LIND
CAPITAL
PARTNERS

January 2021

MUNICIPAL MARKET STATISTICS

	01-01-21	12-01-20	01-01-20	01-01-18	01-01-16
10-Year AAA MMD Municipal	0.71	0.71	1.45	1.99	1.93
10-Year US Treasury	0.92	0.85	1.93	2.43	2.28
10-Year Muni vs. Treasury	77%	83%	75%	82%	85%
IG Fund Flows YTD	$44B	$39B	$75B	$11B	$10B
HY Fund Flows YTD	($3B)	($4B)	$19B	$7B	$3B
New Issue Calendar YTD	$480B	$442B	$426B	$448B	$397B

LIND CAPITAL PARTNERS MARKET COMMENTARY

Closing 2020 at 71%, the 10-year AAA Municipal vs. Treasury ratio has rallied more than 30 ratios over the past two months (approximately 30 bps of outperformance). While the movement is significant, 71% is in line with historical norms. Total new issue supply set a new record, despite being closed for much of March and April, with over $144B of taxable municipal issuance contributing to the record calendar. While both the investment grade and high yield sectors have recovered from March's selloff, the investment grade market's recovery has greatly outpaced that of high yield.

HIGH YIELD MARKET TODAY

LCP believes the high yield municipal market presents one of the best domestic fixed income investment opportunities in 2021. As we outline below, the high yield municipal market has lagged the recovery of almost all other fixed income markets and is poised to deliver both high levels of tax-exempt income and total return in the coming year.

All asset classes experienced extreme volatility during the past year. Prior to the onset of COVID, positive fund flows led municipal rates to record lows and historically tight credit spreads. After the onset of COVID, credit concerns dominated the market. Starting early in March, widespread retail investor selling caused municipal yields to rise 200 bps in a little over a week, while UST rates rose *only* 40 bps.

Uncertainty regarding the economic impact of the COVID virus on a wide range of municipal credits resulted in the municipal market selloff and wider Municipal-Treasury ratios. Investor concerns focused on sales tax bonds, transportation issues (ports, airports, airline backed, mass transit), convention centers and economic development districts, hospitality related issues, oil related industrial development issues and oil dependent states, and senior living facilities issues among others. To meet redemptions mutual fund complexes were forced to sell bonds into what rapidly became an illiquid market, resulting in indiscriminate sales.

We have always believed that mutual fund flows are indicative of investor confidence, or lack thereof, and are a major driver of overall market activity and direction (Figure 1). They often turn sharply on a dime. March 4th marked a record 61st consecutive week of positive fund inflows totaling $122B ($98B in IG funds). Incredibly, the following 5 weeks saw record investment grade fund outflows totaling nearly $35B, a full 36% of the prior 61 weeks inflows. Municipal high yield mutual funds experienced $24B in positive fund flows over the same 61 weeks and then, endured $15B in outflows over the ensuing 6 weeks (63% of prior inflows).

In yet another reversal, from mid-May through year-end, IG municipal funds have received $59B in inflows, bringing net YTD totals to a positive $44B. Although high yield mutual funds also turned positive in mid-May, inflows have occurred in an anemic fashion. High yield mutual fund flows are a net negative ($3B) YTD, markedly trailing the reversal of IG funds.

As a result of the unprecedented outflows in March–April 30-year municipal interest rates and corresponding treasury ratios reached near-term highs (Figure 2). Subsequent reversal of fund flows in early May resulted in falling municipal yields and a return to a "normal" UST-Municipal relationship.

Date	30-year MMD AAA	30-year UST	Ratio
March 1st	1.52%	1.72%	88%
March 24th	3.37%	1.40%	241%
July 1st	1.63%	1.42%	115%
December 31st	1.37%	1.66%	83%

By year end, the high-grade municipal market had corrected from the historic displacement in the spring to richer levels than pre-COVID.

The high yield municipal market's recovery has lagged that of the investment grade municipal market. Using the Bloomberg Barclays Municipal Indices as proxies for the market (LMBITR and LMHYTR), provides evidence of the lag (Figure 3). For the first 2 months of 2020, the average yield spread between the indices was 214 bps. Since the recovery in the high-grade market in late March, the average spread has been 330 bps, 150% of the preceding 2 months.

LCP attributes the lagging nature of the high yield market to the retail investor uncertainty in the underlying credit condition of high yield borrowers. It is evidenced in the great disparity between mutual fund flows for IG municipal funds and fund flows for high yield mutual funds (+$44B v -$3B).

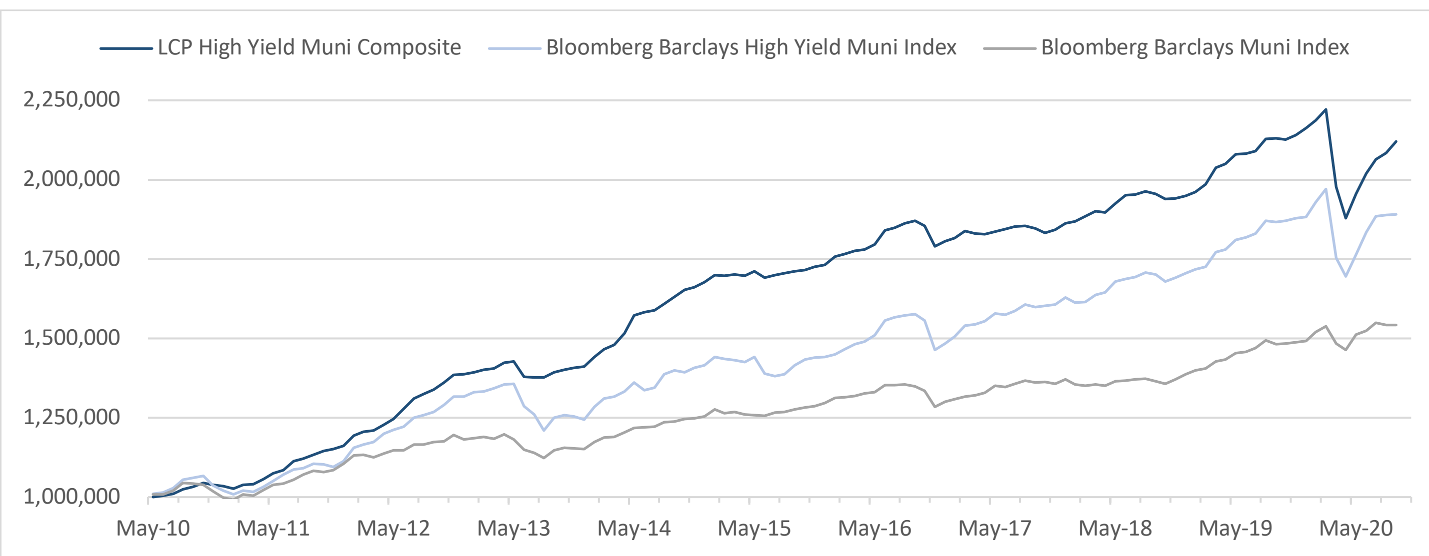
The past 8 months have provided opportunities to exploit the indiscriminate selling of mutual funds. Credits as diverse as Franklin Academy - Florida (charter school), Bard College - New York (higher education), Clark Retirement Center - Michigan (senior living), Buckeye Tobacco- Ohio (tobacco securitization) are representative of new purchases, as well as additions to existing holdings. March and April permitted initiating tax-exempt yields between 6.50 to 7.50%. LCP's maximum tax bracket clients invested with taxable equivalent yields as high as 12.50%. As the high yield market slowly recovered and yields rallied during the balance of the year, we continued to accumulate additional bonds in our high yield sectors, always cognizant of relative value. Additionally, we were able to harvest tax losses for existing clients at the lows of the market.

Conclusion: Understandably, retail investors have been reticent to re-enter the high yield market. LCP has closely followed our constituent borrowers and their respective approaches to the initial and continuing COVID outbreak. Our research team's ongoing surveillance has resulted in liquidations, additions to existing holdings and the approval of new credits. LCP continues to recommend a high yield portfolio using our highly selective approved credits as the world continues to navigate through the challenges of the ongoing pandemic. The factors and metrics that the LCP research team utilizes to monitor existing bond holdings and analyze potential purchases have proven to be effective. We have detailed those frequently and are glad to revisit upon request.

Today LCP still constructs portfolios that generate close to 10% taxable equivalent yield for maximum bracket (federal) investors. As availability of COVID vaccines expands and the economy returns to some sense of normalcy, LCP expects investors to return to the high yield market, given absolute yield levels in other fixed income assets. We reiterate that the high yield municipal market's lag relative to the high-grade market has created a generational investment opportunity in a lower for longer rate environment. Numerous investment strategists concur with LCP's long-standing recommendation to increase allocations to the high yield municipal market. As always, we stand ready to provide more detail. As we enter 2021, our research and portfolio management teams are prepared to meet any unforeseen challenges and exploit the opportunities that exist today.

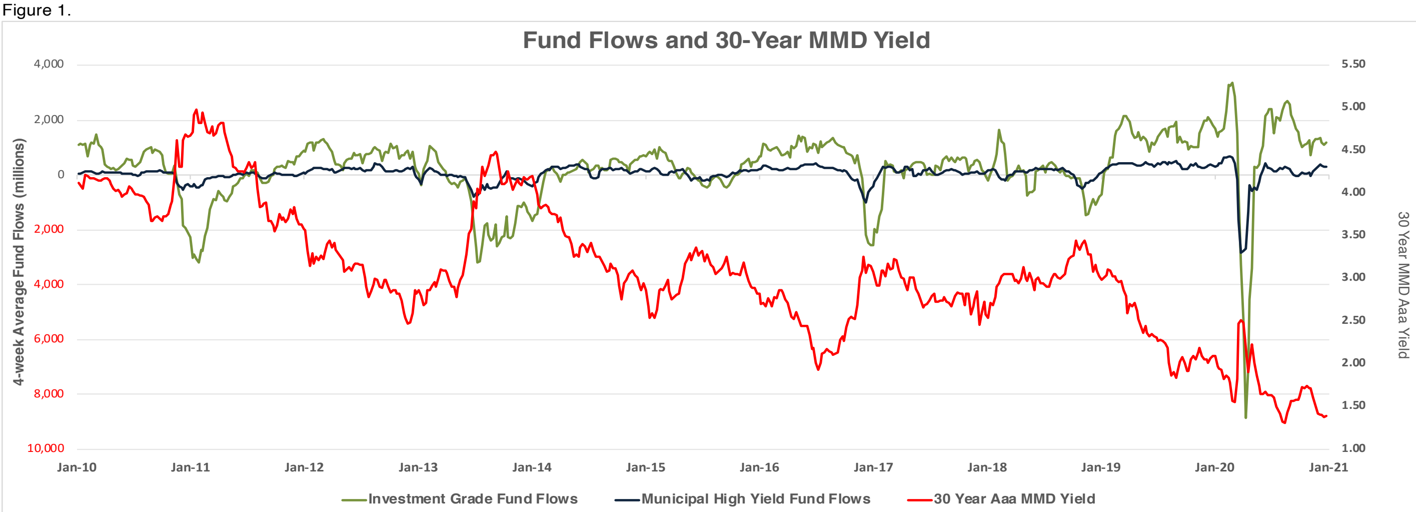
***Milestone:** As December 2020 ends, LCP celebrates its 10th consecutive year of annual, positive total return. While always confident that our disciplined approach to the high yield municipal market was sound, we are grateful to see our investment thesis confirmed over an extended period of time.*

LIND CAPITAL PARTNERS HIGH YIELD MUNICIPAL STRATEGY (THROUGH SEPTEMBER 30, 2020)



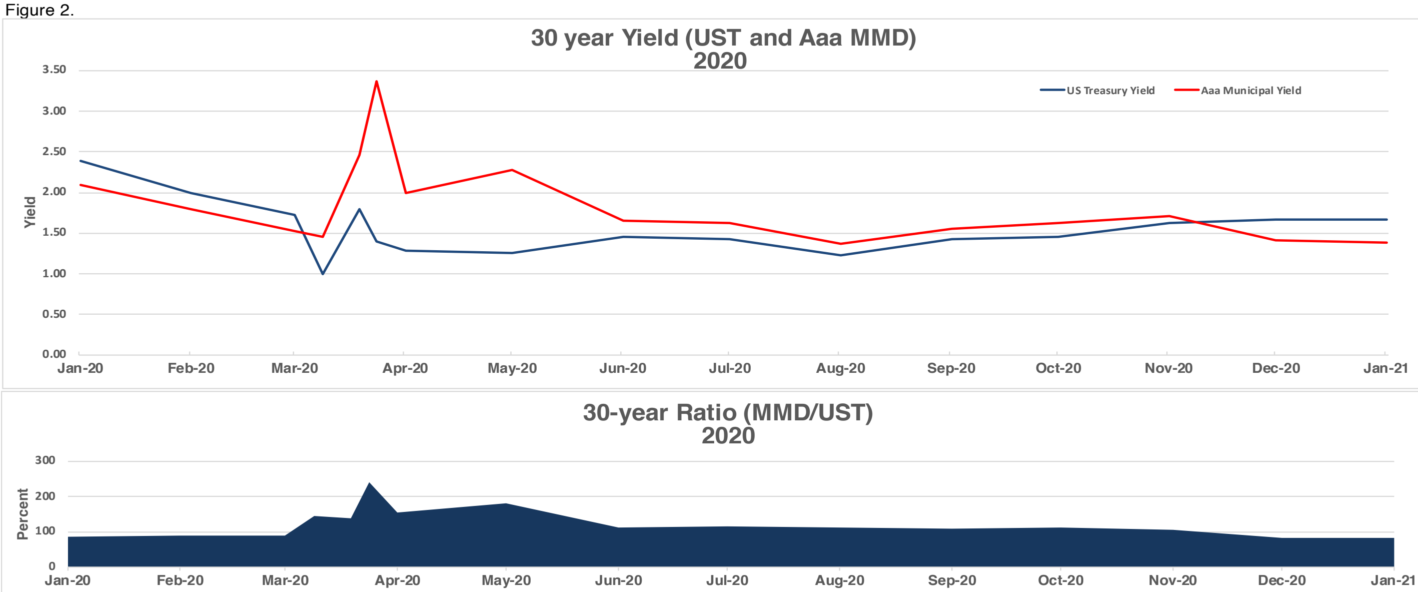
The chart above shows the increase in value of $1,000,000 invested in the LCP composite at inception vs. the benchmark, the Bloomberg High Yield Muni (LMHYTR) as well as the Bloomberg Muni (LMBITR) indices (it is not possible to invest in either Bloomberg Index). Please contact us with questions regarding credit profile, returns, taxable equivalent yields or further portfolio information. Past performance is not indicative of future results. Please see additional important disclosures below.

Figure 1.



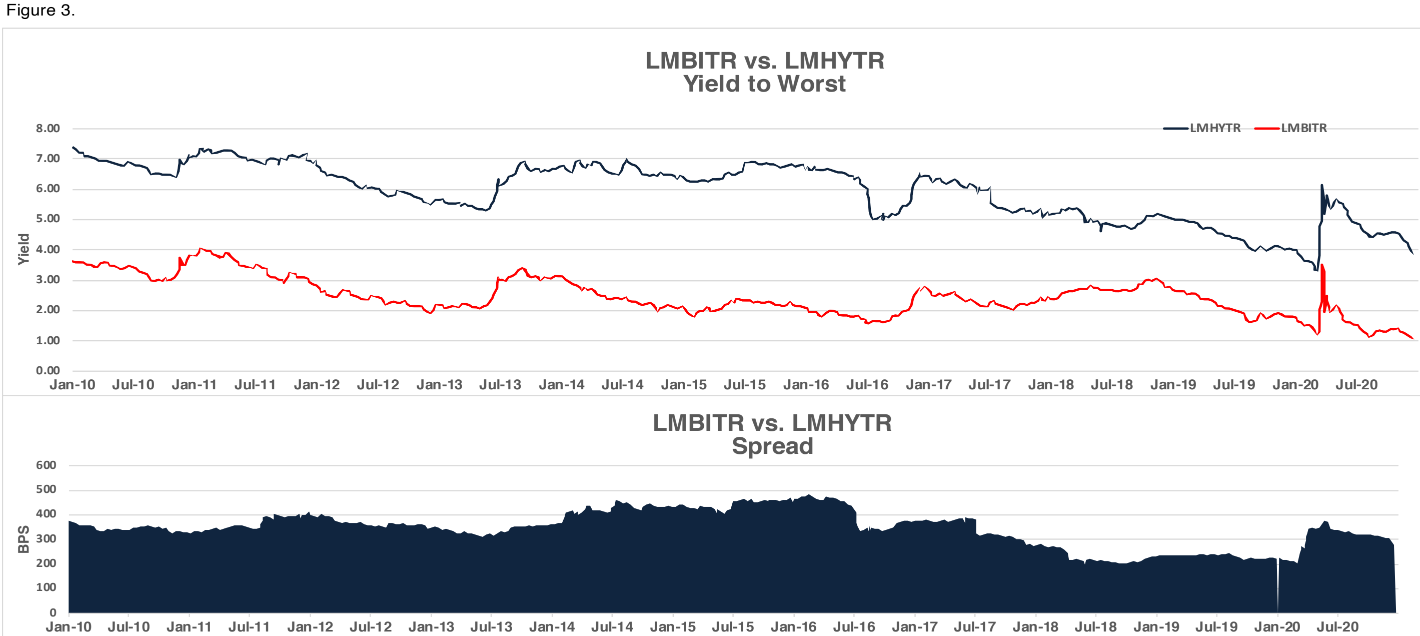
Source: Refinitiv and Lipper Analytics

Figure 2.



Source: Bloomberg, LLP and Refinitiv

Figure 3.



Source: Bloomberg Barclays Indices, Bloomberg, LLP

DISCLOSURE