

MUNICIPAL MARKET STATISTICS

	06-01-21	05-01-21	06-01-20	06-01-18	06-01-16
10-Year AAA BVAL Municipal	0.96%	0.96%	0.80%	2.41%	1.68%
10-Year US Treasury	1.60%	1.63%	0.66%	2.86%	1.85%
10-Year Muni vs. Treasury	60%	59%	122%	84%	91%
IG Fund Flows YTD	\$37.3B	\$33.2B	(\$8.2B)	\$4.2B	\$21.4B
HY Fund Flows YTD	\$11.1B	\$8.7B	(\$8.8B)	\$1.5B	\$5.5B
New Issue Calendar YTD	\$176B	\$142B	\$152B	\$121B	\$169B

LIND CAPITAL PARTNERS MARKET COMMENTARY

The US Treasury and municipal markets appear to be in a holding pattern, trying to decipher the latest news on inflation. Interest rates through May vacillated in a very tight range failing to provide investors any longer-term direction. Municipal market credit fundamentals remain extremely positive for the coming months, with states and municipalities flush with cash from recent stimulus payments from the federal government and rising tax revenues lowering potential new issue supply. Additionally, June and July are typically associated with the largest municipal redemptions providing the market with a built-in demand catalyst. Net issuance (new issue supply less bonds called or redeemed) is anticipated to remain negative through at least August. Year to date mutual fund inflows are on a record annualized pace. Nevertheless, investment grade municipal investors should remain cautious given current nominal rates (historically low) and UST vs. Municipal ratios (also historically low).

LIND CAPITAL PARTNERS MUNICIPAL HIGH YIELD COMMENTARY

In the wake of May's robust CPI, PPI and PCE readings we realize that only time and future inflation data points will determine whether the current rate of inflation is transitory or long-term. If annualized inflation persists in excess of 3.00% most fixed income investors that initiate at current market rates will have locked in negative real rates of return after accounting for inflation. This assumes no change to the overall level of rates as the market comes to terms with persistent rising inflation. US Treasury bonds, investment grade corporate and municipal bonds and high yield corporate bonds (after-tax) as measured by their respective indices share a common trait, all are significantly below the forecasted 3.00% inflation threshold. The prospect of fixed income investors earning negative real rates of return makes the current market environment extremely challenging for fixed income investors.

The high yield municipal market remains a bright spot across the fixed income landscape. The Bloomberg Barclays High Yield Municipal Index currently yields 3.32%. An investor initiating with LCP today should expect their portfolio to yield 5.25%, federally tax exempt. Within public fixed income, the high yield municipal market is the one clear choice that will generate a real rate of return for investors should inflation expectations materialize.

As mentioned above, should recent higher inflation figures prove lasting rather than transitory, fixed income investors must also consider a rising rate environment. Income from fixed income investments generally provides investors with insulation from rising rates. However, the current low yield and extended duration environment leaves many fixed income investments exposed to principal erosion and negative total returns with very small increases in overall interest rates. 10-year UST yielding 1.60% would have a negative total return if rates were to rise 19 basis points over the coming year. A 10-year AAA (BVAL) municipal bond 0.96% sustains a negative total return if rates rise by only 13 basis points over the next year.

For comparison, the Bloomberg Barclays Municipal High Yield Index with a current YTW of 3.32% provides investors with 63 bps of downside protection while an LCP portfolio initiated at 5.25% YTW provides investors with 107 basis points of rising rate protection before total return turns negative over a 1-year time frame. In our opinion the risk-reward relationship in UST and investment grade municipal bonds is heavily skewed towards risk given the uncertainty of future rates of inflation and significant price sensitivity of both assets. That relationship favors reward in a municipal high yield portfolio generally, and an LCP municipal portfolio specifically, providing as much as 4x protection from rising interest rates.

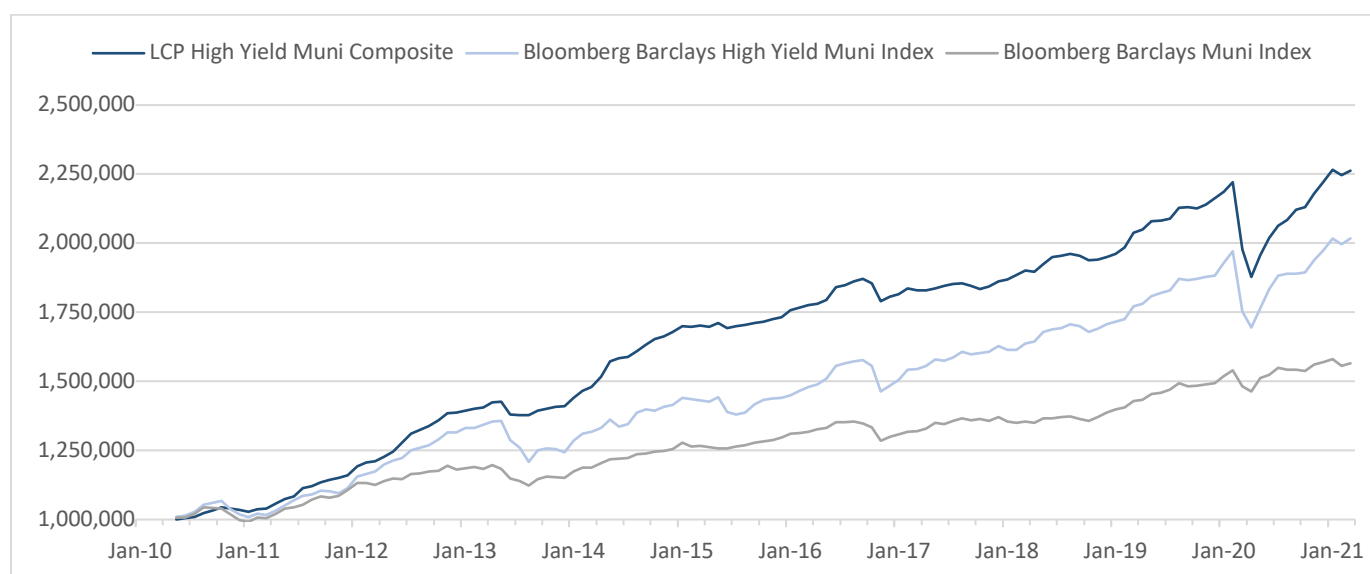
Finally, credit is a core component in total return for high yield portfolios. Improving or declining credit can result in spread compression or widening. An LCP portfolio yielding 5.25% is composed primarily of non-rated issuers. Compared to June 2020, the municipal credit outlook is far clearer and continues to improve weekly. With the prospect of continued economic expansion, we expect credit spreads to continue to tighten. High yield municipal bonds have historically outperformed other fixed income classes in pro-growth cycles. Due to an ever-vigilant research team, LCP's borrowers in our chosen sectors continue to provide both financial and operational disclosure that give us confidence adding to existing holdings for our current and new clients.

We believe the investment grade municipal market is “*priced for perfection*”, once again. Current yield levels are only justified if the current spike in inflation proves to be transitory and interest rate levels remain constant or move lower. Regardless of what transpires regarding inflation, our opinion is that better relative value today lies heavily in the favor of the high yield municipal market and that an LCP portfolio is a **solution** to the myriad of challenges investors face in today's market.

The LCP team welcomes the opportunity to discuss our research and portfolio management processes.

Milestone: As of December 2020, LCP celebrated 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 MARCH 31, 2021)



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.

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. The borrowers identified and described in this communication are intended to illustrate certain concepts employed by LCP in the management of its High Yield Municipal Strategy. The borrowers identified do not represent all of the securities purchased, sold or recommended for client accounts and certain data, such as the purchase price, may not be indicative of an individual client's actual experience. The reader should not assume that an investment in the securities identified was or will be profitable. LCP's opinion of a borrower's prospects should not be considered a guarantee of future events. Performance information (time-weighted rate of return) pertains to the period ending March 31, 2021 and includes realized and unrealized gains and losses; is net of actual advisory fees and transaction costs and is total return, including distributions to Limited Partnership investors where appropriate. 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.

