LCP | LIND CAPITAL PARTNERS

Municipal Market Statistics October 2022

	10-01-22	09-01-22	10-01-21	10-01-19	10-01-17
10-Year AAA BVAL Municipal	3.24%	2.58%	1.12%	1.46%	1.98%
10-Year US Treasury	3.83%	3.11%	1.48%	1.67%	2.34%
10-Year Muni vs. Treasury	85%	83%	75%	87%	85%
IG Fund Flows YTD	($76.4B)	($71.0B)	$69.5B	$51.1B	$3.5B
HY Fund Flows YTD	($15.0B)	($12.6B)	$19.4B	$14.5B	$5.3B
IG (LMBITR) Total Return YTD	(12.13%)	(8.58%)	0.79%	6.75%	4.66%
HY (LMHYTR) Total Return YTD	(16.02%)	(10.31%)	6.53%	9.69%	7.72%
New Issue Calendar YTD	$294B	$263B	$335B	$272B	$273B

Lind Capital Partners Municipal Market Commentary

September proved to be a cruel month for investors across almost all asset classes. Major equity indices were down roughly (10%) for the month, exacerbating losses experienced through August. Year to date returns for equity indices reflect a "bear market" with most losses exceeding 20%. The municipal market has not been immune from losses or volatility, although it has significantly outperformed equity alternatives. Through October 1st the Bloomberg Barclays IG Municipal Index (LMBITR) was down (12%) and the Bloomberg Barclays HY Municipal Index (LMHYTR) was down (16%). After a brief reversal in late July – early August, municipal market sentiment turned and remains decidedly negative.

September brought a significant increase in rates, across the curve. Short term rates rose 80 basis bps, intermediate rates rose 70 bps and long rates 50 bps. Since September 2021, municipal rates have risen anywhere from 215 bps to 300 bps, depending on curve location. Municipal yields are now at the highest levels in the past 10+ years, including the brief COVID spike in March 2020. Retail investors have been fleeing the municipal market throughout the year. As of October 1st, investors have redeemed nearly $100 billion from open-end mutual funds. There are two important implications of this market activity: First, secondary selling via bid wanted has been nearly double 5-year averages and an important outlet for new issues has largely been absent. This has resulted in many new issues having to make **significant** price concessions or delay pricing entirely.

Market illiquidity has risen considerably during this outflow cycle. It has been reported that dealer inventories are down 37% from 5-year averages. The spread among top 3 bidders in the secondary market can be as wide as 75 - 100 bps. Secondary selling is best achieved by appointment, not bid wanted as open end mutual often choose to meet investor redemptions. With retail investors in retreat and the dealer community not deploying capital, investors with cash can dictate prices and yields.

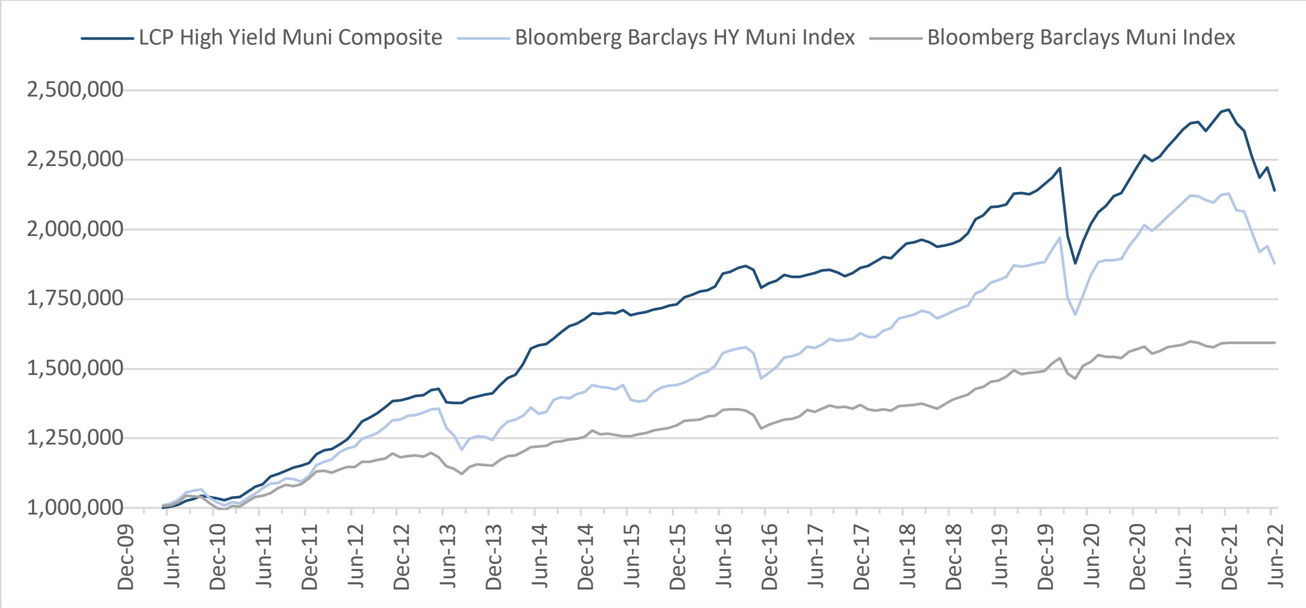
Lind Capital Partners Municipal High Yield Market Commentary

The high yield market has experienced the same challenges as the investment grade market: Persistent outflows, rising rates and limited secondary market liquidity. As we enter Q4-2022, the market environment is likely to remain fragile, particularly given traditionally higher primary issuance for high yield borrowers. As we reference every October, Q4 issuance accelerates in the high yield market as borrowers granted issuing authority face the prospect of "use-it or lose-it" by year end. As a result, pricing becomes a secondary factor to borrowers anxious to access the market and finance their projects before losing their municipal market borrowing capability. Barring a reversal of retail fund flow trends, we expect the rest of the year to present investment opportunities not seen in well over a decade.

Now for the good news. Fixed income investors who increased allocations to riskier asset classes to generate portfolio income can now earn significant tax-exempt income and re-allocate back to the municipal market. The "yield-to-worst" on the Bloomberg HY Municipal Index now exceeds 6.00% for only the third time in the past 5 years and is 300 bps higher than August 2021. At LCP, we estimate new portfolios being populated with tax-exempt yields in excess of 7.00%, or nearly **12% taxable equivalent yield** in our target sectors of the non-rated market. Given the economic uncertainty surrounding inflation and Fed policy combined with the increasing probability of a recession, constructing a municipal bond portfolio generating 7.00% tax-exempt income is certainly attractive from a historical perspective. Prospectively, with major equity indices in bear market territory and prospects for corporate earnings and economic growth unknown, a bond portfolio provides investors a degree of certainty going forward in this year of market turmoil. As municipal bond investors know, if their investment manager is right from a credit perspective, they receive their principal back at maturity, while clipping tax-exempt coupons all along the way.

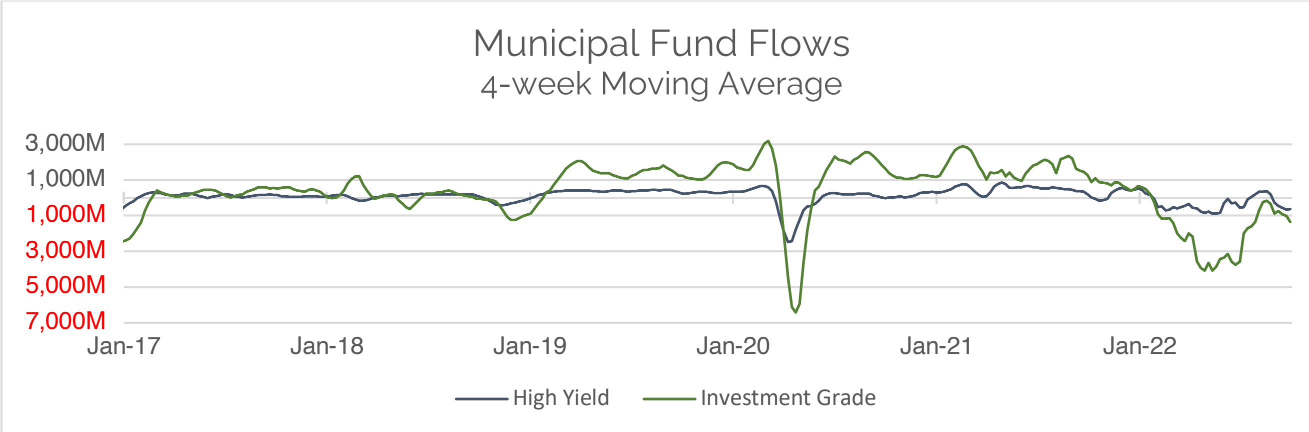
***Milestone:** As of December 2021, LCP celebrated its 11th consecutive year of annual, positive total return. While always confident that our disciplined approach to the high yield municipal market was sound, we are grateful to see our investment thesis confirmed over an extended period.*

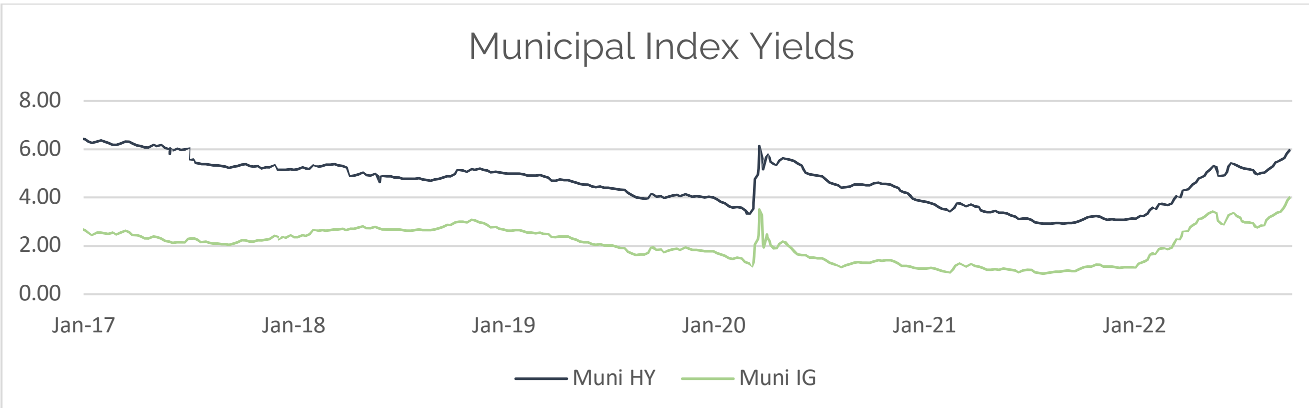
Lind Capital Partners Municipal High Yield Strategy (Through June 30, 2022)

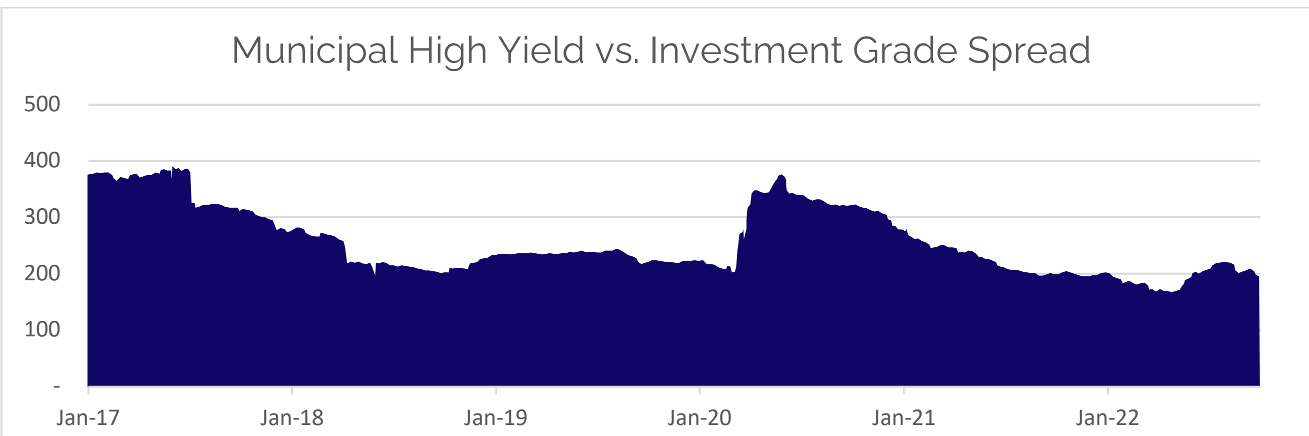


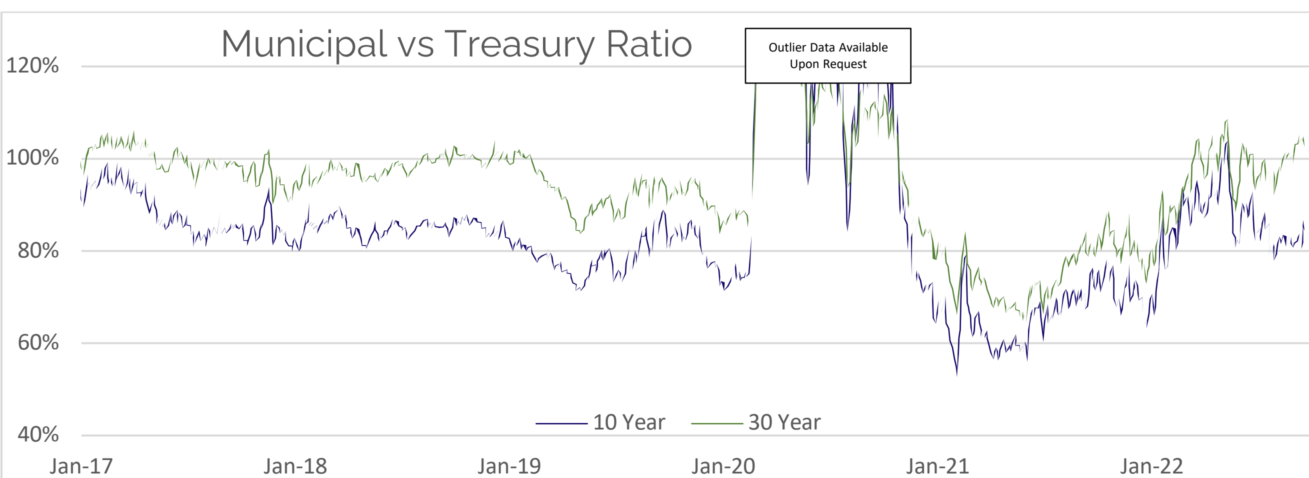
The chart above shows the increase in value of $1,000,000 invested in the LCP composite at inception (net of management fees and expenses) vs. the benchmark, the Bloomberg High Yield Muni (LMHYTR) as well as the Bloomberg Muni (LMBITR) indices (it is not possible to invest in either Bloomberg Index). 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









Sources: Refinitiv and Bloomberg LP