Municipal Market Statistics

February 2023

	02-01-23	01-01-23	02-01-22	02-01-20	02-01-18
10-Year AAA BVAL Municipal	2.22%	2.62%	1.56%	1.17%	2.36%
10-Year US Treasury	3.54%	3.88%	1.78%	1.51%	2.71%
10-Year Muni vs. Treasury Ratio	63%	68%	88%	77%	87%
IG Fund Flows YTD	($3.5B)	($101.1B)	($0.8B)	$6.3B	$1.4B
HY Fund Flows YTD	$1.5B	($20.5B)	($0.2B)	$1.8B	$0.8B
IG (LMBITR) Total Return YTD	2.87%	(8.53%)	(2.74%)	2.46%	(1.17%)
HY (LMHYTR) Total Return YTD	4.41%	(13.10%)	(2.80%)	1.80%	(0.93%)
New Issue Calendar YTD	$23B	$339B	$27B	$31B	$18B

Lind Capital Partners Municipal Market Commentary

After a historically challenging year that was plagued by the most significant increase in municipal interest rates in 10+ years and a record level of mutual fund outflows, the municipal market wasted no time putting 2022 in the rear-view mirror. Tax-exempt bonds are off to their best start since 2009. Through January, 10-year and 30-year AAA municipal rates have rallied by 40 and 33 basis points, respectively. Performance has largely been driven by an amplified version of what municipal market participants refer to as "The January Effect." January is traditionally a supportive month for municipal bonds as light issuance is coupled with strong naturally embedded demand from high principal and coupon reinvestment by investors. After record breaking municipal mutual fund outflows last year, open-ended funds have recorded 3-straight weeks of inflows, a feat not experienced since December 2021. On the supply side, municipal market primary sales are down roughly 20% vs 2021. This technical imbalance has contributed to the best municipal index performance in 14 years, as the Bloomberg Barclays Investment Grade Index (LMBITR) delivered 2.87% total return in January and the Bloomberg Barclays High Yield Municipal Index (LMHYTR) delivered 4.41%.

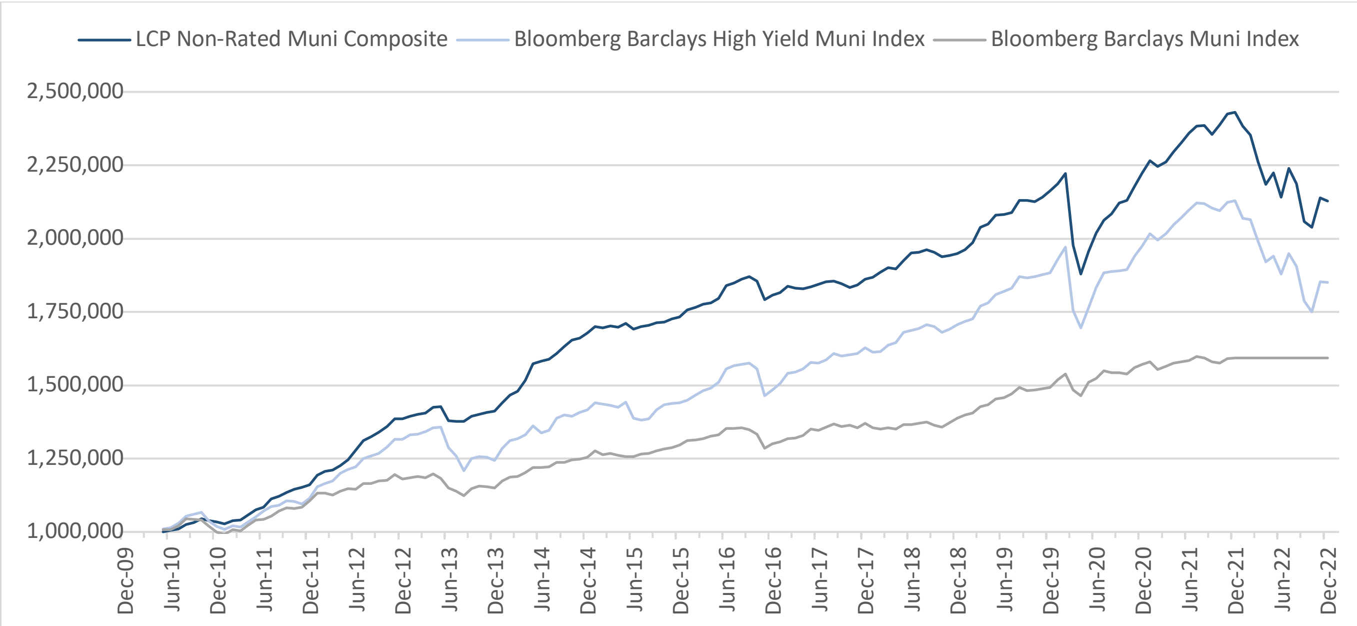
In addition to a strong technical backdrop that created a supportive tone in the municipal market, the return of stability in the U.S. Treasury market, albeit for the time being, has been a welcome change for municipal market participants, as well. Recently, the U.S. Treasury market has felt conflicted between two primary alternative narratives: 1) an imminent recession leading to a pivot in Fed monetary policy and, 2) stubborn inflation and a tight labor market that forces the Fed to march rates higher and keep them there for longer. While a final resolution to this tension will have to wait, some continued clarity from policy makers may point us in one direction as all eyes are on Jerome Powell today. The investment community largely expects the FOMC to raise the Fed funds target range another 25 basis points to 4.50% - 4.75% and hopefully provide some additional guidance towards future policy.

Lind Capital Partners Municipal High Yield Market Commentary

As highlighted above, the high yield municipal market is off to its best start since 2009. After experiencing ~$20B in outflows in 2022, high yield open-ended mutual fund complexes have recorded 3-straight weeks of inflows totaling $1.6B+ year-to-date. Performance in the index has largely been driven by what we at LCP refer to as "high-beta" bellwether credits such as Puerto Rico and tobacco securitization bonds. These "*highly liquid*" issues typically outperform during market rallies, especially in a period with light supply, as we saw in January. Open-end mutual fund managers often turn to the largest outstanding bond issues to invest new cash from fund inflows or raise cash to meet redemptions. At LCP, we view the "*liquid"* nature of these securities as a double-edged sword. While more readily available to purchase and more easily sold to raise cash, the *"liquidity"* has a price. As an example, Buckeye Tobacco 5.00% of 2055 ($3.3B outstanding) rallied 63 bps in January. Conversely, in March 2020, during the onset of the COVID crisis and liquidity crunch throughout the municipal market, Buckeye Tobacco bonds that traded on March 2nd at $112.812 or 3.50% traded on March 20th at $69.50 or 7.46%. Over a 3-day period in March 2020, over $500MM of these Buckeye Tobacco bonds traded. The issue size and dealer familiarity with the bonds provided open-end mutual fund portfolio managers their needed "*liquidity",* albeit at a **significant cost** to investors.

An interesting development in the narrative surrounding fund flows in 2022, was the shift to municipal ETFs from traditional open-end mutual funds. While *outflows* from open-ended municipal funds totaled over ($148 billion), municipal ETFs saw *inflows* of $29B in 2022. This rotation from open-ended funds to ETFs may have been driven by several factors, including but not limited to, tax-loss harvesting (individuals selling fund shares and reinvesting in ETFs and/or mutual fund portfolio managers selling individual bonds and temporarily investing proceeds in ETFs), a growing retail preference for the vehicle, or sophisticated institutional cross-over buyers exploiting the dislocation in the municipal market relative to other asset classes. Whether this shift has real lasting power remains to be seen but many market participants feel the momentum in ETFs is here to stay. As LCP has referenced before, a greater share of market participation by ETFs creates opportunities for long-term investors, such as LCP's, willing to incur short-term volatility created by the ETF redemption & creation process. ETF portfolio managers appear to be motivated by price received on the "basket of securities" compared to pricing service evaluation rather than a true underlying value of individual securities. As a result, individual bonds can trade out of ETF portfolios at deeply discounted prices. Earlier this week, Farms at Bailey Station, a senior living facility located in greater Memphis, 5.75% due in 2059 traded off an ETF bid-wanted at $65.00 or 9.04%. The trade was down ~25% from prior trading levels and the evaluated price of $88.00 or 6.60% with no material recent change in the underlying credit. Ultimately, regardless of the underlying reasons for the increased market share of ETFs in the municipal marketplace, LCP welcomes the increased role of ETFs in the municipal market and opportunities created by their inherent inefficiency and volatility.

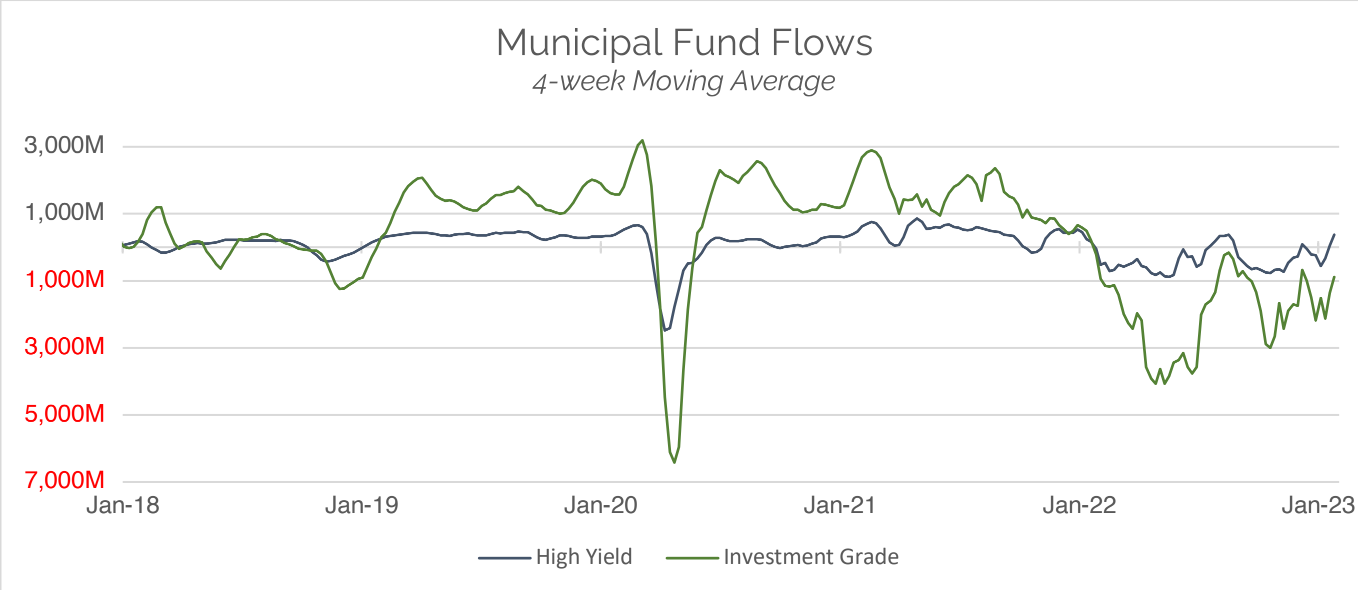
Lind Capital Partners Non-Rated Municipal Strategy (through December 31, 2022)

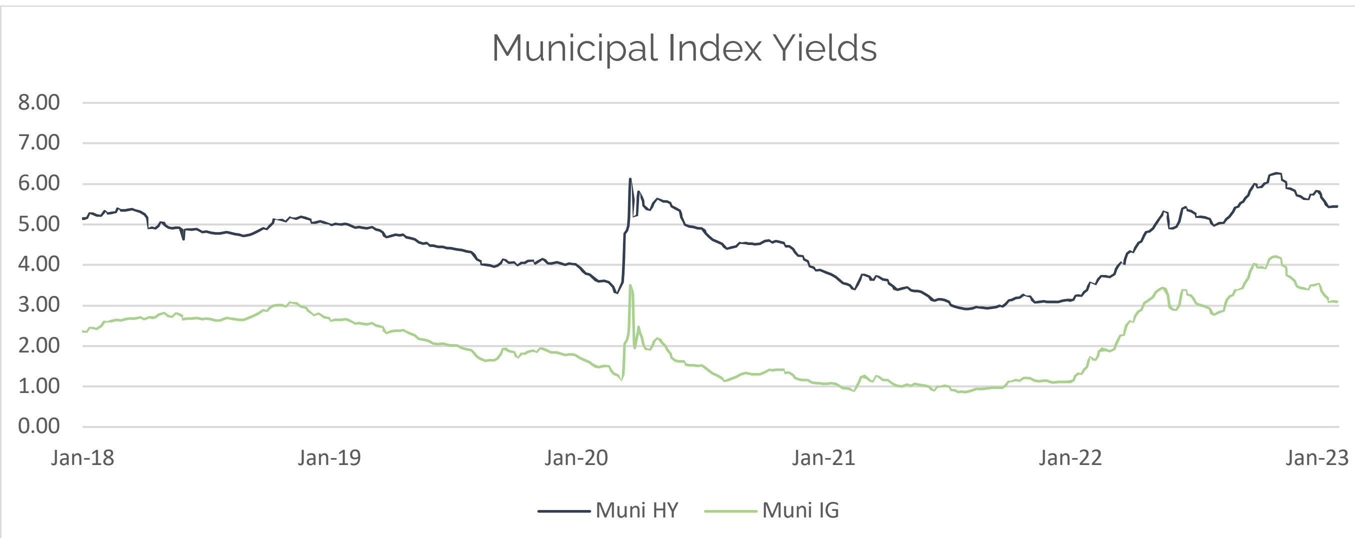


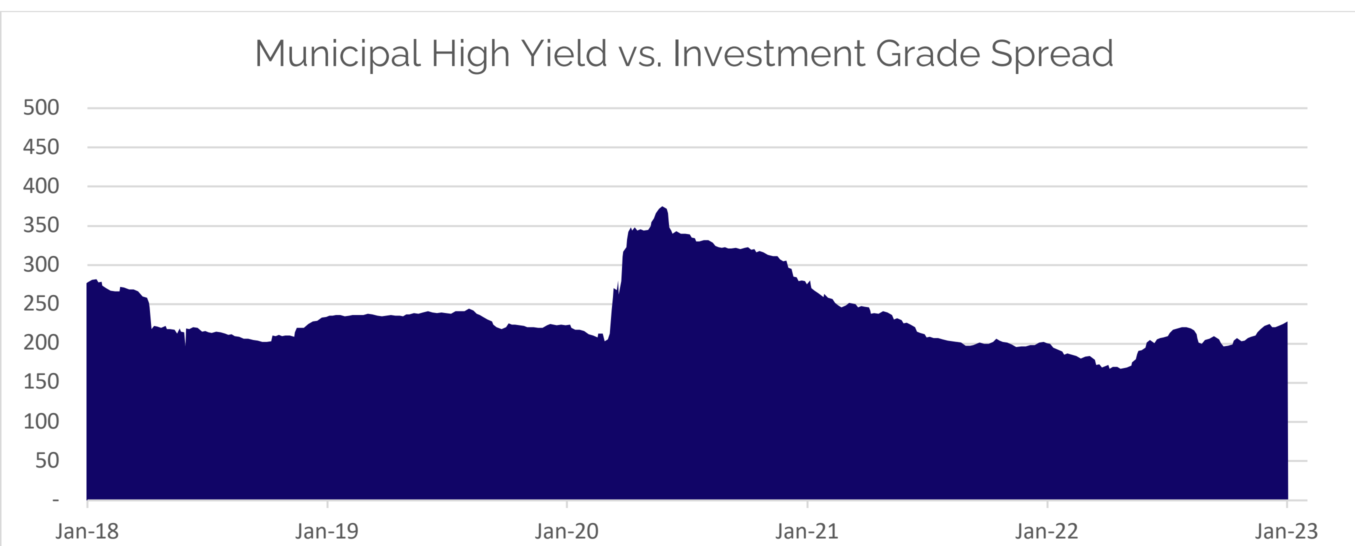
The chart above shows the increase in value of $1,000,000 invested in the LCP composite at inception (net of management fees and expenses) vs. the benchmark, the Bloomberg High Yield Muni (LMHYTR) as well as the Bloomberg Muni (LMBITR) indices (it is not possible to invest in either Bloomberg Index).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

Disclosure

Past performance is not indicative of future results. An investment in the Lind Capital Partners Municipal High Yield strategy is not suitable for all investors. Investing involves risk, and municipal instruments can be affected by adverse political and economic conditions. The material contained herein is provided for informational purposes only and is not financial advice, should not be construed as an offer to buy, hold, or sell any security or to invest in the strategy, and may contain information from third party sources Lind Capital Partners, LLC (LCP) believes to be accurate. Any offer for investment in the LCP limited partnership vehicle will be made exclusively to qualified investors on a private placement basis, and only by means of a private placement memorandum, which contains detailed information concerning investment terms. LCP is an investment adviser registered with the U.S. Securities and Exchange Commission. Registration as an investment advisor does not imply a certain level of skill or training. Performance information (time-weighted rate of return) is provided for the LCP High Yield Muni Composite (Inception May 1, 2010) which is comprised of all fully discretionary accounts managed in the LCP High Yield Muni Strategy. Performance returns include realized and unrealized gains and losses; are calculated total return, net of actual advisory fees and transaction costs, including distributions to Limited Partnership investors where appropriate. Refer to LCP's Form ADV Part 2A for additional information related to advisory fees and services. This document is publicly available and upon request by contacting: Info@LindCaptialPartners.com. Performance measured by Cortland Capital Services, Clearwater Analytics, NAV Consulting, ICE Data Services and Bloomberg. Opinions expressed are those of LCP and should not be considered a forecast of future events or a guarantee of future results. Opinions and estimates offered constitute our judgment as of the date set forth above and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions. All material presented is compiled from sources believed to be reliable, but no guarantee is given as to its accuracy.







Sources: Refinitiv and Bloomberg LP