

MUNICIPAL MARKET STATISTICS

	03-01-20	02-01-20	03-01-19	03-01-17	03-01-15
10-Year AAA MMD Municipal	0.95	1.17	2.10	2.29	2.02
10-Year US Treasury	1.16	1.51	2.73	2.42	2.00
10-Year Muni vs. Treasury	82%	77%	77%	95%	101%
Open End Fund Flows YTD	\$26.2B	\$9.3B	\$9.6B	(\$5.2B)	\$8.7B
New Issue Calendar YTD	\$68B	\$31B	\$51B	\$59B	\$62B

In February, municipal bond mutual funds had close to \$17B of positive inflows, with nearly 19% designated for high yield funds. Fund flows have now been positive for a record 60 consecutive weeks. With the exception of fall 2009, a much higher nominal interest rate environment, historical fund inflows have never been stronger over a two-month time frame. Similarly, the \$68B new issue calendar through month-end February was the largest two-month total of new issue volume in more than ten years. Ever lower interest rates provide financing incentives to issuers and permits refinancing of outstanding debt (below), whether via a taxable refunding or currently refundable tax-exempt issue. The 10-year treasury rallied another 35 basis points to finish at 1.16%, driving the yield 75 basis points lower since the start of 2020 (1.91%). 10-year AAA municipals also rallied but lagged the move in treasuries. At 82% of Treasuries, 10-year AAA Municipal to Treasury ratios are reasonable.

LIND CAPITAL PARTNERS CREDIT COMMENTARY

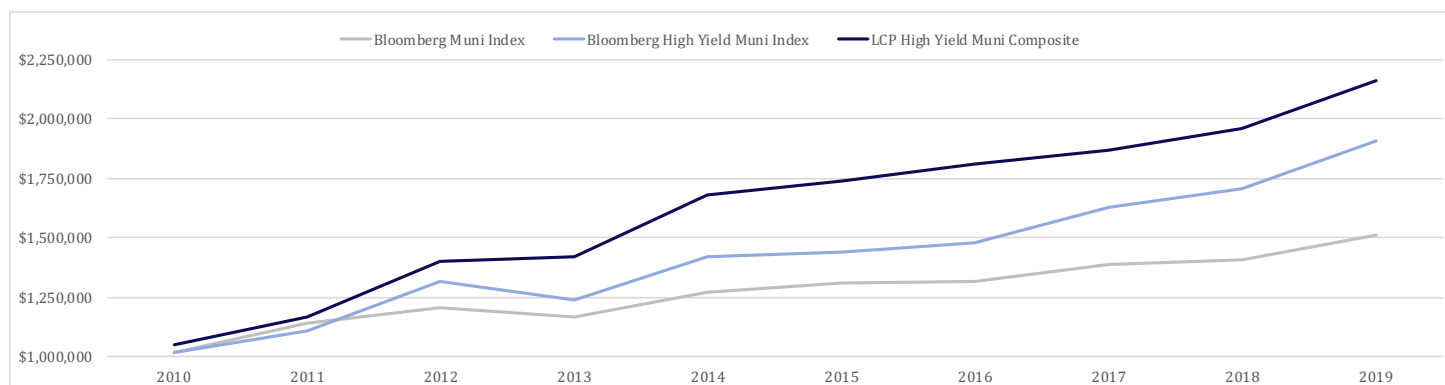
As month-end approached, economists expressed concerns that measures taken to combat the spread of the Coronavirus may contribute to a significant economic slowdown. Beginning on February 19th through month-end, markets reacted strongly to these concerns, resulting in significant declines across global equity markets (SPX **-14.50%**), widening high yield corporate credit spreads (Corporate high yield **OAS +120 bps**) and a flight to quality driving US Treasury, high-grade corporate, high grade municipal and high yield municipal yields to record lows. 10-year and 30-year Treasuries touched record low yields (1.12% and 1.64%) as did 10 and 30-year AAA municipals (0.95% and 1.55%). The Bloomberg/Barclays Municipal High Yield Index (3.32% on February 29th) and the Bloomberg-Barclays Corporate Bond Index (2.45% on February 26th) also reached record low yields.

Interestingly, as recently as February 20th the **Bloomberg Credit: Brief** titled “*Holding Your Nose and Buying*” highlighted fixed income investors having moved down the corporate credit curve to maintain yield while portfolio duration was naturally extending due to lower interest rates. At month-end, those corporate high yield purchases are priced significantly below cost due to the above-referenced high yield corporate spread widening (**+120 bps**).

Specific to the high yield municipal market, continued inflows to mutual funds (table above) have resulted in new issues receiving exceptionally strong investor interest. One of the largest municipal deals in history, a \$5.4 Billion refunding deal for Buckeye, Ohio Tobacco Securitization was heavily oversubscribed, was re-priced to yields below 4.00% and traded significantly higher (3.17% on 2/27) in the secondary market. Prior to the refinancing of outstanding Buckeye debt, numerous market participants anticipated the outstanding loan would **default** sometime in 2024, including Moody’s (*Moody’s Report dated October 4, 2018*).

With our Monthly Notes we have consistently attempted to highlight the many unique characteristics of the high yield municipal bond market, using individual credit profiles, market sector analysis as well as Municipal HY Index (LMHYTR) analysis to do so. Specific market subsets can offer unique investment opportunities due to inherent inefficiencies that result from smaller issue size, lack of institutional ownership or infrequent market trading activity. Investors can still generate high levels of tax-exempt income in a largely non-correlated asset class by focusing on these segments. Thorough credit analysis combined with ongoing surveillance are required to successfully invest in these sectors in all market environments. We are happy to share correlation detail as well as the historical return profile of these sectors to other fixed income asset classes to support our thesis, upon request.

LIND CAPITAL PARTNERS HIGH YIELD MUNICIPAL STRATEGY (THROUGH DECEMBER 31, 2019)



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.

DISCLOSURE

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