

## Municipal Market Statistics

September 2022

	09-01-22	08-01-22	09-01-21	09-01-19	09-01-17
10-Year AAA BVAL Municipal	2.59%	2.22%	0.92%	1.25%	1.82%
10-Year US Treasury	3.18%	2.58%	1.31%	1.50%	2.12%
10-Year Muni vs. Treasury	81%	86%	70%	83%	86%
IG Fund Flows YTD	(\$69.8B)	(\$68.4B)	\$64.4B	\$46.1B	\$1.3B
HY Fund Flows YTD	(\$11.4B)	(\$12.1B)	\$18.6B	\$13.3B	\$4.6B
IG (LMBITR) Total Return YTD	(8.58%)	(6.42%)	1.53%	7.61%	5.20%
HY (LMHYTR) Total Return YTD	(10.31%)	(8.18%)	7.23%	9.91%	8.30%
New Issue Calendar YTD	\$263B	\$232B	\$300B	\$234B	\$239B

## Lind Capital Partners Municipal Market Commentary

The municipal market got off to a good start in August with investment grade mutual fund flows turning positive for the first time in 2022 and high yield fund flows continuing to experience positive flows that began in early July. Moderate new issue supply provided additional market support the first week of August. By August 2<sup>nd</sup>, 10-year AAA municipal rates had fallen 25 bps from the prior week and, although subsequently rates drifted slightly higher, the market remained relatively steady until the Jackson Hole Fed Conference. Beneath the positive market tone was an underlying concern regarding a building Q3-Q4 municipal calendar and uncertainty surrounding Federal Reserve interest rate policy.

Jerome Powell's speech at the Conference provided a degree of certainty regarding Federal Reserve interest rate policy. As a result, equity markets tumbled fearing a hard landing and interest rates rose. The realization that the Federal Reserve has *long way to go* to successfully tame inflation and the cost may be an economic recession has led to, what our trading desk referred to as a "very fragile market". This was evidenced by a \$275MM Washington County, Ohio Memorial Health System issue that came to market at month end. Memorial Health is the market leading health care provider in southeast Ohio and northwest West Virginia. Bond proceeds were used to refund existing debt and expand their footprint into Athens, Ohio. In mid-August when the deal was first announced, we were told to expect pricing to be +275 - +300 bps to the AAA benchmark, or 5.75% to 6.00%. General market instability and negative high yield funds flows contributed to a substantial widening of pricing spread and increase in yield. The maximum yield bonds were ultimately priced +370 bps to the benchmark or 7.00%.

The Memorial Health issue illustrates the fickle nature of the high yield municipal market. Strong demand and falling yields one week only to be followed by a 125 bp concession the next. As we have noted in the past, late Q3 through Q4 is typically a period of heightened supply and waning demand, particularly as we approach the holidays. When we layer in the prospect of negative fund flows accelerating, the currently "fragile" market is likely to get very interesting for investors.

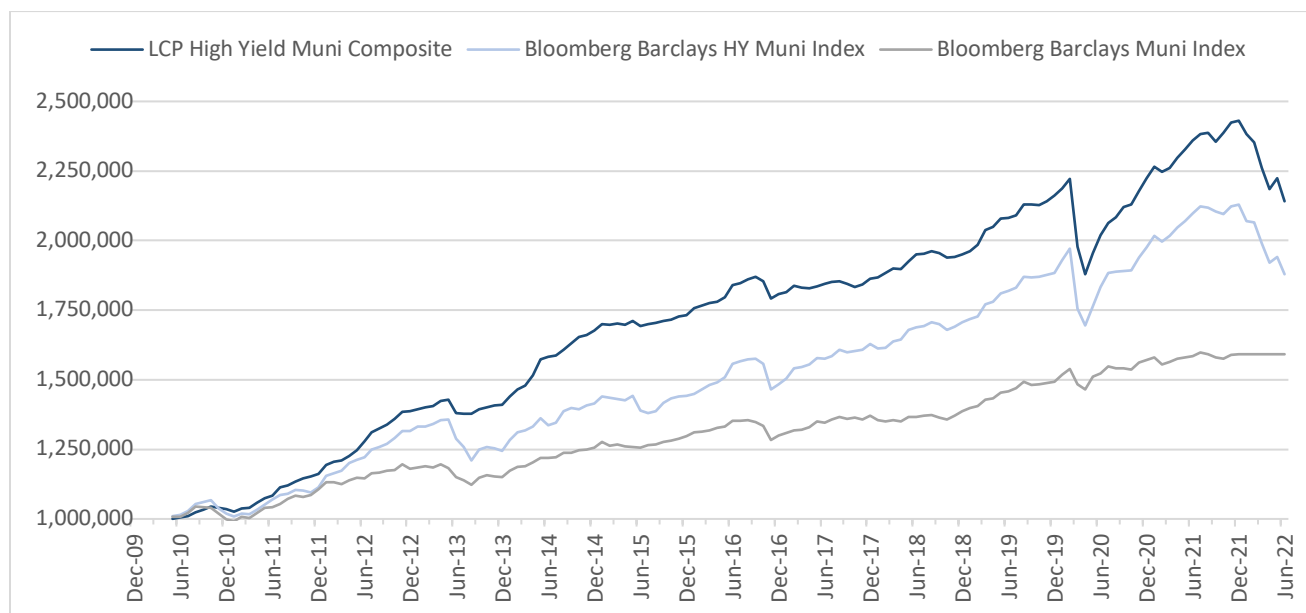
## Lind Capital Partners Municipal High Yield Market Commentary

The secondary market has been equally fragile throughout the year. Time and again, we have reiterated our belief that rate volatility has been driven by inflation fears and has offered significantly more attractive purchase yields compared to the prior year, *while fundamental credit has broadly improved*. Amidst heightened recessions concerns, we have found many high yield municipal sectors (particularly those targeted by LCP), and individual borrowers to be more recession-resistant than high yield corporate sectors and borrowers. In October 2021, LCP participated in the primary issuance for Hallmark University (San Antonio, Texas). The \$24 million financing funded the purchase and renovation of a new main campus building, designed to support enrollment growth. At issuance, municipal fund flows were persistently positive and the deal was 11x oversubscribed by institutional investors, pricing with an initial yield of 4.52%. Shortly after issuance, secondary market trades approached 4.00% yield. Since that time, the University has disclosed operating and financial data that indicate credit *improvement*. Enrollment has increased and the approved budget for the coming fiscal year is ahead of initial projections. However, the bonds are down more than -14% year-to-date. As prices declined, LCP accumulated a larger position in the credit... most recently purchasing bonds at 6.15% (200+ bps higher than the lows, less than 10 months ago). Furthermore, it is our belief that Hallmark University is in a strong position to succeed even in a recessionary environment. The school offers a unique education model; striving to provide a fast-paced, low-cost degree with targeted, well-paying exit careers such as aerospace, nursing, business, and IT. Students complete their degree in 28-months at an average net tuition cost of \$10,000 per year. The result is a university highly ranked for student income mobility. We believe this type of education model will further demonstrate its value should a recession materialize, and students become more acutely aware of the return on their investment in their college education.

As always, we enjoy detailing our perspective on the market opportunity and welcome scheduling either an update or introductory call.

**Milestone:** As of December 2021, LCP celebrated its 11<sup>th</sup> 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 Municipal High Yield Strategy (Through June 30, 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

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@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.

