

Municipal Bond Investor Weekly

High Net Worth Wealth Solutions and Market Strategies // Fixed Income Solutions



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THE WEEK AHEAD

- 1. 30-day visible supply is \$12.9 billion vs redemptions over the same period of \$16.2 billion.
- 2. Fed appears to be in no rush to lower interest rates, with current consensus beginning around June/July.
- 3. Municipal trading totaled \$67 billion last week, up 15% from \$58.7 billion previous period.

MONDAY'S COMMENTARY

Unsure About What's Ahead: Consider a Barbell
Illustrative Portfolios

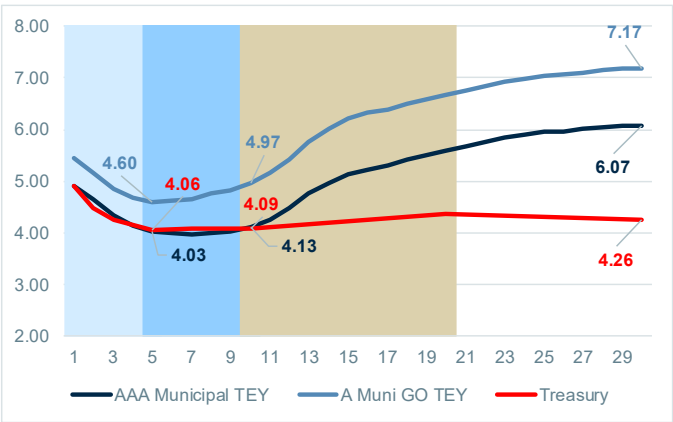
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THE NUMBERS THIS WEEK

Yields fell across the board last week. Treasury yields trended steadily lower over the course of the week, finishing the week down by 2 to 11 basis points, with the belly of the curve seeing the largest drops. Municipal yields fell as well, although by a smaller margin and in a more uniform manner across the curve. The benchmark AAA curve was lower by ~4 to 6 basis points.

Year		Treasury	Municipal (AAA)	Municipal (A)	Municipal TEY* (AAA)	Municipal TEY* (A)	Muni (AAA)/Tsy Ratio	Muni TEY* (AAA)/Tsy Ratio
1	2025	4.92	2.91	3.22	4.92	5.45	59%	100%
2	2026	4.48	2.76	3.06	4.66	5.16	62%	104%
5	2029	4.06	2.38	2.73	4.03	4.60	59%	99%
10	2034	4.09	2.44	2.94	4.13	4.97	60%	101%
20	2044	4.36	3.31	3.94	5.58	6.66	76%	128%
30	2054	4.26	3.59	4.25	6.07	7.17	84%	142%

*Taxable equivalent yield @ 40.8% tax rate



UNSURE ABOUT WHAT'S AHEAD: CONSIDER A BARBELL

As 2024 motors along, questions arise over how best to deploy fixed income strategies. An inverted yield curve forewarns of a potential economic decline and how we stick that landing dictates which deployed strategies are more successful. Our outlook overall is for rates heading lower, and we believe this is a good time to lock in higher yields by investing in longer dated bonds (also known as buying duration.)

That being said, no one strategy is right for all investors. Some clients we speak with are quite certain in their view about the uncertain direction for our economy and where interest rates are heading. Additionally, some clients have potential near-term liquidity needs where funds may need to be accessed while others just want to keep some “powder dry” for other potential investment opportunities. For these clients, utilizing a barbell strategy can provide an opportunity to stay “defensive” by considering shorter-term opportunities, while also adding longer-term bonds to the portfolio to lock in yields that are higher than most of the past decade.

A barbell strategy means investing a portion of the portfolio in maturities on the short part of the curve and a portion out long – avoiding those coming due in intermediate ranges. Depending on the investor's needs, there can be an equal weighting between the short and long-term parts of the barbell or an “unbalanced barbell” might be appropriate with uneven investment amounts across the barbell (for example, 20% of the portfolio on the short end and 80% out long).

A barbell can provide flexibility at a time when economic outlooks are opaque and meandering. Should interest rates decrease, your portfolio has locked in long term bonds that typically pay higher rates of interest, while your short-term component is able to adjust to where value can be found --- although you may be reinvesting into lower interest rates. Inversely under a rising interest rate scenario, investments coming due on the short end can be reinvested at higher rates. Although values on the long end will decline, let us revisit why investors purchase fixed income in the first place. They typically utilize “buy and hold” strategies that generate predictable, tax-efficient interest income and return of principal from investment grade issuers that have a lower credit risk, barring a default.

Economic and political uncertainty notwithstanding, we began 2024 with pundits projecting Fed Fund rate cuts beginning as early as March. Those same experts now believe rate cuts will start around June/July. Timing the market is a fool's errand. The advantage of using individual bonds for your fixed income allocation is that we can design a portfolio to meet your specific needs / outlook for the market. A barbell strategy is one solution that allows investors to remain true to why their portfolios contain fixed income investments and affords an opportunity to adjust their asset allocations during periods of heightened challenges in the market. Contact your financial advisor to learn more about barbell strategies and how they apply to your goals and needs.

ILLUSTRATIVE PORTFOLIOS

Our illustrative proposals reflect three opportunities along the yield curve with bonds maturing from 1 to 30 years. Municipals yields ended the week slightly lower to unchanged --- with portfolio yields declining roughly 1 to 3 basis points. Long term investors continue to realize additional yield further out on the curve. Strategically, to lock in long-term, reliable tax-efficient cash flow, our duration focused 10–20-year maturity illustration continues to offer an excellent tax efficient solution. **Looking to maximize yield?** The 20 – 30 year range continues to offer an additional ~80+ basis points (over 10 – 20 years) and may be appropriate for some investors. The yield to worst is ~3.95%, which equates to a **taxable equivalent yield to worst of ~6.70%** for an investor in the top federal tax bracket and subject to the net investment income tax. If the callable bonds are not called, the yield to maturity increases to ~4.20%, which equates to a **taxable equivalent yield to maturity of ~7.10%**. This is a solution with 4-5% coupon bonds with an average coupon of 4.31% and a market price of ~\$101.87. The **current yield is ~4.25%**. An investment with \$1 million par value (~\$1.030 million market value) will generate a federally tax-exempt annual coupon cash flow of ~\$43,125.

Date	Amount	Issuer	ST	Description	Moody's/S&P/Fitch	Maturity
3/11	\$80MM	Virginia Housing Development	VA	Commonwealth Mortgage Bonds 2023	Aaa /AAA /	10/01/2025-
3/11	\$160MM	Virginia Housing Development	VA	Commonwealth Mortgage Bonds 2024	Aaa /AAA /	10/01/2025-
3/12	\$75MM	West Virginia Housing	WV	Housing Finance Bonds	Aaa /AAA /	2025-36,39,44,49,54
3/12	\$19MM	Lee County Board of Education	AL	Special Tax School Warrants Series 2024	NR /AA /NR (/AA- /) AGM	2/1/2025-44
3/12	\$141MM	Dormitory Authority of the State of	NY	State Personal Income Tax Revenue	Aa1 /NR /AA+	3/15/25-30
3/12	\$200MM	Dormitory Authority of the State of	NY	State Personal Income Tax Revenue	Aa1 /NR /AA+	tbd
3/12	\$2845MM	Dormitory Authority of the State of	NY	State Personal Income Tax Revenue	Aa1 /NR /AA+	3/15/28-49
3/12	\$10MM	Colonial School District	PA	General Obligation Bonds, Series of 2024	Aaa /NR /NR	2/15/25-43
3/12	\$7MM	City of Valdosta School System	GA	General Obligation Sales Tax Bonds,	Aa1 /NR /NR (Aa3 / /)	2/1/25-28
3/12	\$23MM	City of Valdosta School System	GA	General Obligation Bonds, Series 2024B	Aa1 /NR /NR (Aa3 / /)	2/1/29-34
3/13	\$37MM	Warwick School District (Lancaster	PA	General Obligation Bonds, Series of 2024	Aa2 /NR /NR	2/15/25-35
3/13	\$59MM	New York State Housing Finance	NY	Affordable Housing Revenue Bonds 2024	Aa2 /NR /NR	11/01/2024-
3/13	\$225MM	New York State Housing Finance	NY	Affordable Housing Revenue Bonds 2024	Aa2 /NR /NR	11/01/2024-
3/13	\$20MM	Housing Finance Authority of	FL	Single Family Housing Revenue Bonds	Aaa / /	03/01/2025-
3/13	\$16MM	Hospital Authority of Washington	GA	Revenue Anticipation Certificates	A1 / /	02/01/28 - 44
3/13	\$74MM	Board of Water Supply City &	HI	Water System Revenue Bonds Series		
3/14	\$10MM	Louisiana Housing Corporation	LA	Single Family Mortgage Revenue Bonds	Aaa / /	2025-33, 55
3/14	\$100MM	Louisiana Housing Corporation	LA	Single Family Mortgage Revenue Bonds	Aaa / /	2033-
3/14	\$124MM	Fairfax County, Virginia	VA	Sewer Revenue Bonds, Series 2024A	Aaa /AAA /AAA	7/15/25-54
3/14	\$30MM	City of Scranton, Pennsylvania	PA	Lackawanna County, General Obligation	NR /AA /NR (/BBB+ /)	2024-2032

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Sourced from Bloomberg: Treasuries: US Fed H15 CMT Curve - The H15 curve is comprised of the constant maturity treasury rates as published daily by the Federal Reserve in the H15 report. Municipal (AAA): BVAL Municipal AAA Yield Curve (Callable) - The curve is populated with high quality US municipal bonds with an average rating of AAA from Moody's and S&P. The yield curve is built using non-parametric fit of market data obtained from the Municipal Securities Rulemaking Board, new issues, and other proprietary contributed prices. The curve represents 5% couponing. The 3 month to 10 year points are bullet yields, and the 11 year to 30 year points are yields to worst for a 10-year call. Municipal (AA): US General Obligation AA Muni BVAL Yield Curve - The BVAL curve is populated with pricing from uninsured AA General Obligation bonds. Municipal (A): US General Obligation A+ A A- Muni BVAL Yield Curve - The BVAL curve is populated with pricing from uninsured A+, A, and A-rated General Obligation bonds. Fed Funds (Upper Bound): The federal funds rate is the short-term interest rate targeted by the Federal Reserve's Federal Open Market Committee as part of its monetary policy. US Treasury securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance.

The illustrative portfolios are intended as a starting point for a conversation on individual bonds. They are not intended as specific recommendations and bonds are shown for illustration purposes only. The bonds listed in the illustrative portfolios are rated A or better, with average ratings from Moody's and Standard and Poor's of Aa2 / AA. The yields shown in the proposals are based on pricing models, not current market offers. Yields shown are indicative of general market levels but are not a guaranteed result. Prices and yields are not inclusive of any fees or commissions.

US Treasury securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value. The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ. The NASDAQ Composite is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance.

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