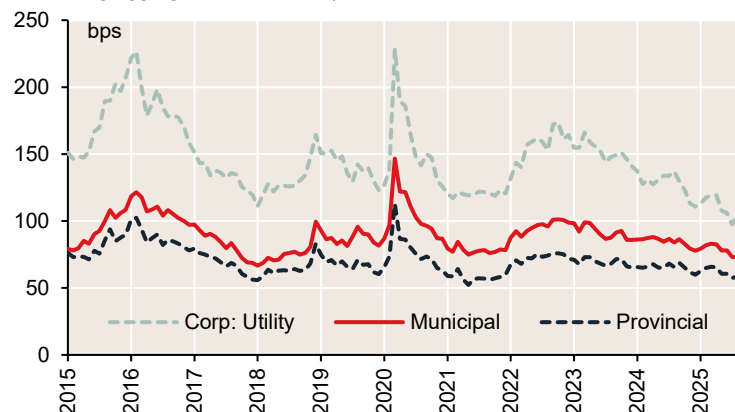
Source: NBC | Note: Based on NBC's daily NI indications for representative issuer to 8-Sep-25

Splitting the uprights on spreads

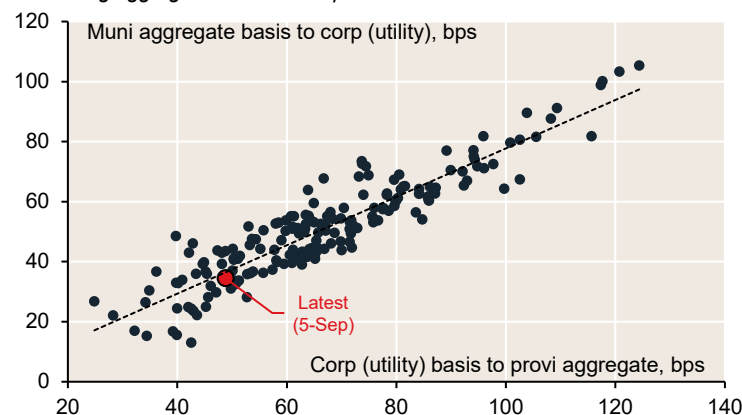
We see the MLGA sector as splitting the RV uprights formed by provincials and relevant corporate credits (e.g., infrastructure/utilities). On one hand, MLGA bonds offer marginal spread/yield to lower-rated provinces, the available carry enticing enough. Meanwhile, the current give to relevant corporate sectors is increasingly limited (Charts 7a-b). Of note, in the 30-year sector, you'll currently find very little differentiation between tax-generating municipal government bonds and utilities.

Charts 7a-b: On relative basis, MLGAs split the uprights

Bloomberg aggregate bond index spreads for select sectors vs. GoC



Bloomberg aggregate bond index spreads for select sectors vs. GoC



Source: NBC, BBG | Note: Based on end-of-month spreads from Jan-15 to Aug-25, plus latest values as of 5-Sep; muni/provi spreads based on sector aggregates; not constant maturity

In the end, it's for the fanbase—in this case bond investors—to voice their opinion. Upcoming MLGA deals offer as good a test as any. Game on!



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