LIND CAPITAL PARTNERS

May 2022

## MUNICIPAL MARKET STATISTICS

| | 05-01-22 | 04-01-22 | 05-01-21 | 05-01-19 | 05-01-17 |
|---|---|---|---|---|---|
| 10-Year AAA BVAL Municipal | 2.70% | 2.22% | 0.96% | 1.87% | 2.14% |
| 10-Year US Treasury | 2.94% | 2.34% | 1.63% | 2.50% | 2.32% |
| 10-Year Muni vs. Treasury | 92% | 95% | 59% | 75% | 92% |
| IG Fund Flows YTD | ($32.9B) | ($16.7B) | $33.2B | $21.7B | ($4.9B) |
| HY Fund Flows YTD | ($8.5B) | ($5.2B) | $8.7B | $6.3B | $2.7B |
| IG (LMBITR) Total Return YTD | (8.73%) | (6.23%) | 0.48% | 3.28% | 2.22% |
| HY (LMHYTR) Total Return YTD | (9.73%) | (6.53%) | 3.60% | 4.41% | 4.58% |
| New Issue Calendar YTD | $124B | $91B | $141B | $99B | $115B |

## LIND CAPITAL PARTNERS MARKET COMMENTARY

The municipal market selloff continued unabated throughout April with AAA rates rising 42 to 46 bps across the curve. Year to date, AAA rates have risen 153 to nearly 200 bps depending on location on the curve, with short term rates most adversely affected (Figure 1). Fund flows were persistently negative throughout the month with investment grade funds experiencing ($16.2B) in negative flows and high yield funds losing ($3.3B) in April. Municipal investors can take some solace that the municipal market has not been an outlier with respect to negative performance. In fact, it has been a relative bright spot compared to other fixed income and equity asset classes. After the market rout on Friday, performance of the IG and HY municipal indices (see above) has exceeded the S&P 500, NASDAQ and Emerging Markets indices which are down (13.3%), (21.2%) and (12.6%), respectively. Municipal investors can find additional consolation in not having to pay federal income taxes on their portfolio income. And finally, a proactive manager can harvest taxes losses (up to 40.8%) via tax-loss swapping of portfolio holdings while maintaining credit exposure.

| Figure 1. | 2 Year | 5 Year | 10 Year | 30 Year |
|---|---|---|---|---|
| 1/1/22 | 0.23% | 0.57% | 1.04% | 1.48% |
| 5/1/22 | 2.20% | 2.47% | 2.70% | 3.01% |
| Change | 197 bps | 190 bps | 164 bps | 153 bps |

Given how much rates have risen, the municipal market now faces the prospect of an increasing percentage of the market losing the de minimis exemption for municipal bonds. When bonds lose the exemption, the tax treatment for **all** of the market discount will be taxed at ordinary income tax rates, not at lower capital gains rates. As a result, when bonds lose the de minimis exemption the price can fall precipitously to compensate potential buyers for their future tax liability. Investors concerned about rates continuing to rise should maintain diligence regarding the structure of bonds in their portfolio and manage it proactively.

## LIND CAPITAL PARTNERS HIGH YIELD MARKET COMMENTARY

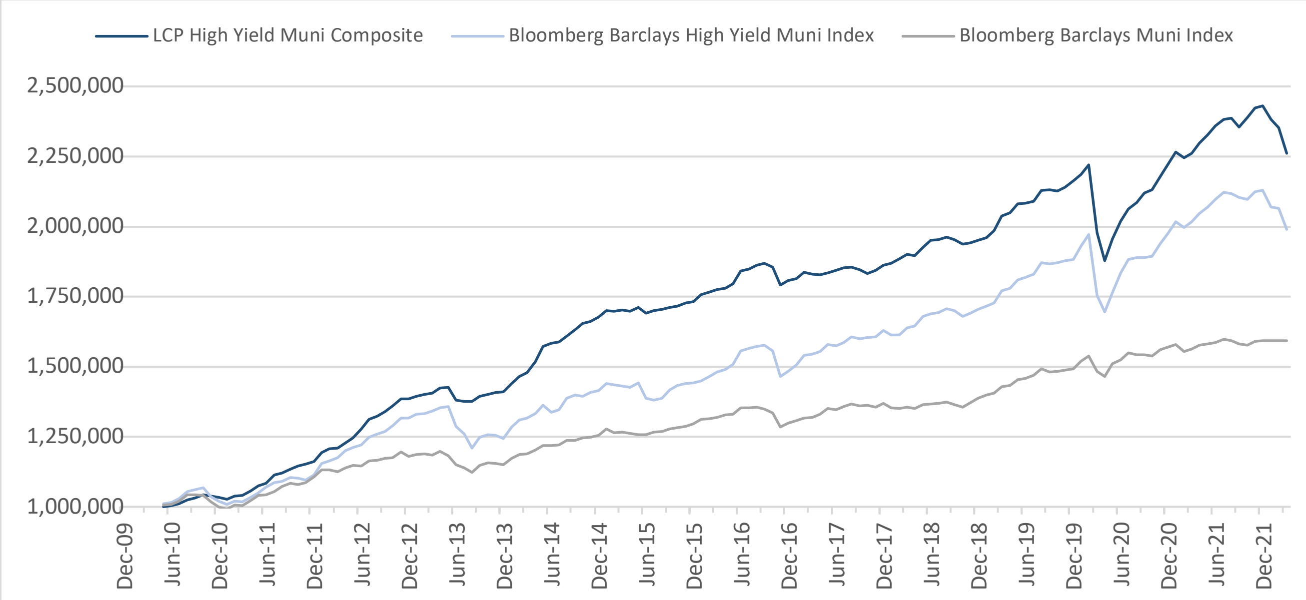
The municipal market has been something of a conundrum in 2022. HY vs. IG spreads have **tightened** (implying HY outperformance) yet **IG has outperformed** HY in total return. The explanation lies in the generic structure of the two segments of the municipal market. New issues in the high yield market are typically priced with bonds priced at or near par while new issues in the investment grade market are typically priced with higher coupon bonds priced to a 10-year call. The IG premium pricing structure is intended to provide investors with additional protection in a rising rate environment. As rates have risen, the high yield index has seen its average duration (price sensitivity) extend by 56% (5.56 years to 8.66 years) compared to the investment grade index extending by only 16% (4.82 years to 5.60 years). Should rates continue to rise, we expect duration extension to negatively impact the investment grade market. Additionally, the de minimis issues referenced above may impact the investment grade market as bonds move from a premium to discount and lose their de minimis exemption, accelerating price depreciation. Both could result in relative outperformance of municipal high yield vs. municipal investment grade.

As we have commented throughout the year, the outflow cycle has been relatively orderly. We have not, to date, seen massive price adjustments as HY fund complexes sell to meet investor redemptions. We attribute this to two primary factors: HY funds have been selling high quality or investment grade holdings and increasing their use of leverage. The impact for investors is degradation of portfolio credit quality and increasing interest rate risk due added leverage. Fund leverage is likely why most open-end funds have **underperformed** the index by up to 150 bps. The combination of declining credit quality and increased leverage does not bode well for open-end fund investors should rates continue to rise.

Given the unprecedented sell-off across most asset classes, we would not be surprised if most asset managers were extolling the opportunity in their respective markets. We would be remiss if we did not do the same. The year-to-date sell-off in rates has resulted in significantly higher yields with, in our opinion, improving underlying credit quality. Today, we estimate constructing portfolios with average tax-exempt yields between 6.00% to 6.25% or 10.00% to 10.50% taxable equivalent for maximum federal tax bracket investors. Given the volatility across equity markets and uncertain economic future, we believe achieving "equity like" returns from a fixed income portfolio is compelling, given that successful credit management will result in a return of capital at maturity.

***Milestone:*** *As of December 2021, LCP celebrated its 11th 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.*

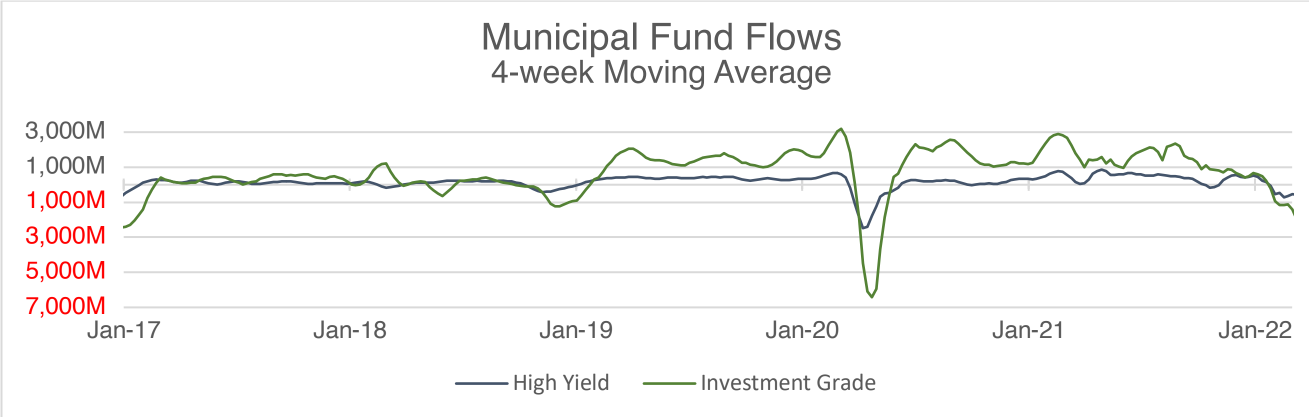
## LIND CAPITAL PARTNERS HIGH YIELD MUNICIPAL STRATEGY (THROUGH MARCH 31, 2021)

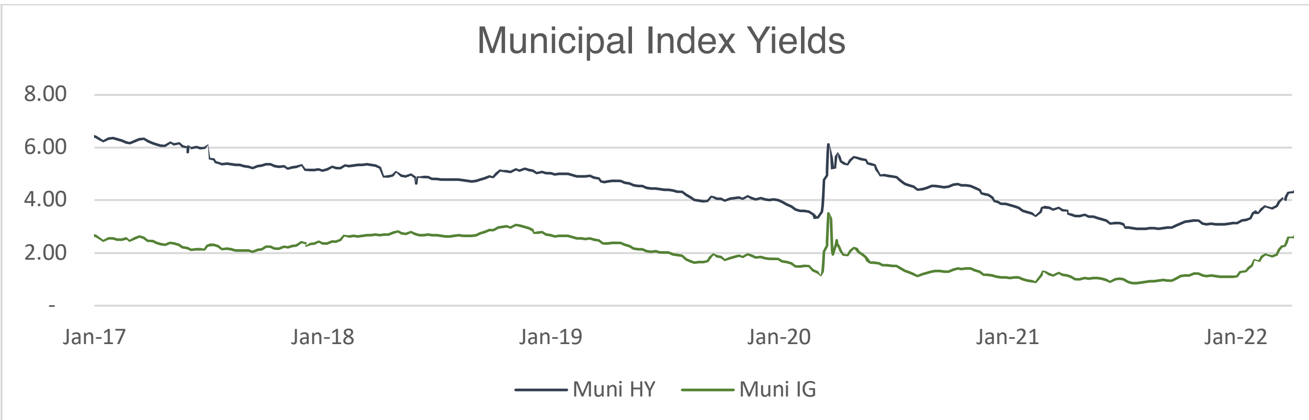


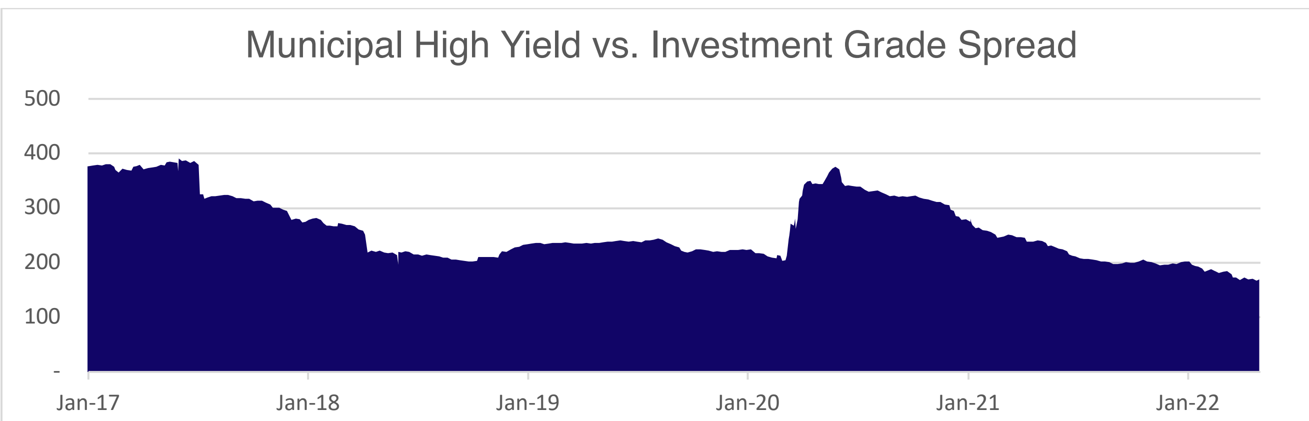

The chart above shows the increase in value of $1,000,000 invested in the LCP composite at inception (net of management fees and expenses) vs. the benchmark, the Bloomberg High Yield Muni (LMHYTR) as well as the Bloomberg Muni (LMBITR) indices (it is not possible to invest in either Bloomberg Index).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

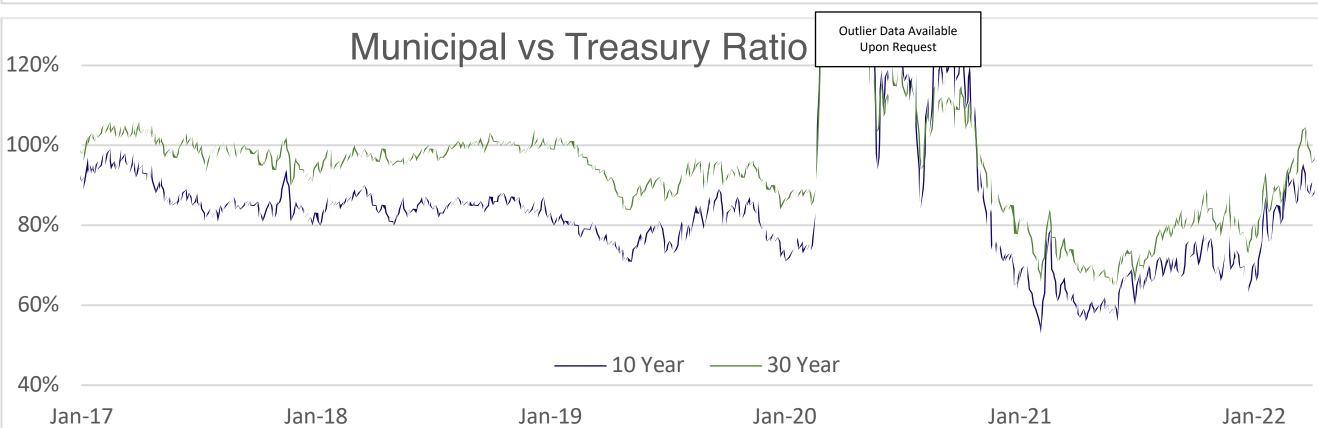
## DISCLOSURE

*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*