LIND
CAPITAL
PARTNERS

September 2020

## MUNICIPAL MARKET STATISTICS

| | 09-01-20 | 08-01-20 | 09-01-19 | 09-01-17 | 09-01-15 |
|---|---|---|---|---|---|
| 10-Year AAA MMD Municipal | 0.81 | 0.64 | 1.25 | 1.86 | 2.16 |
| 10-Year US Treasury | 0.71 | 0.54 | 1.52 | 2.13 | 2.17 |
| 10-Year Muni vs. Treasury | 113% | 118% | 82% | 87% | 100% |
| Open End Fund Flows YTD | $16.8B | $3.9B | $61.8B | $2.2B | $6.3B |
| New Issue Calendar YTD | $278B est. | $248B | $243B | $264B | $293B |

## LIND CAPITAL PARTNERS MARKET COMMENTARY

10-year AAA municipal yields finished the month of August 17 bps higher than where they began (0.81% vs 0.64%) and a full 27 bps off their intramonth low (0.54%) touched on August 10th. While seemingly modest, 15 – 25 basis point losses equate to principal losses between 1% and 2% on 10-year investment grade bonds, losses that may be extremely difficult to recoup over the remaining four months of 2020, as outlined below.

## OPPORTUNITY TODAY

Last month we highlighted our view that the investment grade municipal market was “Priced to Perfection”, particularly given the enormous losses states, cities and municipalities are facing due to the COVID-19 pandemic and resultant recession. Over the next three years, revenue losses are estimated to be close to $1 trillion (Center on Budget and Policy Priorities and National League of Cities). Income taxes, sales taxes, gasoline taxes, transit fares, bridge and tunnel tolls and airport fees are some of the revenue sources experiencing steep declines. Progress on additional federal stimulus for cities and states remains elusive. Yet, investment grade yields are at their lowest levels in nearly 70 years.

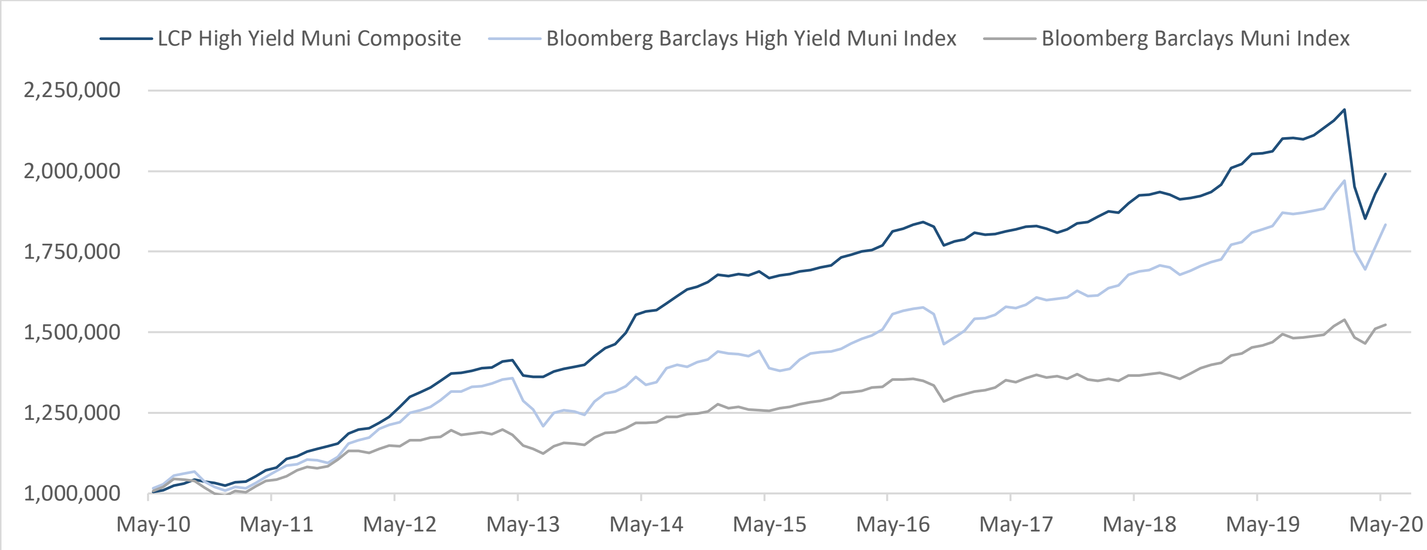
While Bloomberg News has been at the forefront of this story throughout the summer, it appears other news organizations are now focused on the topic. On August 28th, Barron’s published “The Trillion-Dollar Budget Hole” highlighting the extraordinary budget challenges facing state and local governments due to the pandemic. Rightly, in our opinion, the authors attribute the disconnect between interest rates and growing credit risk to the overwhelming demand from retail investors. According to Lipper Analytics, investors have poured more than $16B net (see above) into investment grade mutual funds. As a result, portfolio managers have been driving interest rates to historic lows in the face of declining credit quality.

We concur with the premise that “the muni market, on the whole, remains a relatively safe port in the world of bonds.” However, with rates at historic lows and credit uncertainty at historic highs, credit degradation and resultant price volatility pose enormous risks to investment grade investors. Combined with recent guidance from the Federal Reserve indicating it will prioritize job growth over maintaining inflation targets, investment grade investors have little leeway before their total rate of return turns negative. LCP estimates a rise of approximately 15 bps and 25 bps for 10-year and 20-year bonds respectively, over a 1-year time horizon will result in **negative** total return (details available upon request).

We believe municipal investors are better served by focusing on revenue bonds secured by a well-defined revenue pledge, first mortgages on assets and fully funded reserve accounts. As noted in the Barron’s article, revenue bonds typically eliminate the uncertainty created by politicians having to make unpleasant decisions to reduce funding for police and fire, education or other essential services vs. paying bondholders. Credit selection is critical to successful portfolio construction and ongoing credit surveillance essential for portfolio management. The vast inefficiency of the municipal market affords investors the ability to construct portfolios that generate high levels of tax-exempt income and provide some insulation from rising interest rates or increasing inflation.

**Conclusion**: The combination of historically low interest rates, declining municipal credit quality at the city and state level and the prospect of rising inflation make the investment grade municipal market an extraordinarily challenging proposition. Investors should consider the high yield municipal market. High yield municipals offer considerably higher levels of tax-exempt income, as well as, dedicated revenue streams and collateral packages from enterprise businesses that are less subject to the vagaries of political decision-makers. Additionally, the higher levels of tax-exempt income provide investors insulation from rising rates, increasing inflation and an embedded hedge against the prospect of higher personal and corporate tax rates. We welcome a discussion on the current state of the high yield municipal market and opportunities, therein.

## LIND CAPITAL PARTNERS HIGH YIELD MUNICIPAL STRATEGY (THROUGH JUNE 30, 2020)




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 below.

## 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 June 30, 2020 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.*