

## Municipal Market Statistics

July 2024

	07-01-24	06-01-24	07-01-23	07-01-21	07-01-19
10-Year AAA BVAL Municipal	2.84%	3.09%	2.53%	0.99%	1.60%
10-Year US Treasury	4.40%	4.50%	3.84%	1.47%	2.03%
10-Year Muni vs. Treasury Ratio	65%	69%	66%	67%	79%
IG Fund Flows YTD	\$4.9B	\$5.4B	(\$8.7B)	\$46.1B	\$31.3B
HY Fund Flows YTD	\$5.6B	\$4.9B	(\$0.7B)	\$13.9B	\$9.3B
IG (LMBITR) Total Return YTD	(0.40%)	(1.91%)	2.67%	1.06%	5.10%
HY (LMHYTR) Total Return YTD	4.14%	1.65%	4.43%	6.12%	6.66%
New Issue Calendar YTD	\$239B	\$191B	\$173B	\$219B	\$166B

## Lind Capital Partners Municipal Market Commentary

- Municipal Market Performance:** A prominent theme in the municipal market year-to-date has been the outperformance of high-yield vs high-grade (see below). June was no exception, as the Bloomberg Muni High Yield Index (LMHYTR) outperformed the Bloomberg Municipal Bond Index (LMBITR) by 98 bps, widening the year-to-date outperformance to 454 bps. Ultimately, both indices posted positive returns in June with the high-yield index returning 2.49% (4.14% YTD) and the high-grade index returning 1.51% (-0.40% YTD).
- AAA Municipal Benchmark Rates:** High grade municipals rallied in June as AAA benchmark yields ended the month lower by 19 bps in 5 years, 25 bps in 10 years, and 21 bps in 30 years. The US Treasury market experienced a similar rally, as yields were generally +/- 20 bps lower up and down the curve.
- Mutual Fund Flows:** After experiencing 3-straight weeks of inflows to start the month, investors pulled money from mutual funds in the final week. With that said, net flows remained positive in June, totaling \$220 million. High-yield mutual funds experienced inflows totaling over \$700 million in June. This brings high-yield funds' inflow streak to 10-straight weeks and 24 out of 26 weeks in 2024. Year-to-date flows remains firmly positive for both high-grade and high-yield mutual funds, which now total \$10.3B and \$5.75B, respectively.
- Primary Market Supply:** Municipal supply is slated to finish the month totaling over \$38B. That figure is in-line with June's issuance total last year but total issuance year-to-date remains significantly higher YoY (38%). Non-and-lower rated new issue supply has continued to steadily build, however, that supply is not enough to satisfy the appetite of the investor base participating in the high-yield primary market. The majority of non-rated new issues are seeing subscription levels in excess of 10x, making allocations challenging. With that said, while one byproduct of a heavily oversubscribed deal may be a severe underallocation, investors who are allocated bonds have seen instant price performance.

## Lind Capital Partners Municipal Non-Rated Market Commentary

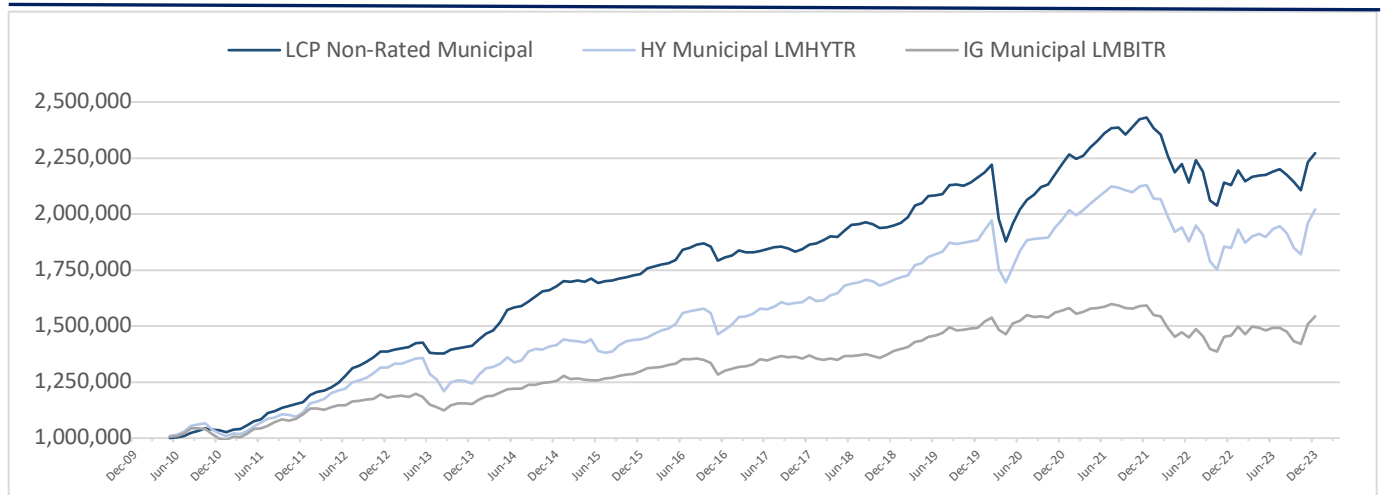
A significant theme in the municipal market in 2024 has been the divergence between the investment grade and the high yield municipal markets. Understanding the driving factors in the two markets can help explain the cause for this divergence. Both the investment grade and high yield municipal markets are supply-and-demand driven markets. Supply can be measured by the amount of debt issued in the primary market, a mix of new debt capital and refinancing deals. Secondary supply is provided by mutual fund selling. Given that the municipal bonds are largely held by retail investors (estimated to be nearly 70% by the Municipal Securities Rulemaking Board), demand conditions can be estimated by observing fund flows in and out of municipal mutual funds and ETFs. Additionally,

because investment grade municipal bonds are often considered an ultra-safe alternative to US Treasuries, they are closely tied to movements in the Treasury market, which can be very difficult to predict. IG investors often watch the ratio Municipal vs. Treasury yields as a measure of relative value, entering and exiting the market based on relative attractiveness. Given the nature of high yield borrowers, movements in the high yield municipal market more closely reflects underlying credit conditions. In our experience, high yield investors are attracted to high absolute yield levels, rather than relative value.

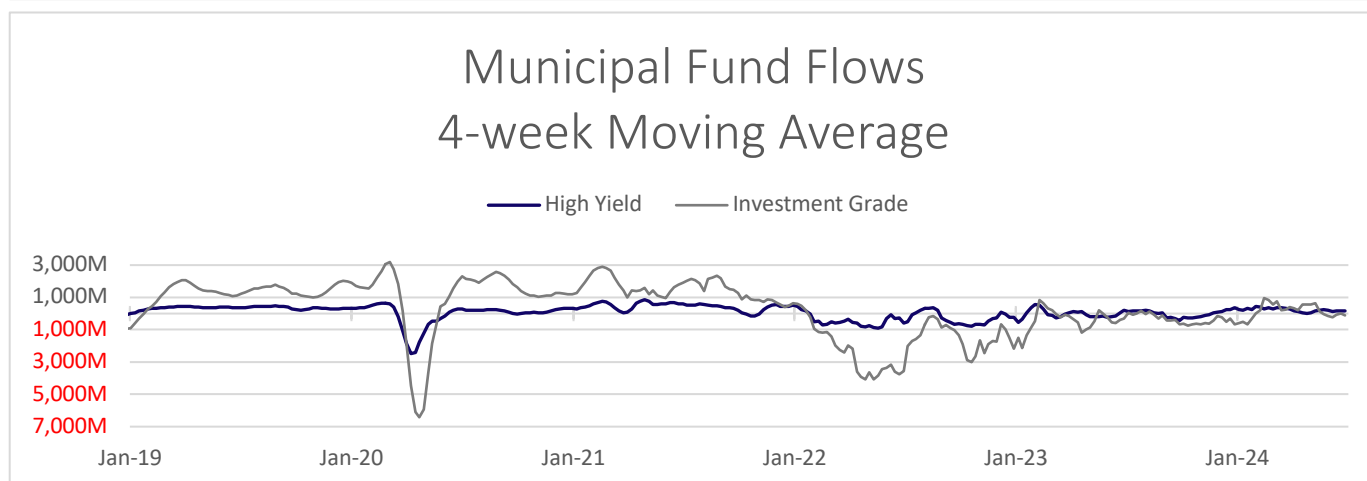
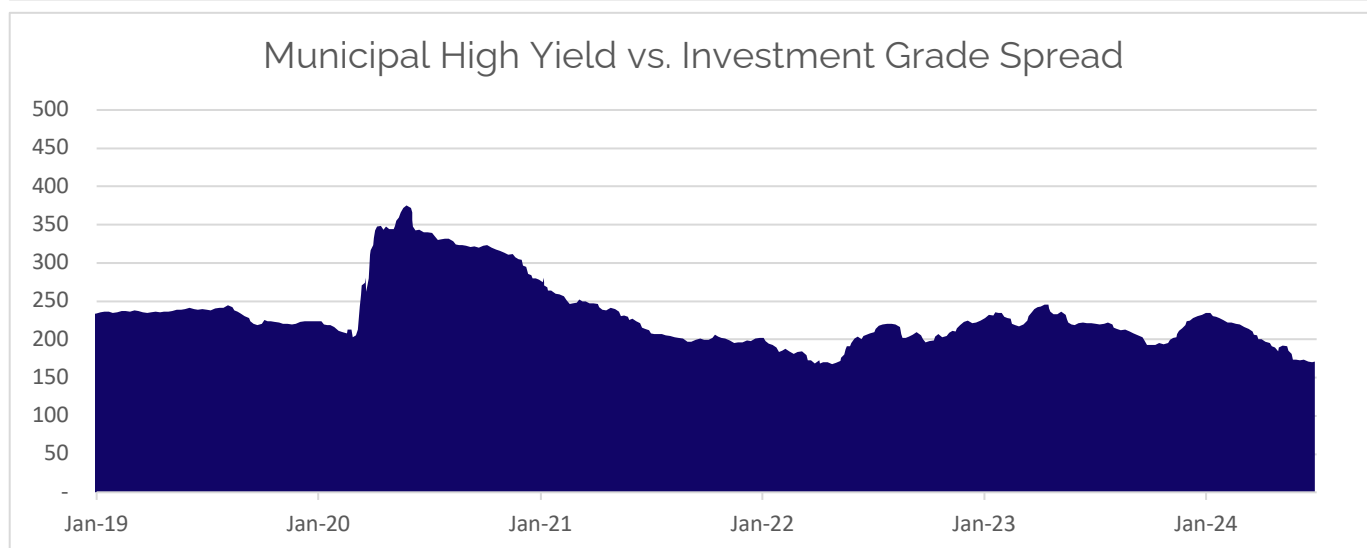
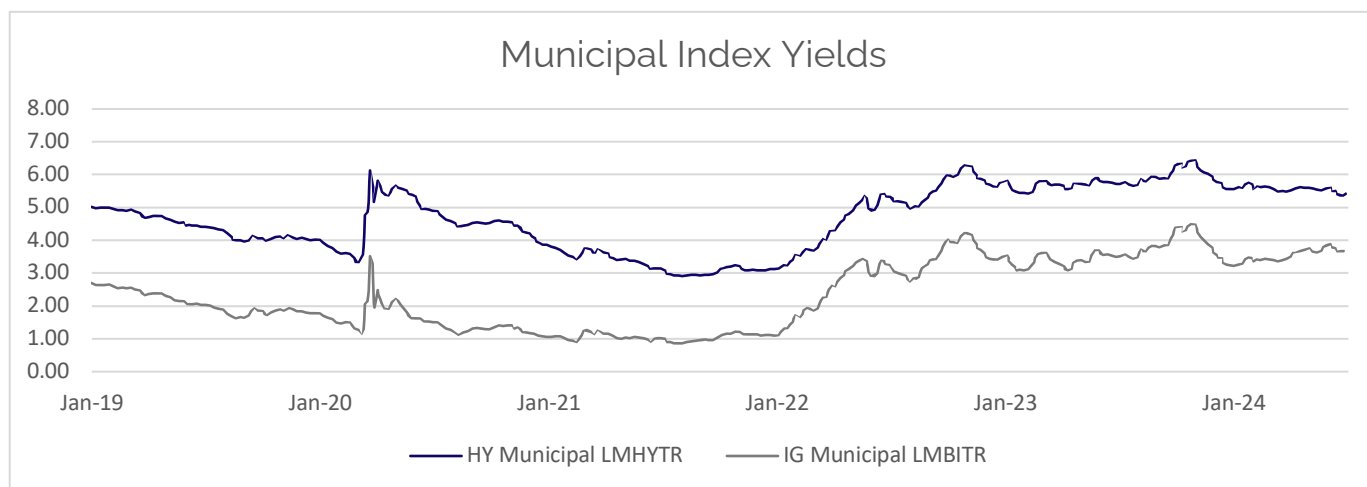
So far in 2024, demand for investment grade municipal bonds has been soft, and directionless. In addition, investment grade municipal investors have faced a flood of supply. New issue volume is up 38% compared to the prior year and up 23% compared to the 5-year average. This has resulted in a challenging investment grade market, which has largely followed the US Treasury market. Investment grade municipals began the year at 2.25% and ended June 30<sup>th</sup> at 2.84%. This compares to the 10-Year US Treasury beginning at 3.88% and ending at 4.40%. In contrast, very attractive yield levels and a stable credit environment have consistently attracted investors to the high yield market. Fund flows have been positive for 24 out of the last 26 weeks, highlighting the strong demand for yield. Although second quarter supply showed signs of life, year-to-date supply volume has been underwhelming after a paltry first quarter. This has driven significant outperformance in the high yield market. The high yield municipal index was up 4.14% compared to the investment grade municipal index down (0.40%).

While the high yield municipal market has heavily outperformed YTD, there is still significant yield opportunity available to investors, especially in the non-rated subsector of the market. The composition of the high yield municipal index significantly differs from the composition of our non-rated municipal strategy. The index is heavily weighted to Puerto Rico, Tobacco securitization, large industrial development revenue bonds, and other "high-beta" sectors. The index also explicitly excludes deal sizes less than \$20 million. These sectors drive index performance and are the "first to buy" and "first to sell" for mutual funds and ETFs and have been driving high yield municipal performance year-to-date. Our non-rated strategy intentionally avoids index-heavy sectors and focuses on select target sectors, as well as smaller deal sizes. While the yield on the high yield municipal index has fallen to 5.42%, we continue to see opportunities that meet our strict credit parameters ~7.00% tax-exempt yield.

### Lind Capital Partners Non-Rated Municipal Strategy (through March 31, 2024)



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.



Sources: Refinitiv and Bloomberg LP

#### Disclosure

Past performance is not indicative of future results. An investment in the Lind Capital Partners Non-Rated Municipal 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 Non-Rated Municipal 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@LindCapitalPartners.com](mailto:info@LindCapitalPartners.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. Taxable equivalent yield = (Tax-Exempt Yield)/(1-Federal Tax Rate).