Intermediate Maturity Muni

Commentary – First Quarter 2021

Macro Overview

Passage of a $1.9 trillion stimulus package coupled with the expanding vaccine rollout over the quarter saw optimism build for an emerging domestic economic recovery. Equity indices overcame bouts of volatility, but ultimately both the S&P and Dow recorded all-time highs. Intermediate to longer-term bond yields pushed considerably higher as investors began betting on rising price pressures due to improving demand and continued supply constraints. Yields in this part of the curve were higher by more than 80bps, the largest quarterly increase since Q4 2016. However, the front-end of the curve remained anchored near-zero, driven by accommodative Fed policy. In its March meeting, the Fed reaffirmed the central bank's commitment to support the ongoing recovery and noted that any future changes to policy would be well-telegraphed.

- Indicators of economic activity and employment have turned up recently; although the sectors most adversely affected by the pandemic remain weak, there are still approximately 9.5 million fewer jobs now than a year ago.
- The Fed believes higher inflation expectations will be short lived. FOMC projects a slight increase in PCE during Q2, which they believe will soon decline and run at or below 2% through 2023.
- GDP growth for '21 should be robust as states and businesses reopen and stimulus money works into the economy. Current estimates see 5-6% full-year growth for '21, declining to 4% in '22 and back to 2% in '23.
- Median Fed forecasts continue to show no increase to the Fed Funds Rate through 2023, however, two additional governors moved their initial hike estimates into 2022 from 2023. That now makes 7 out of the 18 officials seeing an earlier hike.

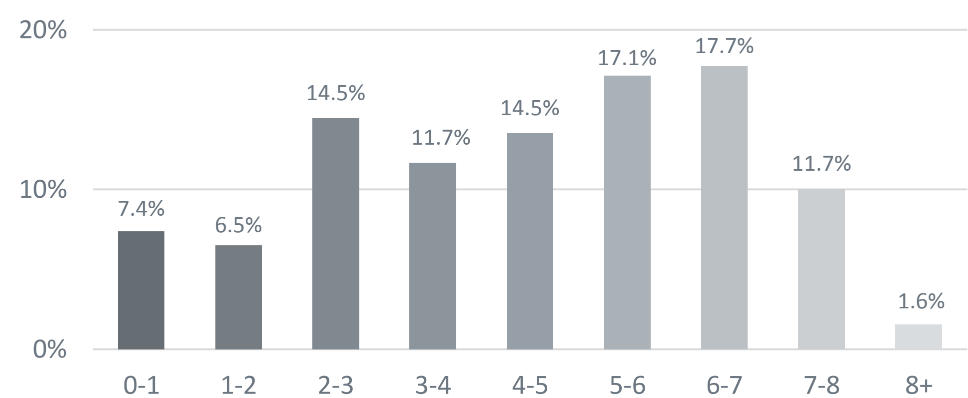
Market Dynamics

As more timely financial data continued to become available in Q1, it now appears a large number of municipal issuers fared more-favorably than originally anticipated during the height of the pandemic. However, two rounds of massive federal relief certainly contributed to the "outperformance". The direct aid to issuers under the ARP and CARES Act was largely used to mitigate deficits and preserve liquidity, bolstering issuers' finances as the country continues to slowly reopen. Although yields drifted higher in Q1, municipals notably outperformed their taxable counterparts. Demand remained robust over the period, with $31 billion of fund inflows, driven by improving issuer financial conditions and expectations of higher tax policies. Credit spreads continued to compress, especially in higher-yielding sectors, as new money into the asset class sought incremental yield.

Composite Characteristics

Duration: 4.49 yrs
Yield-to-Worst: 0.98%
Yield-to-Maturity: 1.44%
Maturity: 7.13 yrs

Duration Profile



INTERMEDIATE MATURITY MUNI

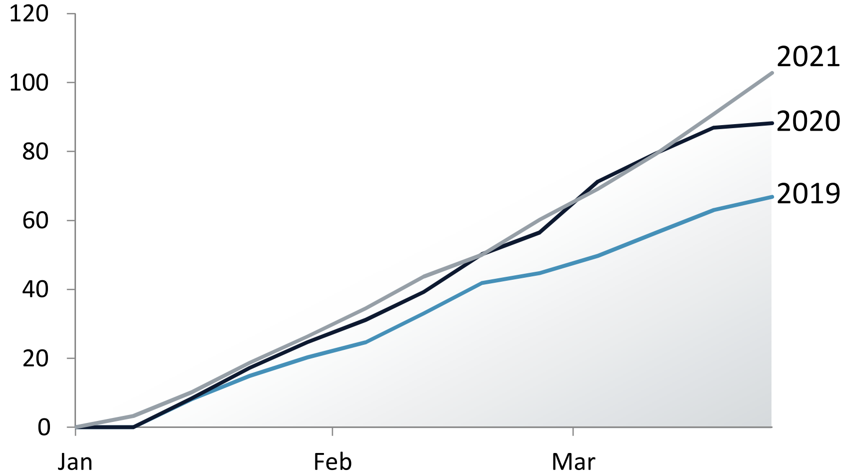
COMMENTARY – FIRST QUARTER 2021

PERFORMANCE NOTES

Despite positive returns in January and March, the Bloomberg Barclays 1-15 Year Municipal Index was negative for February, bringing total return for the quarter to -0.32%. A correction to somewhat higher muni yields and more reasonable ratios had been overdue in our view. The Intermediate Maturity Municipal strategy underperformed marginally over the course of the quarter. Our overweight to higher-quality credits within fiscally sound states was a detractor, as credit spreads on lower-rated names compressed more meaningfully due to increased demand for yield. Although there has been improvement broadly, we believe many issuers will continue to face financial pressure because of the shutdowns last year. Thus, we remain selective on credit and will avoid chasing yield by taking unnecessary credit risk.

TOTAL MUNICIPAL ISSUANCE YOY ($BLN)

SOURCE: BLOOMBERG



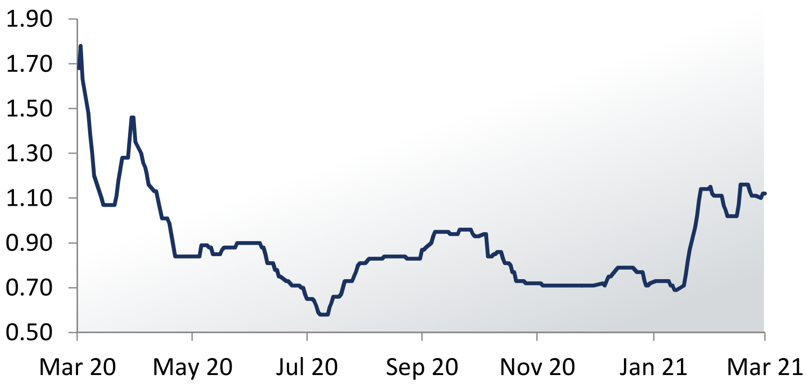
“Attention now turns to President Biden’s proposed $2.25 trillion American Jobs plan,

which should positively impact supply/demand technicals.

Higher tax rates on corporations and individuals will increase the value of the municipal tax-exemption, pushing investor demand higher.”

10 YR MMD YIELD (%)

SOURCE: BLOOMBERG



CONTACT US

804.648.3333

WWW.CAPRINBONDS.COM

Media Contact:
aplotkin@caprinbonds.com