

U.S. Municipal Bond Market

U.S. Airport Activity Will Soar Back

- The TSA screened 2+million travelers two days last week and one day this week. This is still at least 20% below pre-COVID-19 numbers.
- It took years for enplanements to recover after 9/11 and the Great Recession. We think this time enplanements will recover faster, probably by end of 2023 or sooner if business travel resumes.
- We raised our credit outlook on the Airport sector two notches to “Stable” in March and will leave it there for now.

Tom Kozlik
Head of Municipal Strategy & Credit
214.859.9439
tom.kozlik@hilltopsecurities.com

HilltopSecurities Airport Sector Outlook Adjustments Since COVID-19

Airports and airlines were among those hardest hit among public finance sectors and business segments near the beginning of the COVID-19 lockdowns. We were relatively quick to lower our credit sector outlook on Airports. Our Airport sector credit outlook eventually made its way all the way down to “Negative,” then we raised it back to “Stable” in March 2021. We will keep it at “Stable” for now.

We lowered our outlook to “Stable” during the early stage of COVID-19 back on March 11, 2020. Prior to COVID-19 our Airport credit sector was “Positive,” please see page 8. It did not take long for additional pressures to build on airports and airlines for that matter and a week after initially lowering our outlook to “Stable” in response to the initial onset of COVID-19 we dropped it again to “Cautious” on March 16, 2020.

It took years for enplanements to recover after 9/11 and the Great Recession. We think this time enplanements will recover faster, probably by end of 2023 or sooner if business travel resumes.

HilltopSecurities Airport Sector Outlook Activity

Date	Report Title	Action	Final Outlook
March 30, 2021	We Expect a Multi-Year, But Potentially Temporary, Upswing of U.S. Municipal Credit	Raised two notches	Stable
May 20, 2020	Municipal Sector Credit Outlooks, Municipal Credit Two Months into the New COVID-19 Normal	Lowered one notch	Negative
March 16, 2020	March 16 Market Activity: HilltopSecurities Lowers Credit Outlooks Due to Unprecedented Steps Taken to Contain COVID-19	Lowered one notch to Cautious	Cautious
March 11, 2020	Lowered Airport Sector Outlook: Recent COVID-19 Impact	Lowered one notch to Stable	Stable
August 26, 2019	Municipal Bond Sector Credit Outlooks	Initial assignment	Positive

Source: HilltopSecurities.

A month into COVID-19, and after D.C. lawmakers approved the \$2+ trillion Coronavirus Aid, Relief, and Economic Stabilization Act (or CARES Act) we updated our assessment of the Airport sector in [U.S. Airport Sector View – A Month into COVID-19](#). We highlighted that there were two key variables to consider where U.S. airports were concerned at that time. First, it that it was imperative to consider the financial status of an airport before COVID-19 hit. The second variable that of course was important was the amount of federal relief by individual airport. It seemed as though larger airports were getting a proportionally higher amount of aid.

As much of the country went into lockdown mode airport activity declined and we assigned a “Negative” outlook two months into COVID when we published our broader [Municipal Sector Outlooks, Municipal Credit Two Months into the New COVID-19 Normal](#) in May 2020. We noted that the sector was just months away from breaking record numbers to the upside, but activity was muted because of the worldwide pandemic and business closures.

Following Airports Through the Pandemic

Toward the end of the summer of 2020 we noted that passenger volumes remained challenged in a sector update titled, [Passenger Volumes Still Muted, Air Cargo Volume Supports Select Airports](#). We cited Fitch data that showed cargo volume had not fallen as far as passenger volumes and in select circumstances cargo volumes even rose. Later as winter 2020 began we noted that air travel had still not rebounded yet in [The Slow Rebound of Air Travel](#).

Although concern about rising COVID-19 cases was raised around the turn of the new year, the rate at which individuals were able to acquire vaccinations increased in the Spring of 2021 helping us to make several changes to our municipal sector outlooks in [We Expect a Multi-Year, But Potentially Temporary, Upswing of U.S. Municipal Credit](#). We raised our outlook on the Airport sector two notches to “Stable” from “Negative.”

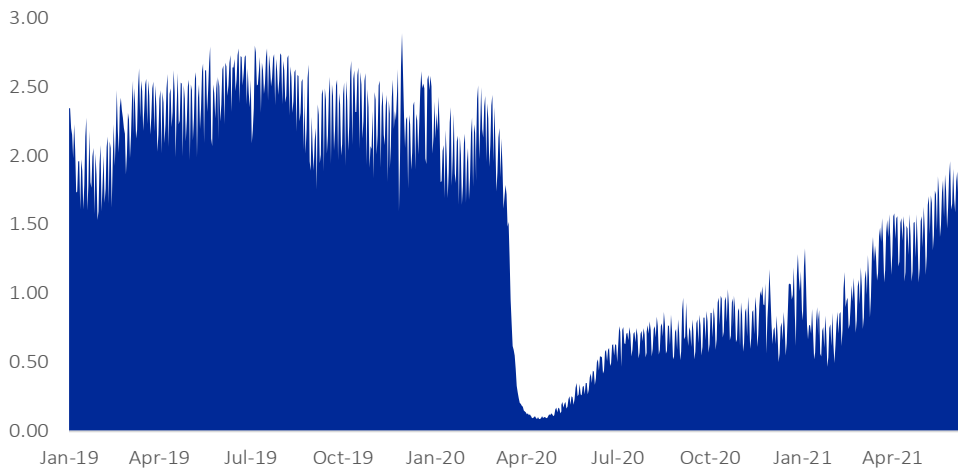
Recent TSA Traveler Data

Much has been made of recent [TSA traveler data](#) showing that throughput topped the 2 million traveler per day back on June 11th and 13th. Throughput followed at 1.8 million, 1.6 million, and 1.8 million through June 16th. Throughput activity topped 2 million again yesterday June 17th. This activity is a marked improvement, but still 20%’ish percent (or more) short of pre-COVID-19 levels.”

As much of the country went into lockdown mode airport activity declined and we assigned a “Negative” outlook two months into COVID when we published our broader Municipal Sector Outlooks, Municipal Credit Two Months into the New COVID-19 Normal in May 2020.

Although concern about rising COVID-19 cases was raised around the turn of the new year, the rate at which individuals were able to acquire vaccinations increased in the Spring of 2021.

TSA Throughput Topped 2 mill. on June 11th, 13th, 17th Still 20%+ Below Pre-COVID



Source: TSA, and HilltopSecurities. (#s in millions).

We are also closely watching the breakdown of leisure and business travel demand. Each are recovering at different rates.

It is not only the overall numbers that we are watching. We are also closely watching the breakdown of leisure and business travel demand. Each are recovering at different rates. In most cases leisure travel is outpacing business travel according to the [Airlines Reporting Corporation](#). Leisure travel was boosted this spring and summer because of pent up demand.

We expect the domestic enplanement recovery to occur much quicker than what we saw after either 9/11 or the Great Recession.

This boost in leisure travel has already made it so enplanement activity has surpassed or at least come close to 2019 levels in certain tourist destinations. We expect business travel to take longer to recover. Many working professionals are not even set to return to the office until the end of the summer. In-person conferences and related activities may take time to return as well.

We Expect U.S. Airport Activity Will Soar Back, Most Likely Near End of 2023

We expect the domestic enplanement recovery to occur much quicker than what we saw after either 9/11 or the Great Recession. The significant amount of federal relief has positioned many individuals and businesses to consider air travel, not make the frugal option. For years after the Great Recession individuals and businesses cut expenses including air travel expenses. We think this time around the landscape is different and expect enplanements to reach and even surpass 2019 levels by the end of 2023 in our base case.

The significant amount of federal relief has positioned many individuals and businesses to consider air travel, not make the frugal option.

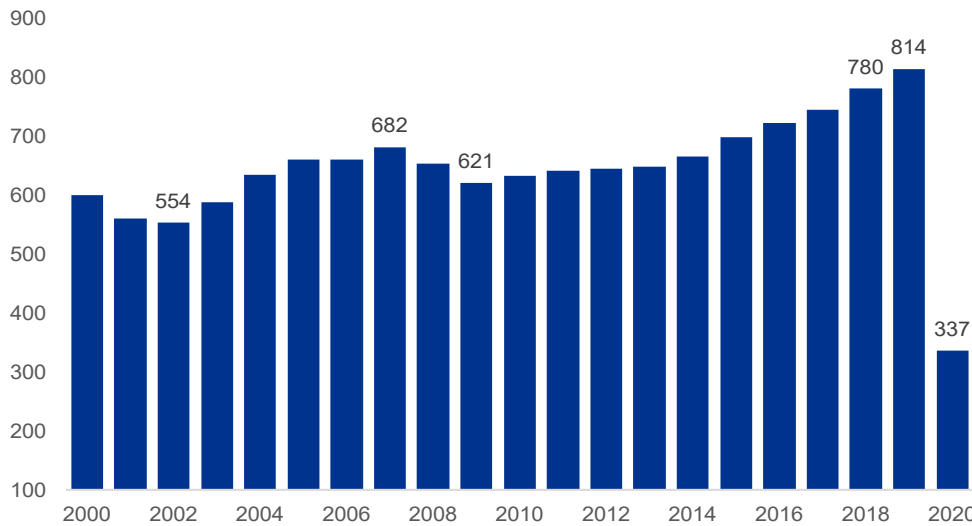
We also foresee a scenario where it occurs closer to the beginning of 2023 as well, but this is a much more aggressive scenario. The likelihood of our aggressive case occurring depends upon how quickly business travelers return to the sky. We will know better this fall how quickly businesses are likely to contribute. A quicker return to the skies is more likely this time around because the economic backdrop provides stability. We also are considering how quickly it takes the rest of the world to vaccinate as an important variable as well. The international lag in vaccinations could be a headwind.

It Will Take Years, Not Months, for Enplanements to Recover

Annual domestic enplanements peaked back in 2019 at a little over 800 million. You can see that they fell off a cliff in 2020 because of the pandemic. For the first three months of 2021 they were about 50% of 2019 levels and now they are running at about 20% of 2019 level, so there is still some ground to make up to go to get to pre-COVID numbers, but remember that 2019 was a record year. You can see in the bar chart that it took years, not months after 9/11 and after the Great Recession for enplanements to recover to pre-crisis levels. The same is likely to happen this time around. The question is not if, the question is when will they recover.

You can see in the bar chart that it took years, not months after 9/11 and after the Great Recession for enplanements to recover to pre-crisis levels.

Domestic Enplanements Fell Off a Cliff in 2020 Because of COVID-19, Lockdowns



S&P Global expects enplanements to return to pre-pandemic levels in 2024.

Source: US Department of Transportation and Hilltop Securities. (#s in millions)

The rating agencies expect recovery to occur fairly quickly, especially if you consider that it took around eight years for them to recover after the Great Recession. S&P Global expects enplanements to return to pre-pandemic levels in 2024. Moody's published a similar opinion with their "fast" recovery scenario in the beginning of 2024 and the more conservative recovery topping 2019 later that same year.

Record FY 2019 Liquidity Gives Airports Options

Record enplanements and sustained (but low) economic growth helped airports boost their financial profiles before COVID-19 and the onset of the business shutdowns we saw in 2020. Moody's FY19 medians (released Nov 2020) showed that cash on hand reached a record 652 days in FY19, up from the 626 days we saw for FY18. The strong financial position for the sector going into the COVID-19 crisis and especially the healthy liquidity metric positions the sector for a quick return. Federal relief will be a good bridge to recovery. And leisure and business travelers' willingness to get on the road will also likely be a positive going forward.

Record enplanements and sustained (but low) economic growth helped airports boost their financial profiles before COVID-19 and the onset of the business shutdowns we saw in 2020.

Recent HilltopSecurities Municipal Commentary

- [HHS Extends Time Hospitals Can Use Emergency Relief Funds](#), June 15, 2021
- [Violent Crime as a Credit and Political Challenge](#), June 10, 2021
- [Public Opinion Weakening on Economy, Could Impact Legislative Outcomes Including Infrastructure](#), May 28, 2021
- [A Non-Fiction Look at State Government Revenues One Year After COVID-19](#), May 20, 2021
- [Treasury Issues Relief Guidance for State, Local, and Tribal Governments](#), May 11, 2021
- [A Boom is Coming. Are Governments Ready?](#), May 7, 2021
- [100 Days and \\$6 Trillion – We Analyze the Possibility of an Infrastructure Agreement](#), April 30, 2021

Readers may view all of the HilltopSecurities Municipal Commentary [here](#).

The paper/commentary was prepared by Hilltop Securities (HTS). It is intended for informational purposes only and does not constitute legal or investment advice, nor is it an offer or a solicitation of an offer to buy or sell any investment or other specific product. Information provided in this paper was obtained from sources that are believed to be reliable; however, it is not guaranteed to be correct, complete, or current, and is not intended to imply or establish standards of care applicable to any attorney or advisor in any particular circumstances. The statements within constitute the views of HTS as of the date of the document and may differ from the views of other divisions/departments of affiliate Hilltop Securities Inc. In addition, the views are subject to change without notice. This paper represents historical information only and is not an indication of future performance. This material has not been prepared in accordance with the guidelines or requirements to promote investment research, it is not a research report and is not intended as such. Sources available upon request.

Hilltop Securities Inc. is a registered broker-dealer, registered investment adviser and municipal advisor firm that does not provide tax or legal advice. HTS is a wholly owned subsidiary of Hilltop Holdings, Inc. (NYSE: HTH) located at 717 N. Harwood St., Suite 3400, Dallas, Texas 75201, (214) 859-1800, 833-4HILLTOP