

Municipal Market Statistics

March 2023

	03-01-23	02-01-23	03-01-22	03-01-20	03-01-18
10-Year AAA BVAL Municipal	2.63%	2.22%	1.59%	0.97%	2.47%
10-Year US Treasury	3.92%	3.51%	1.83%	1.26%	2.86%
10-Year Muni vs. Treasury Ratio	67%	63%	87%	77%	86%
IG Fund Flows YTD	(\$2.3B)	(\$3.2B)	(\$5.4B)	\$18.5B	\$6.2B
HY Fund Flows YTD	\$1.2B	\$1.5B	(\$2.9B)	\$4.5B	\$0.2B
IG (LMBITR) Total Return YTD	0.53%	2.87%	(3.09%)	3.04%	(1.47%)
HY (LMHYTR) Total Return YTD	1.13%	4.44%	(3.02%)	4.54%	(0.86%)
New Issue Calendar YTD	\$41B	\$23B	\$57B	\$57B	\$36B

Lind Capital Partners Municipal Market Commentary

What January giveth, February taketh away. After recording their best start since 2009 last month, where 10 and 30-year AAA municipal rates rallied 40 bps and 33 bps, respectively, tax-exempt municipals surrendered all of those gains in February. At month end, 10 and 30-year AAA municipal rates have sold off by 41 bps and 37 basis points, respectively. Despite the negative performance, high-grade municipals outperformed their Treasury counterparts which saw rates rise 55 bps UST 10-year and 40 bps UST 30-year. It's also worth reminding investors that one year ago today, the UST 10-year stood at 1.83% compared to 3.92% today. The recent volatility, and eventual weakness, in the U.S. Treasury market has largely been driven by economic data pointing to consumer-led resiliency in the U.S. economy and unfavorable inflation data. Any notion of a slowing labor market, and by extension U.S. economy, disintegrated at the beginning of this month when January non-farm payrolls surprised market participants to the upside with 517,000 jobs added vs a consensus of 187,000. In many ways, this surprise set the tone for the month in financial markets, instantly reversing the (short-lived) comfort Fed Chair Powell provided just a few days earlier with the well-telegraphed 25 basis point rate hike and "disinflation" theme of his subsequent press conference. Last week, stronger than expected economic releases, including PMI, jobless claims, and US PCE inflation, continued to surprise to the upside. Additionally, the release of the FOMC meeting minutes, a meeting that preceded this month's surprisingly strong economic data, emphasized almost all participants favored a 25-bps hike at the last meeting, and all participants expected ongoing increases in the Fed Funds Rate going forward. While we do not know when the Fed ultimately stops tightening, we are likely closer to the end versus the start, even if the proverbial timeline was extended in investors' eyes this month. With that said, things can change in an instant, something investors in every corner of the global marketplace have become all too accustomed to.

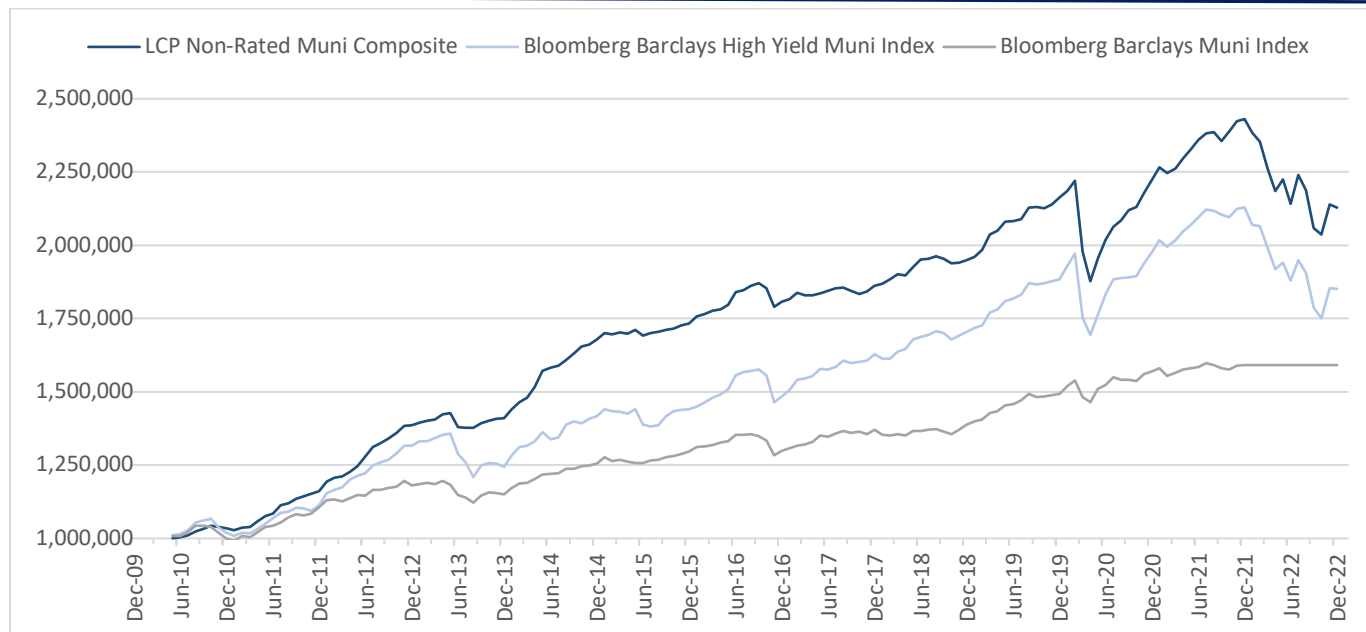
The uncertainty highlighted above kept tax-exempt investors on edge this past month. February relinquished January's strong start to the year by recording the worst February since 2008, with the Bloomberg Barclays Investment Grade Index (LMBITR) down (2.26%). While municipal performance remains in positive territory year-to-date, fears of stubbornly high interest rates have created headwinds for municipal bond prices going forward. Retail investor demand has shown a lack of conviction. After a welcome three-week streak of inflows in January, open-ended municipal mutual fund complexes have seen outflows in 3 of the last 4 weeks. However, despite a slightly weakened demand component, the tax-exempt market has been supported by a continued lack of new issue supply. February municipal bond issuance dropped (42%) YOY and YTD new issuance is down (28%), according to data provided by Bloomberg. Facing increased borrowing costs, most state and local governments have the luxury to remain patient, still flush from federal aid and high 2022 tax revenues. Nevertheless, LCP believes that although deferred, the need for capital is growing and we expect the new issue calendar to normalize this spring. Should retail demand remain anemic and supply return to traditional levels, it should provide an interesting market for municipal bond investors.

Lind Capital Partners Municipal High Yield Market Commentary

The high yield municipal market has so far mirrored the broader municipal market in 2023. After a similarly strong January, the Bloomberg Barclays High Yield Municipal Index (LMHYTR) lost (3.14%) during February. The high yield market can similarly be summarized by "choppy" retail investor demand supported by low new issue supply. In addition to higher borrowing rates, potential high yield borrowers have been sidelined by the increase in construction-related project costs. However, in conversations with the underwriting community, it seems that many borrowers are delaying, rather than cancelling projects. The state of the capital markets and

realities of construction costs are forcing borrowers to reimagine their capital projects, placing more emphasis on capital "needs" than on capital "wants". With this feedback, we believe the high yield municipal market could be poised for a very interesting spring. If the borrowers become more motivated to access capital markets based on their needs and can no longer delay projects, the supply side of the market could become much less supportive. On the demand side, late-March and April tax season historically presents decreased demand and increased selling as investors raise cash to fund federal and state tax liabilities. In addition, principal and coupon reinvestment tends to be lower in the months of March and April, subduing seasonal demand. Due to these factors, of if retail investors continue to lack confidence because of a volatile U.S. Treasury market, the high yield municipal market could present some very compelling opportunities in the coming months.

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

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