Intermediate Maturity Muni

Commentary – Fourth Quarter 2019

Macro Overview

2019 wrapped up with renewed optimism for a possible phase one trade deal between China and the United States. This, in part, helped U.S. equities stage an impressive Q4 rally, bringing returns for the full year above 30% (S&P 500). The Federal Reserve continued easing during the quarter, cutting overnight interest rates an additional 25bps at their October meeting. In total, the Fed cut rates 3 times (75bps cumulative) during the year, a stark reversal from their policy stance heading into 2019. Bond yields ended Q4 marginally higher; however, for the calendar year rates were lower by approximately 90bps on the front-end of the curve and nearly 80bps out 10 years. Looking ahead, the Fed appears to be on hold while the U.S. economy remains on stable footing, but global economic weakness persists.

- Recent geopolitical risks in the Middle East and any renewed political posturing ahead of signing a trade deal are the most likely catalysts for market volatility heading into Q1 '20.
- Markets have largely dismissed the House's decision to impeach the President, labeling it political gamesmanship. Popular narrative suggests there are not enough votes in the Senate to convict President Trump.
- The Fed remains constructive on U.S. job market and overall growth; their most recent forecast sees GDP up 2% in '20. Fed Funds forecasts suggest the Fed will be on hold in '20 with a single hike taking place in '21.

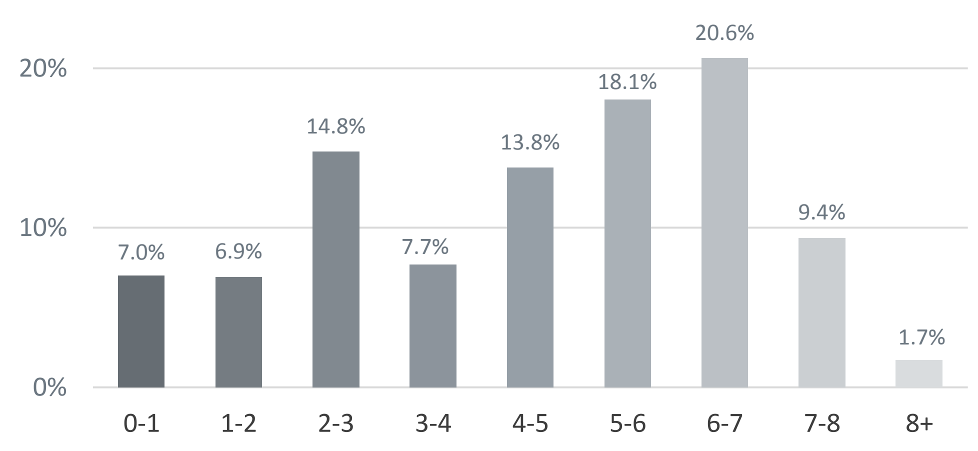
Market Dynamics

A surge in primary market supply late in the year did little to dampen market technicals or overall municipal performance as demand remained resilient. A notable shift to taxable muni issuance from traditional tax-exempt paper helped offset the effects of elevated supply as issuers took advantage of low absolute treasury rates to advance refund debt. The market experienced investor inflows for 52 consecutive weeks in 2019, representing $93bln in aggregate and eclipsing the previous high of $78bln in 2009. Muni yields plunged in 2019 led by the long-end of the curve, which declined by nearly 100bps from just over 3% to nearly 2%. These moves outpaced Treasury yield declines, causing Muni/UST ratios in the 10-yr and 30-yr tenors to approach their richest levels of the decade.

Composite Characteristics

Duration: 4.58 yrs
Yield-to-Worst: 1.53 %
Yield-to-Maturity: 1.85 %
Maturity: 7.17 yrs

Duration Profile



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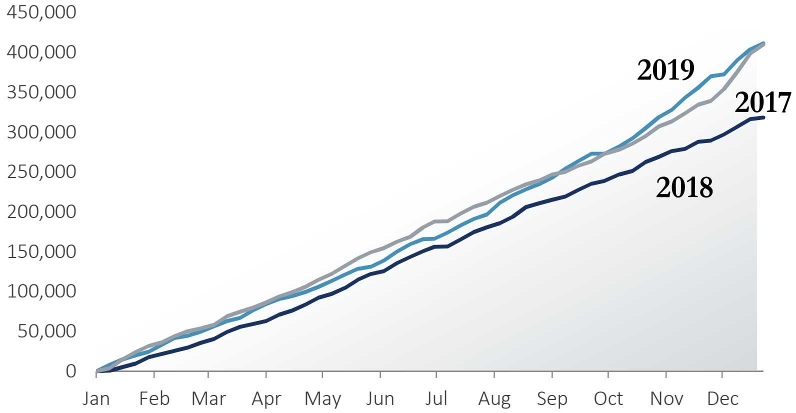
Performance Notes

The Bloomberg Barclays 1-15 Year Municipal Index posted positive total returns each month during Q4 and was up 0.81% for the period, bringing the year-to-date total return to 6.43%. The Intermediate Maturity Municipal strategy performance was in-line with the benchmark for the quarter with longer duration assets again 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, particularly in maturities past 10 years. Although headline figures suggest total issuance for the year was approximately $420bln, nearly $70bln of that total was taxable, meaning true tax-exempt issuance was only around $350bln. Record inflows into munis easily absorbed this supply and contributed to the continued spread compression seen throughout the year.

Total Municipal Issuance YoY ($Bln)

Source: Bloomberg



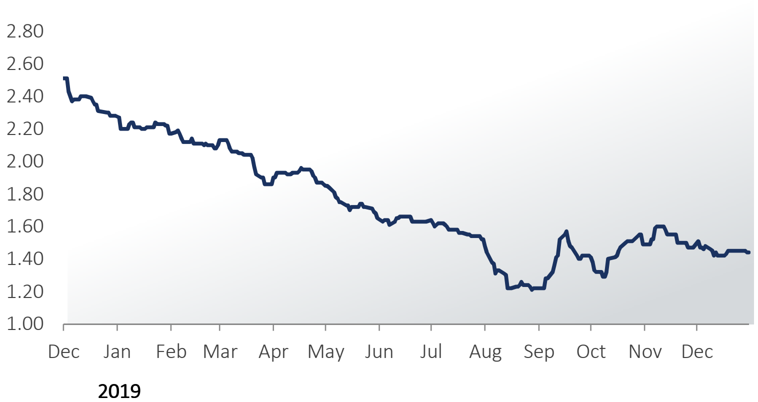
"The Bloomberg Barclays 1-15 Year Municipal Index returned 6.43% for calendar year 2019

the second best level (8.45% in 2011)

of total returns in the decade."

10 YR MMD Yield (%)

Source: Bloomberg



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