



Rating Agency and Municipal Bond Market Update

Washington Public Ports Association – Finance Seminar

June 2022



KeyBanc Capital Markets Disclosure

KeyBanc Capital Markets Inc. (“KBCM”) is not recommending an action to you as the municipal entity or obligated person; KBCM is not acting as an advisor to you and does not owe a fiduciary duty pursuant to Section 15B of the Exchange Act to you with respect to the information and material contained in this communication; KBCM is acting for its own interests; you should discuss any information and material contained in this communication with any and all internal or external advisors and experts that you deem appropriate before acting on this information or material; and KBCM seeks to serve as an underwriter on a future transaction and not as a financial advisor or municipal advisor. The information provided is for discussion purposes only in anticipation of being engaged to serve as underwriter. The primary role of an underwriter is to purchase securities with a view to distribution in an arm’s-length commercial transaction with the issuer. The underwriter has financial and other interests that differ from those of the Issuer.

Interest rates used herein are hypothetical and take into consideration conditions in today’s market and other factual information such as the issuer’s credit rating, geographic location and market sector. Interest rates applied herein are hypothetical, based on current market facts and should not be viewed as rates that KBCM expects to achieve for you should we be selected to act as your underwriter or placement agent. Information about interest rates and terms for SLGs is based on current publicly available information and treasury or agency rates for open-market escrows are based on current market interest rates for these types of credits and should not be seen as costs or rates that KBCM expects to achieve for you should we be selected to act as your underwriter or placement agent.

Disclosure of MSRB Rule G-23

KeyBanc Capital Markets Inc. (KBCM) is providing the information contained in this document for discussion purposes only in anticipation of serving as underwriter or placement agent to you. The primary role of KBCM, as an underwriter or placement agent, is to purchase securities, for resale to investors, or place securities with investors, on an agency basis, in an arm’s-length commercial transaction between you and KBCM and that KBCM has financial and other interests that differ from your interests. KBCM is not acting as a municipal advisor, financial advisor or fiduciary to you or any other person or entity. The information provided is not intended to be and should not be construed as “advice” within the meaning of Section 15B of the Securities Exchange Act of 1934. You should consult with your own financial and/or municipal, legal, accounting, tax and other advisors, as applicable, to the extent you deem appropriate. If you would like a municipal advisor in this transaction that has legal fiduciary duties to you, then you are free to engage a municipal advisor to serve in that capacity.

Disclosure of Trading Party, Dual Employee Status and Related Matters

KeyBanc Capital Markets is a trade name under which the corporate and investment banking products and services of KeyCorp and its subsidiaries, KeyBanc Capital Markets Inc., Member FINRA/SIPC, and KeyBank National Association (“KeyBank N.A.”), are marketed. Securities products and services are offered by KeyBanc Capital Markets Inc. and by its licensed securities representatives. Banking products and services are offered by KeyBank N.A.

A number of our corporate and institutional team members are employed by both KeyBanc Capital Markets Inc. and KeyBank N.A. These “dual employees” are licensed securities representatives of KeyBanc Capital Markets Inc., and they are there to better serve your needs, by making available both securities and banking products and services.

Further, in connection with our effort to deliver a comprehensive array of banking and securities products and services to you in a seamless manner, from time to time KeyBank N.A. and KeyBanc Capital Markets Inc. will share with each other certain non-public information that you provide to us. Of course, as always, this information will not be shared or otherwise disclosed outside of the KeyCorp organization without your express permission. Please also be assured that, as with other banks and broker-dealers, KeyBank N.A. and KeyBanc Capital Markets Inc. adhere to established internal procedures to safeguard your corporate information from areas within our organization that trade in or advise clients with respect to the purchase and sale of securities.

THE OBLIGATIONS OF KEYBANC CAPITAL MARKETS INC. ARE NOT OBLIGATIONS OF KEYBANK N.A. OR ANY OF ITS AFFILIATE BANKS, AND NONE OF KEYCORP’S BANKS ARE RESPONSIBLE FOR, OR GUARANTEE, THE SECURITIES OR SECURITIES-RELATED PRODUCTS OR SERVICES SOLD, OFFERED OR RECOMMENDED BY KEYBANC CAPITAL MARKETS INC. OR ITS EMPLOYEES. SECURITIES AND OTHER INVESTMENT PRODUCTS SOLD, OFFERED OR RECOMMENDED BY KEYBANC CAPITAL MARKETS INC., IF ANY, ARE NOT BANK DEPOSITS OR OBLIGATIONS AND ARE NOT INSURED BY THE FDIC.

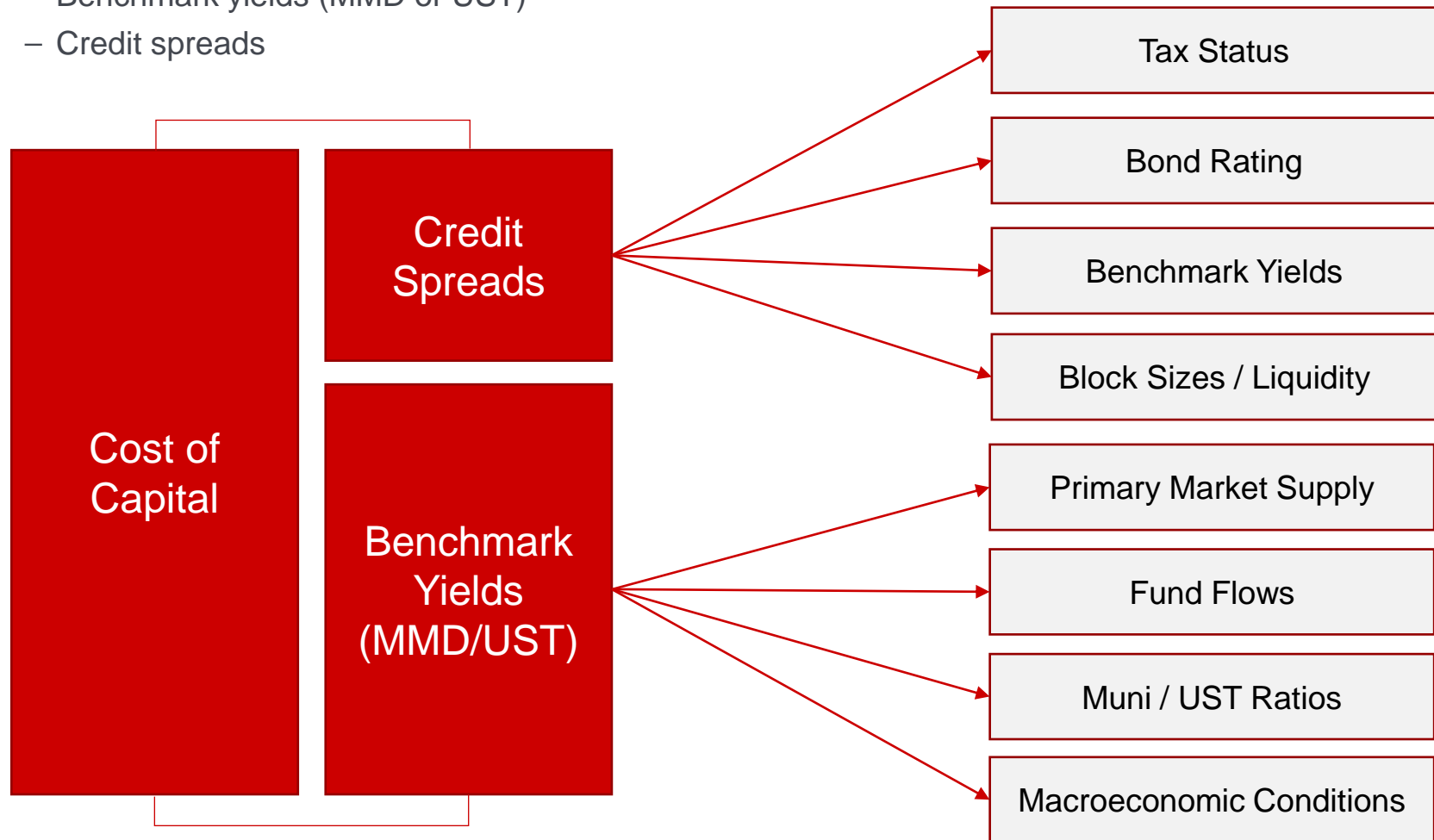


Agenda

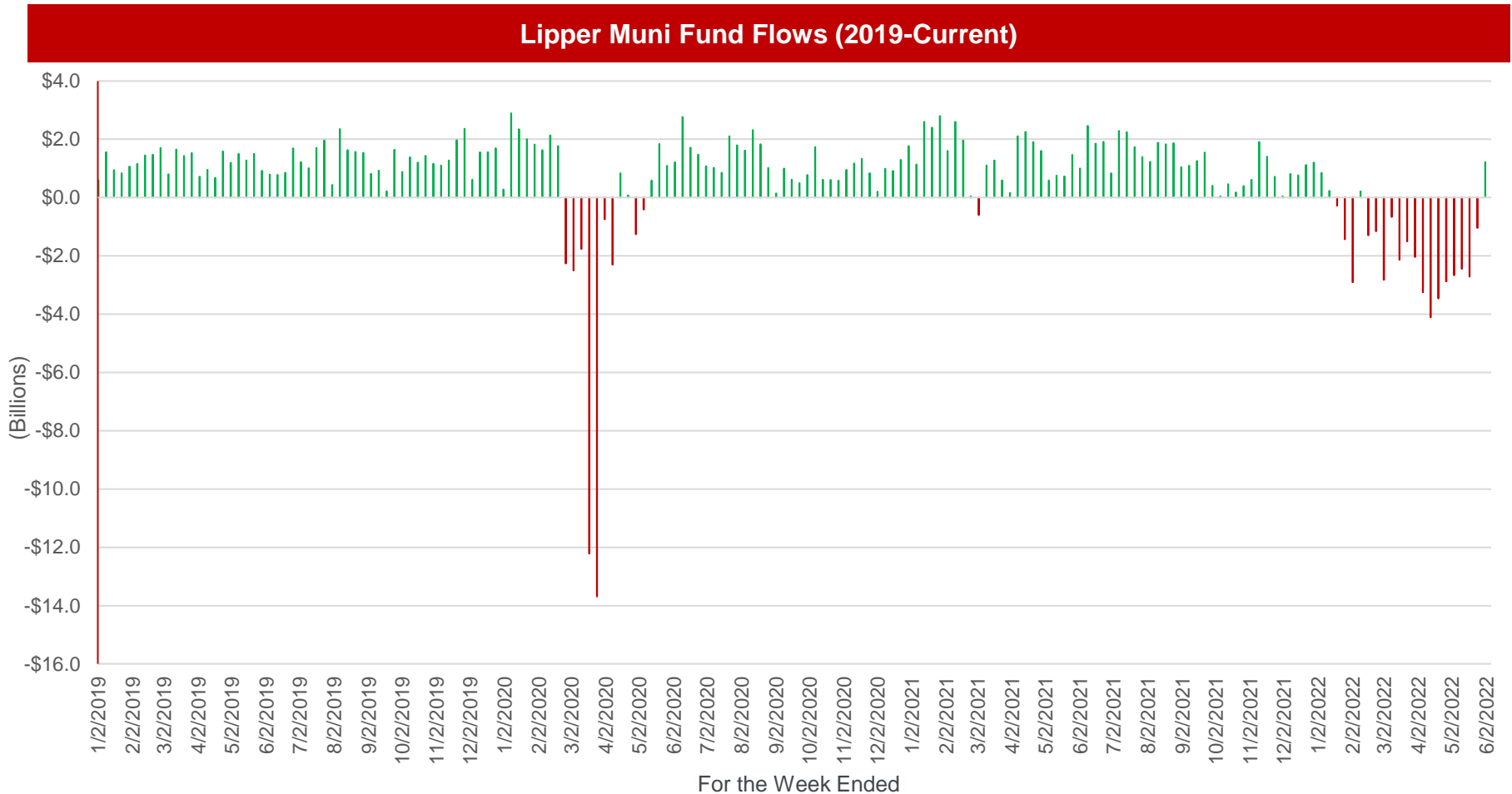
- Bond Market Conditions
- General Market Conditions
- Rating Agency Updates

Muni Market is Complex and Impacted by Numerous Variables

- An entity issuing debt in the municipal debt markets pays a cost of capital which is a function of:
 - Benchmark yields (MMD or UST)
 - Credit spreads



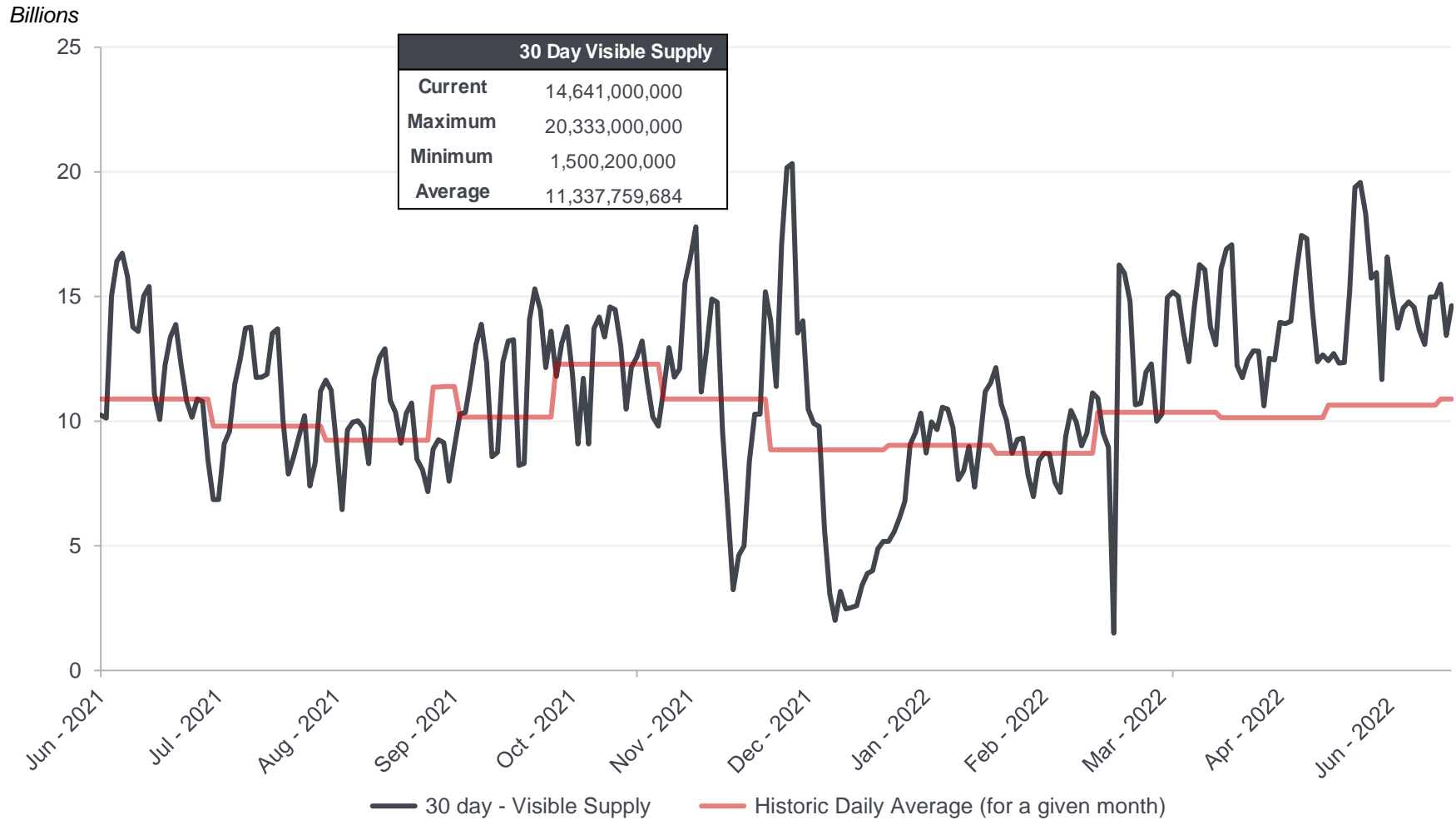
Lipper Muni Fund Flows



- In stark contrast to 2021 – which saw almost continuous inflows to municipal bond funds, totaling roughly \$66.5 billion over the course of the whole year – 2022 YTD has seen almost continuous outflows, totaling approximately \$36 billion over the past 22 weeks.
- After 15 weeks of continuous outflows, **this past week we saw inflows of approximately \$1.2 billion.**



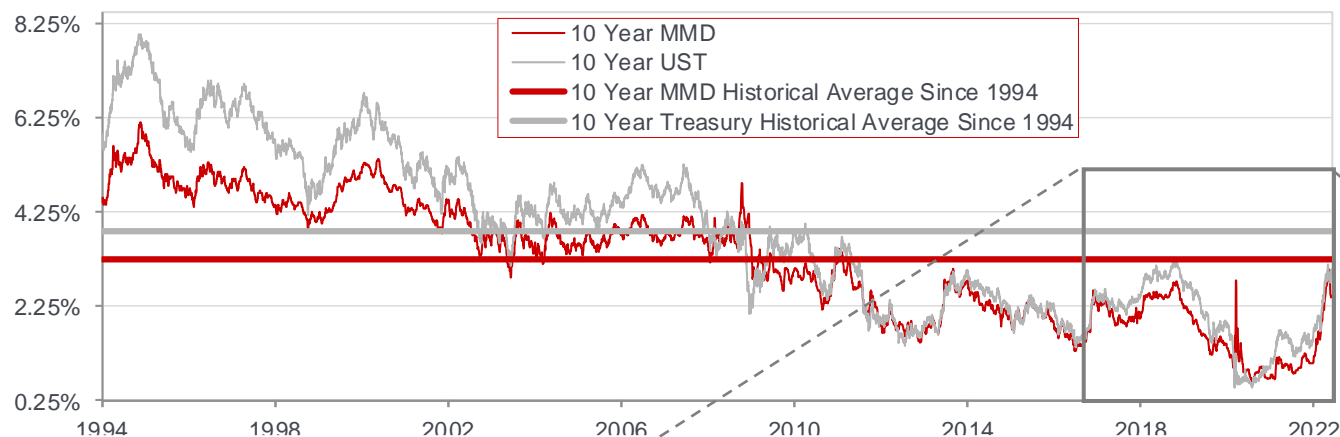
Issuance Volume



Tax-Exempt and Taxable Rates: Rates are low in the historical perspective

10-Year MMD and 10-year UST (1994 – Present)

- Since 1994, the 10-year MMD has been below the current rate only 33.18% of the time.
- Since 1994, the 10-year US Treasury has been below the current rate only 39.66% of the time.



	10-yr MMD	10-yr UST
Current	2.45%	2.97%
Maximum	6.15%	8.02%
Minimum	0.58%	0.51%
Average	3.24%	3.84%
% of Time Historical Rates Have Been Below Current	33.18%	39.66%

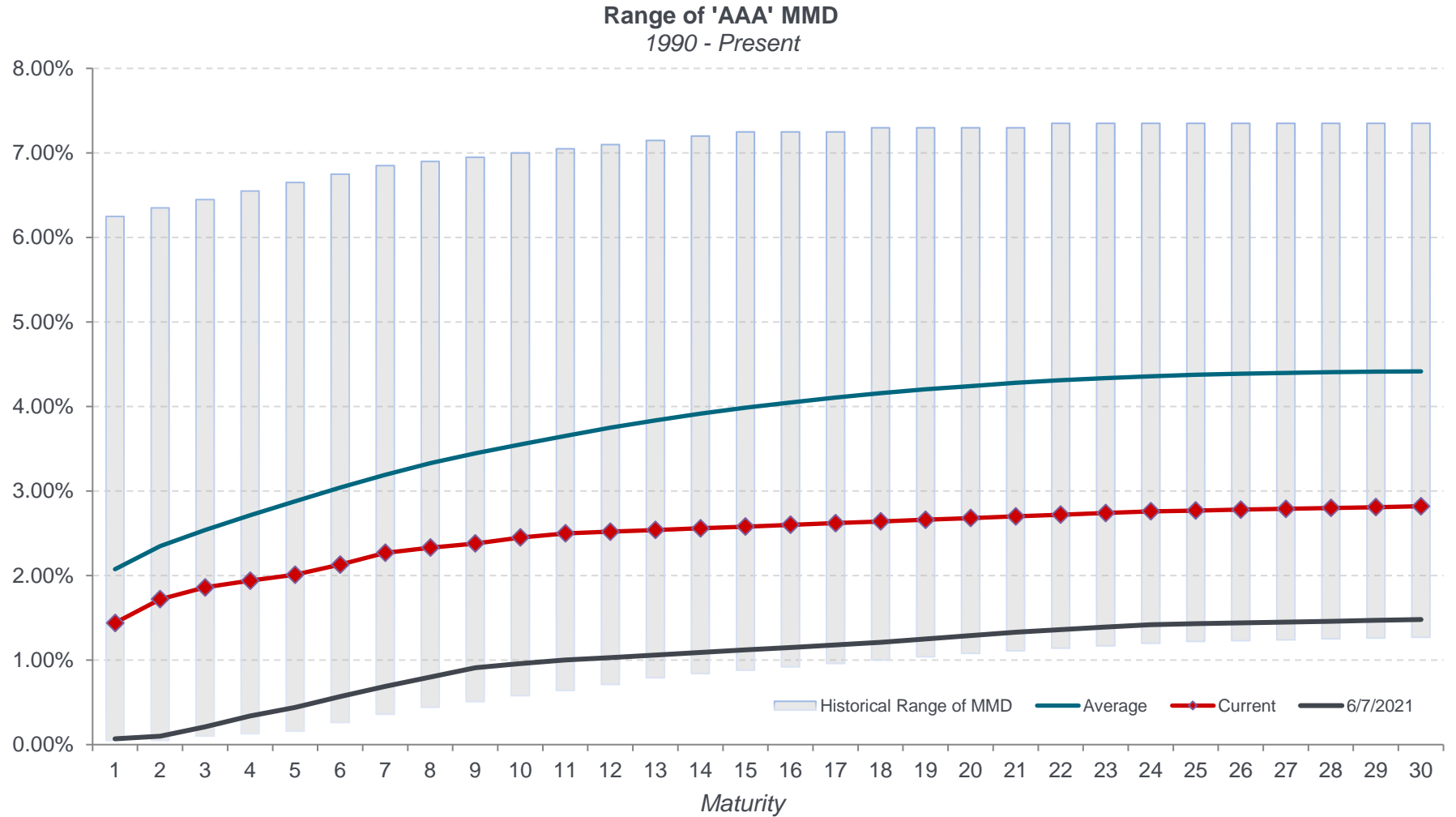
10-Year MMD and 10-year UST (Past 5 Years)

	10-yr MMD	10-yr UST
Current	2.45%	2.97%
Maximum	3.02%	3.23%
Minimum	0.58%	0.51%
Average	1.62%	1.93%
% of Time Historical Rates Have Been Below Current	85.32%	92.90%



Source: KBCM & TM3.
Rates as of June 07, 2022

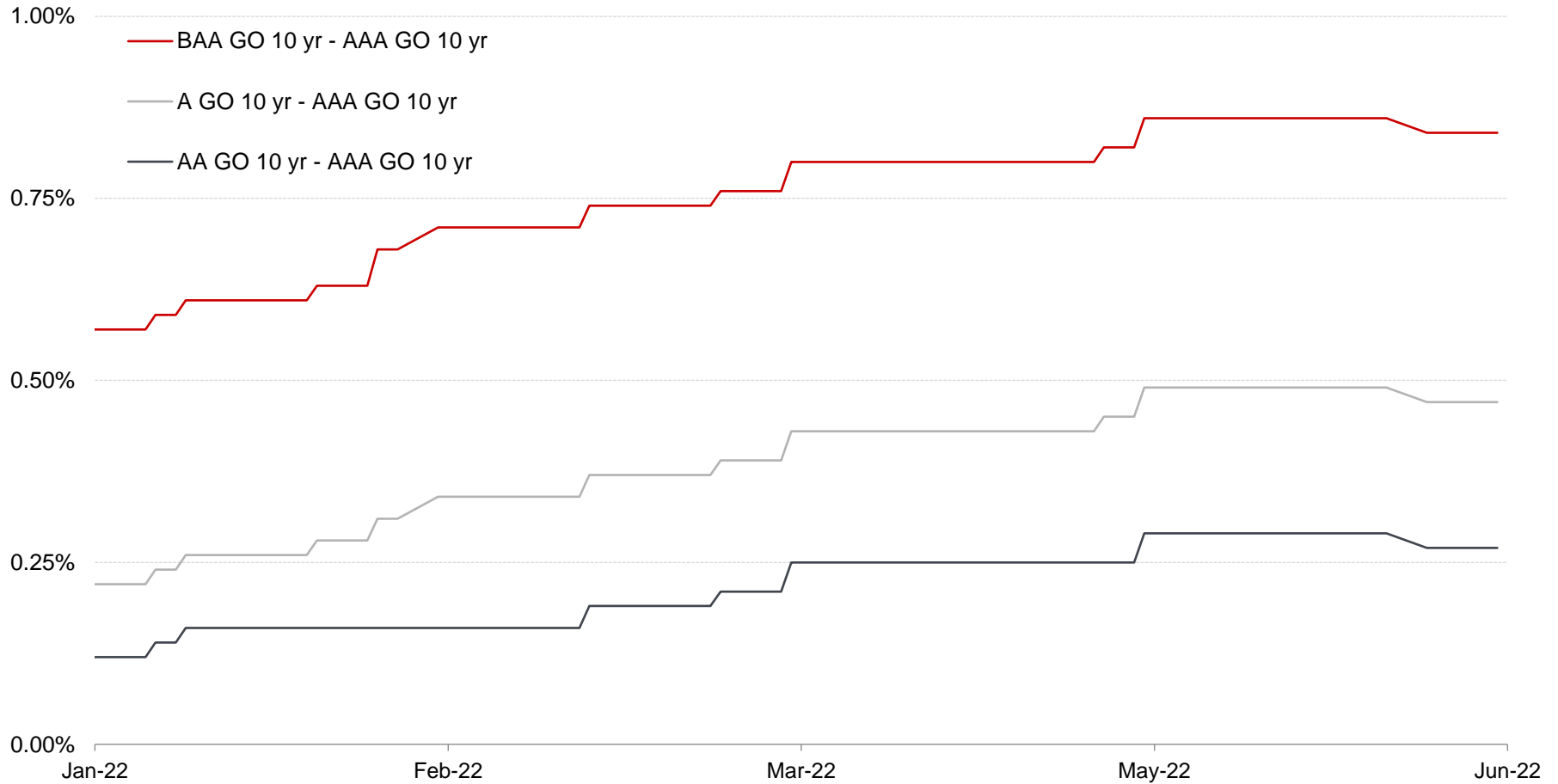
Historical AAA MMD – Across the Curve



Source: KBCM & TM3.
Rates as of June 07, 2022

Credit Spreads Have Widened Out As Benchmark Yields Increased

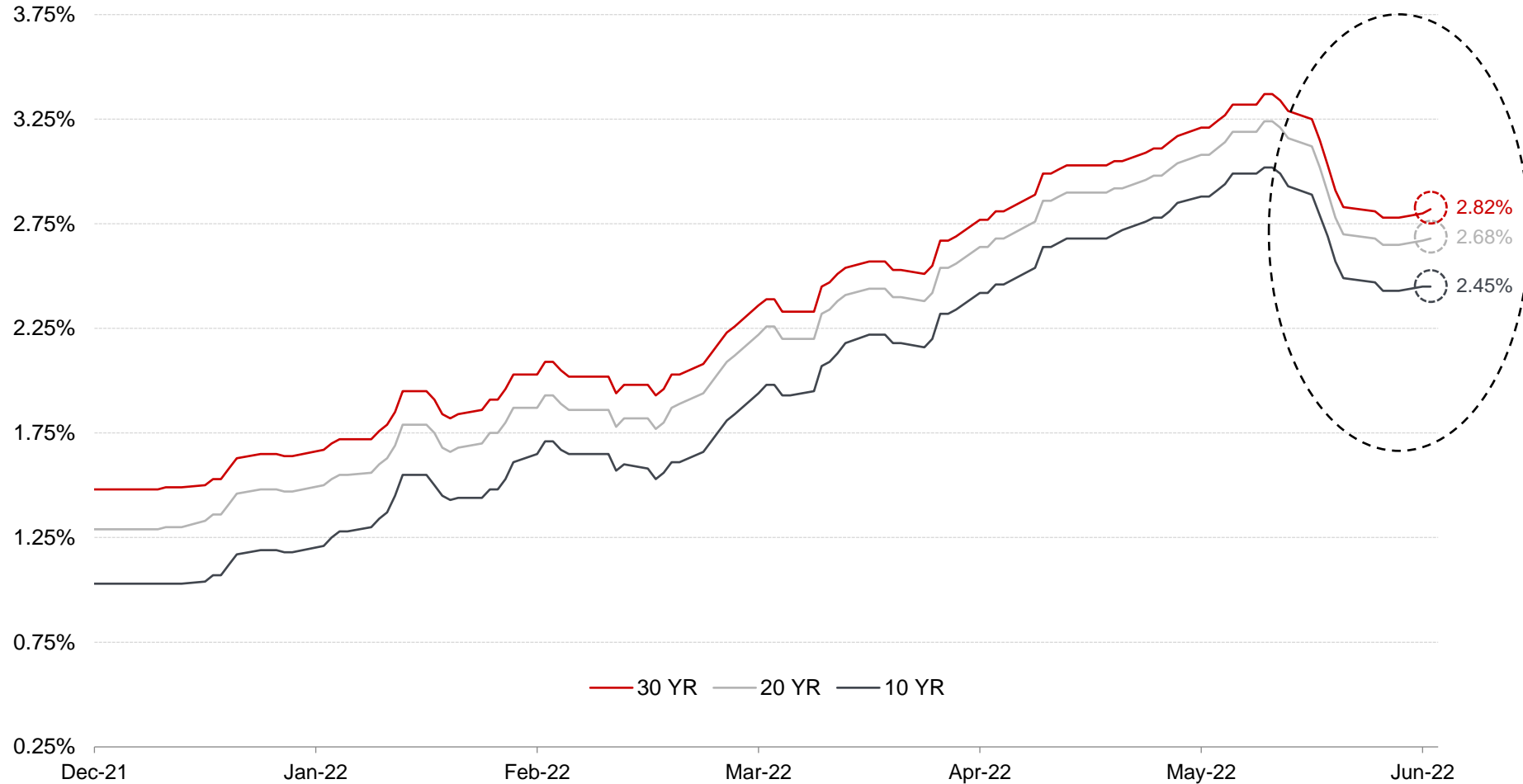
Credit Spread Differences



Source: KBCM & TM3.
Rates as of June 7, 2022

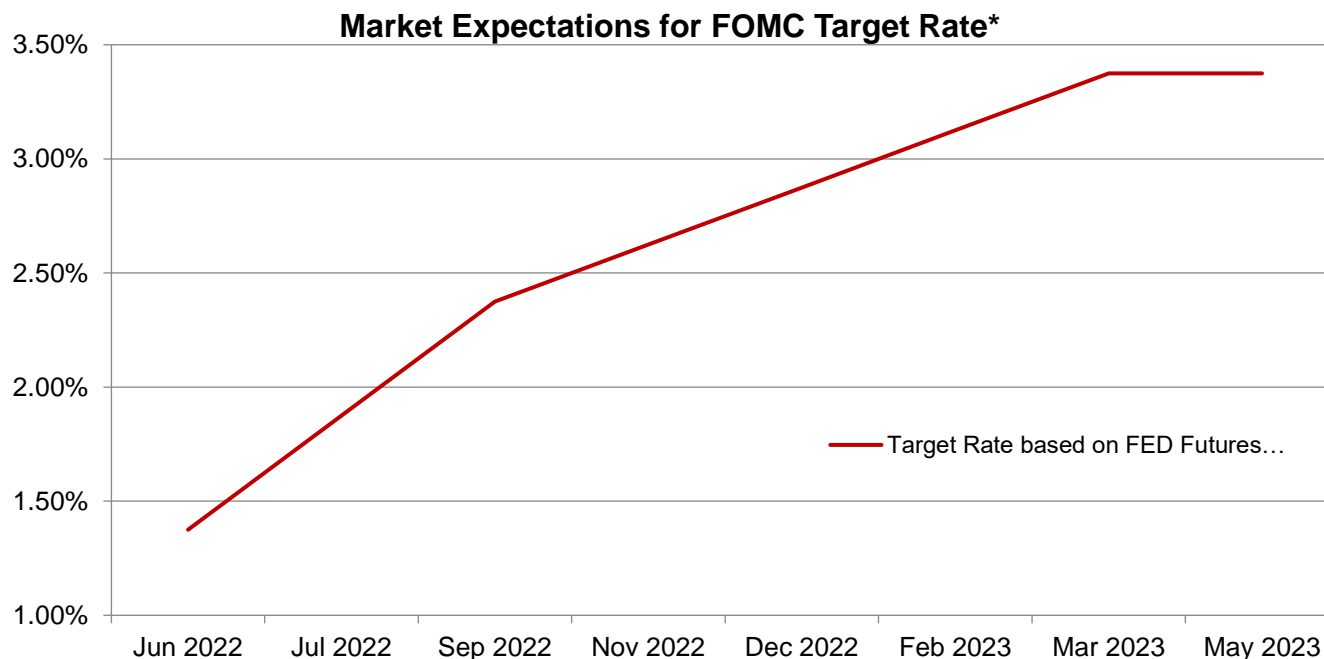
Market Turnaround: Will it Last?

MMD Rates Since December 2021



Source: KBCM & TM3.
Rates as of June 07, 2022

Federal Fund Rate Hike Probabilities



Commentary

- The Fed began to taper its asset purchases in November 2021.
- The current Federal Funds target rate is the range of 75 – 100 bps.
- Market expectations for the Fed's next meeting in June is a rate increase of 50 bps.
- By the end of 2022, the Federal Funds rate is expected to be in the range of 2.75% - 3.00% (rate hikes of various degrees expected at every meeting).

Federal Funds Implied Probability								
Fed Funds Meeting	6/15/2022	7/27/2022	9/21/2022	11/2/2022	12/14/2022	2/1/2023	3/15/2023	5/3/2023
1.25 - 1.50%	98.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
1.50 - 1.75%	2.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
1.75 - 2.00%	-	86.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2.00 - 2.25%	-	13.70%	27.50%	0.00%	0.00%	0.00%	0.00%	0.00%
2.25 - 2.50%	-	-	62.90%	23.20%	0.00%	0.00%	0.00%	0.00%
2.50 - 2.75%	-	-	9.40%	57.40%	19.90%	6.70%	2.00%	1.50%
2.75 - 3.00%	-	-	0.20%	17.70%	52.50%	30.90%	13.80%	11.20%
3.00 - 3.25%	-	-	-	1.60%	23.50%	42.60%	34.30%	29.80%
3.25 - 3.50%	-	-	-	-	3.90%	16.90%	35.10%	35.00%
3.50 - 3.75%	-	-	-	-	0.30%	2.70%	12.70%	17.60%
3.75 - 4.00%	-	-	-	-	-	0.20%	2.00%	4.30%
4.00 - 4.25%	-	-	-	-	-	-	0.10%	0.50%
4.25 - 4.50%	-	-	-	-	-	-	-	-



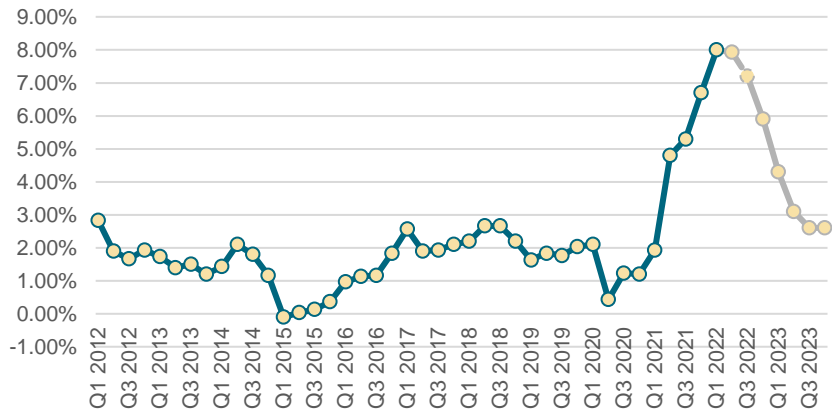
Source: CME Group.
Rates as of June 7, 2022

*Based on Market expectations for most likely target rate

Where Do We Go From Here?

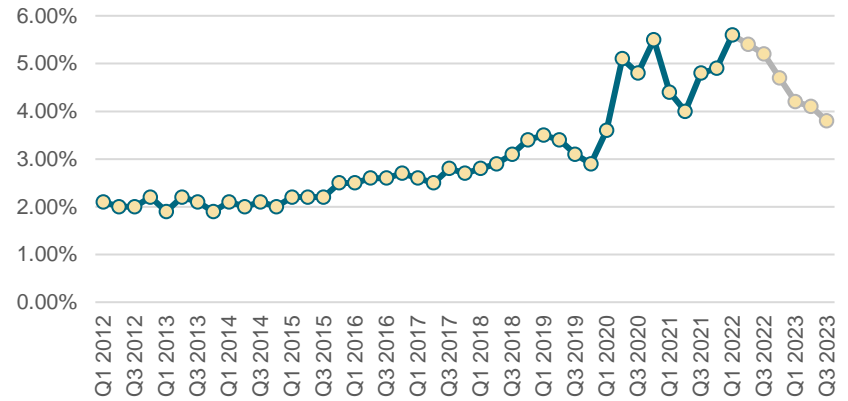
Consumer Price Index (YoY) (by Quarter)

Historical + Bloomberg Consensus Forecast

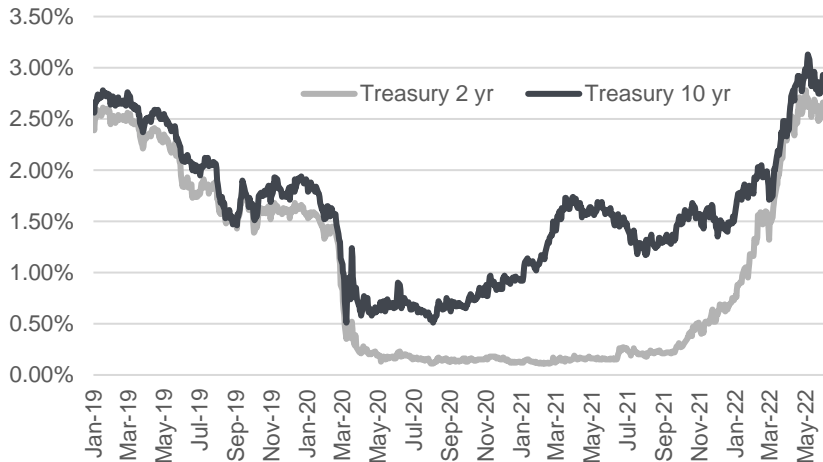


Average Hourly Earnings Growth (YoY) (by Quarter)

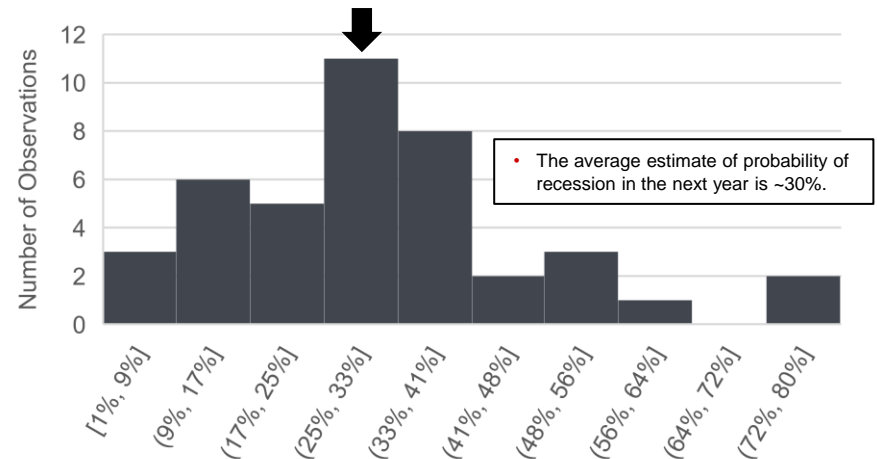
Historical + Bloomberg Consensus Forecast



2-Year and 10-Year US Treasury Yields



Recession Probabilities by Forecaster⁽¹⁾



(1) Based on 41 forecasts by economic experts, aggregated by Bloomberg. Rates and forecasts as of June 2, 2022

Rating Agency Update

- S&P Global updated its Transportation Infrastructure Enterprise Criteria in 2020
- One change was the application of such criteria to rate property tax supported bonds issued by ports
- Takeaway: general credit cannot be divorced from operating risk
 - Rating changes to four Washington ports LTGO/Revenue ratings
 - If this trend holds, future LTGO/Revenue bond ratings issued by S&P will likely not diverge

State of Washington Port District Bond Ratings		
Port Name	Credit Type	Underlying Credit Rating (Moody's / S&P / Fitch)
Port of Anacortes	LTGO	Aa3/-/-
Port of Bellingham	LTGO	Aa2/-/-
Port of Bellingham	Revenue	A2/-/-
Port of Benton	LTGO	Aa3/-/-
Port of Camas-Washougal	LTGO	Aa3/-/-
Port of Camas-Washougal	Revenue	A3/-/-
Port of Everett	LTGO	Aa2/-/-
Port of Everett	Revenue	A2/-/-
Port of Moses Lake	LTGO	Aa3/-/-
Port of Port Townsend	LTGO	Aa3/-/-
Port of Seattle	LTGO	Aaa/AA-/AA-
Port of Seattle	Revenue (First Lien)	Aa2/AA-/AA
Port of Seattle	Revenue (Intermediate Lien)	A1/A+/AA-
Port of Seattle	Revenue (Subordinate Lien)	A2/A/AA-
Port of Seattle	Special Facility Revenue	A1/A/-
Port of Olympia	LTGO	Aa2/-/-
Port of Pasco	LTGO	-/A/-
Port of Pasco	Revenue	-/A/-
Port of Skagit County	LTGO	Aa2/-/-
Port of Tacoma	LTGO	Aa2/AA/-
Port of Tacoma	Revenue	Aa3/AA/-
Port of Tacoma	Revenue (Subordinate Lien)	A1/AA/-
Port of Vancouver	LTGO	Aa2/A+/-
Port of Vancouver	Revenue	-/A+/-



Contacts: KBCM's Northwest Ports Team



Caitlin Caldwell
Vice President
Institutional Banking
KeyBanc Capital Markets Inc.
Member FINRA/SIPC
1301 5th Ave, 25th Floor
Seattle, WA 98101
Tel: 206-684-6040
caitlin_caldwell@Key.com



Geoff A. Urbina
Managing Director
Institutional Banking
KeyBanc Capital Markets Inc.
Member FINRA/SIPC
1301 5th Ave, 25th Floor
Seattle, WA 98101
Tel: 206-684-6259
geoff.urbina@Key.com



Odin Atkinson
Associate
Institutional Banking
KeyBanc Capital Markets Inc.
Member FINRA/SIPC
1301 5th Ave, 25th Floor
Seattle, WA 98101
Tel: 206-684-6209
odin.atkinson@key.com



Aria Tabatabai
Analyst
Institutional Banking
KeyBanc Capital Markets Inc.
Member FINRA/SIPC
1301 5th Ave, 25th Floor
Seattle, WA 98101
Tel: 206.684.6581
aria.tabatabai@key.com

