Intermediate Maturity Muni

Commentary – Third Quarter 2019

Macro Overview

The notable decline in interest rates during the second quarter, driven primarily by market anticipation of Federal Reserve rate cuts, extended into Q3. The FOMC followed through over the period (July & September) with two 25bps cuts primarily implemented to offset downside risks from ongoing trade disputes, with weaker global growth and stubbornly low inflation already weighing on their minds. Treasury yields plunged in August with the 10-yr yield touching 1.47% while the 30-yr hit an all-time low of 1.95%; trading below 2% for the first time ever. Interest rates did push higher in the first part of September amid rumors that positive developments were being made ahead of October U.S.-China trade talks. However, the longer-term trend of lower yields quickly reemerged with heightened political discord surrounding the current impeachment inquiry.

- FOMC statement continued to show optimism around the job market and overall growth, however the decision to cut rates was based on "implications of global developments for the economic outlook as well as muted inflation pressure."
- Median Fed Dot forecasts suggest no further action by the Fed, however the dispersion of dots indicates there could be more cuts coming in Q4. Fed Fund futures call for two additional cuts (October & December).
- Significant uncertainty surrounds the rare impeachment inquiry as it is likely to impact everything from trade talks to global financial markets to polling for the 2020 elections.

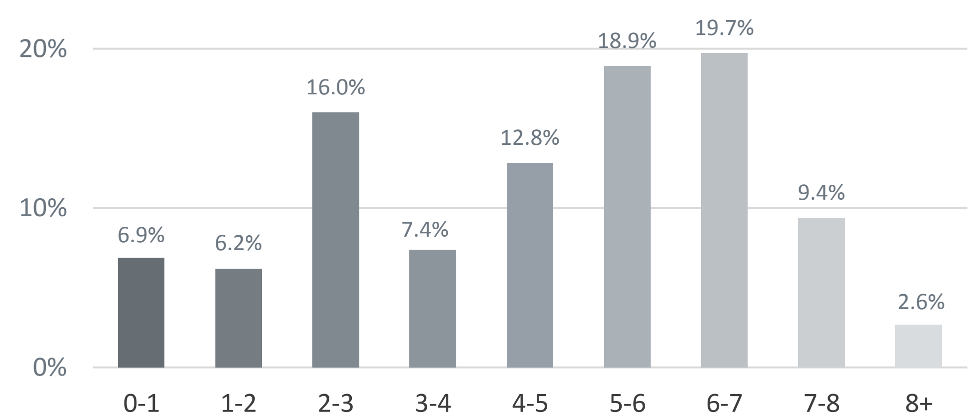
Market Dynamics

The story remained the same for munis during Q3 in regards to demand. Lipper reported inflows of $1.6 billion into the space for the week ending September 25, the 38th consecutive week of inflows. Not only is that a record breaking number of consecutive weeks, but the total dollars flowing in is equally impressive. Over $68 billion entered the market over those 38 weeks, roughly 20% more than the prior YTD record. Even as muni rates touched record lows during the quarter, demand for tax-free paper remained resolute. Total muni issuance is up 14% YTD vs. the same period last year, partially driven by an increase in taxable issuance. As interest rates declined this quarter, issuers began to refund outstanding tax-exempt debt with taxable bonds since the TCJA (Tax Cut and Jobs Act) eliminated the ability to issue tax-exempt advance refunding bonds.

Duration Profile

Composite Characteristics

Duration: 4.63 yrs
Yield-to-Worst: 1.59 %
Yield-to-Maturity: 1.91 %
Maturity: 7.20 yrs



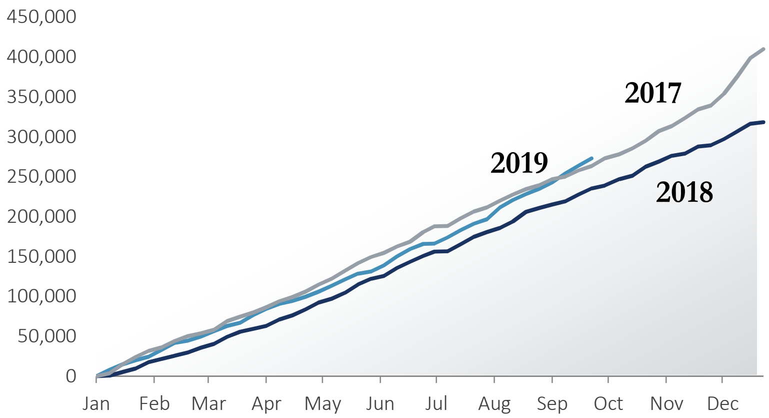
INTERMEDIATE MATURITY MUNI

COMMENTARY – THIRD QUARTER 2019

PERFORMANCE NOTES

The Bloomberg Barclays 1-15 Year Municipal Index posted a total return of -0.81% during the month of September but was up 1.13% for the quarter, bringing the year-to-date total return to 5.58%. The Intermediate Maturity Municipal strategy performance was in-line with the benchmark for the quarter with longer duration assets generally posting higher total returns over the period. Our decision to extend portfolios earlier in the year continued to be beneficial and has helped capture better returns in maturities beyond 10 years. While absolute yields have pushed lower during the sustained rally this year, performance has also benefitted from the continuous spread compression in sub-5% coupon bonds, which we identified last year as an attractive opportunity to capture incremental yield for client portfolios (vs. traditional 5% coupons).

TOTAL MUNICIPAL ISSUANCE YOY ($BLN)
SOURCE: BLOOMBERG



"Muni-to-UST ratios rose in the latter half of Q3 due to an increase in supply, but

we expect subdued Q4 issuance and strong demand

will likely push ratios back toward recent lows."

10 YR MMD YIELD (%)
SOURCE: BLOOMBERG

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