



INTERMEDIATE MATURITY MUNI



COMMENTARY – FIRST QUARTER 2020

MACRO OVERVIEW

Simply put, financial markets were in complete disarray in March as the spread of COVID-19 paralyzed the global economy. US equities had their worst Q1 ever with the S&P and Dow down approximately 20% and 23%, respectively. Sovereign bond yields plummeted across the curve as the risk-off trade intensified throughout the quarter. Yields on the 2, 10, and 30 year UST were lower by 132bps, 125bps, and 106 bps, with 10s and 30s reaching all-time lows. The Fed took drastic measures in March, cutting its benchmark interest rate to zero while simultaneously launching a massive round of quantitative easing that included \$700 billion of asset purchases. Meanwhile, Congress moved quickly to pass a \$2+ trillion coronavirus emergency aid package in an attempt to soften the economic impact on American workers and businesses.

- Oil prices plummeted more than 60% in the quarter after Saudi Arabia and Russia failed to reach an agreement on production, leading to an all-out price war amid weakening demand during the pandemic. Without a diplomatic breakthrough, the price war could continue well into 2020.
- With approximately 311 million people in 41 states being urged to shelter in place and businesses large and small shuttering daily, unemployment rates have exploded. Street estimates for GDP declines in Q2 range from -8% to as much as -40%.
- With a recession looming, the depth and breadth (and ensuing recovery) will depend on 1) the progression and spread of the virus and 2) the fiscal and monetary responses. Have the Fed and Congress done enough, or are additional stimulative measures required?

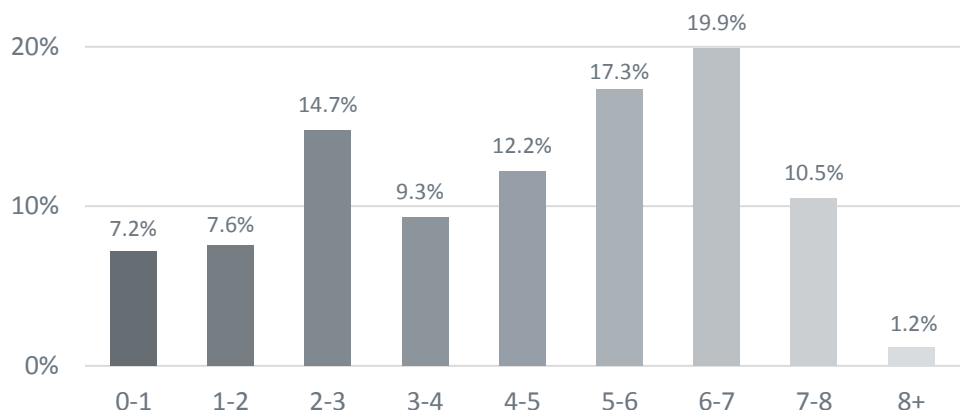
MARKET DYNAMICS

Municipals decoupled from US Treasuries during the quarter as investors sold bonds to raise cash and offset losses in other asset classes. After 60 consecutive weeks of inflows, Munis had significant outflows in March, including a record \$12 billion in one week. Liquidity became strained during the outflow period, and yields rose sharply over just a few trading sessions, especially on the front end. Conditions were exacerbated by forced mutual fund selling as they looked to offload their shortest holdings seeking to preserve NAV. Muni-to-Treasury ratios ended the quarter at 442% in 2yrs, 202% in 10yrs, and 151% in 30yrs - levels not seen since 2008. With the Fed now expanding its asset purchases to include municipals, we believe liquidity will continue to stabilize and ratios will revert back over time to more historically normal levels.

COMPOSITE CHARACTERISTICS

Duration: 4.51 yrs
 Yield-to-Worst: 1.56 %
 Yield-to-Maturity: 1.90 %
 Maturity: 7.09 yrs

DURATION PROFILE





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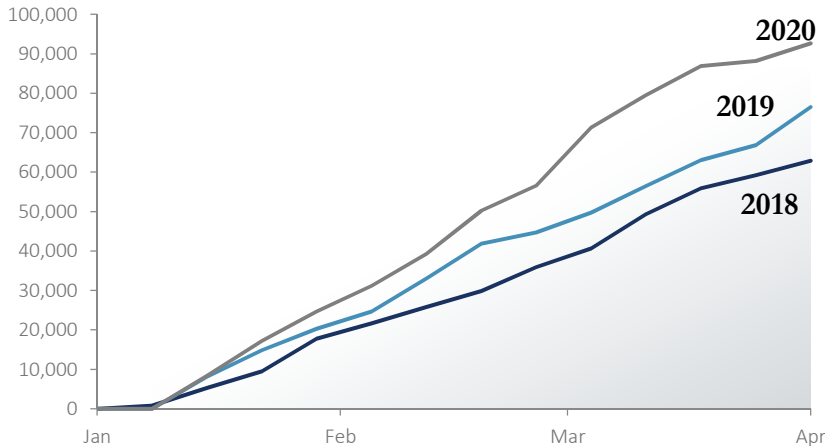


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PERFORMANCE NOTES

The Bloomberg Barclays 1-15 Year Municipal Index posted positive total returns in January and February but negative March performance brought total return for the quarter to -0.50%. The Caprin Intermediate Maturity Municipal strategy outperformed the benchmark for the quarter as our shorter overall average maturity and larger allocations to highly-rated credits within highly-rated states benefitted the portfolios. Passage of the CARES Act in March helped ease some of the volatility, but we do expect uncertainty to persist in the near-term as market participants seek insight on how municipal economies will fare after the pandemic. Looking ahead, the focus turns to credit where the higher-quality, essential purpose revenue and GO-backed bonds from fiscally responsible issuers held in our strategies should remain in favor during this period.

TOTAL MUNICIPAL ISSUANCE YOY (\$BLN)
SOURCE: BLOOMBERG



“Spreads on **ALL** bond sectors moved higher as investors sold Treasuries, Corporates and Munis to hold US Dollars, offset losses in other asset classes and meet margin calls.”

10 YR MMD YIELD (%)
SOURCE: BLOOMBERG



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