



# INTERMEDIATE MATURITY MUNI



## COMMENTARY – SECOND QUARTER 2021

### MACRO OVERVIEW

As the percentage of US adults with at least one vaccine dose climbed above 67% to end the quarter, the US economy continued its fast-paced reopening. Soaring consumer demand aided by \$1.9 trillion in stimulus has fueled the recovery; however, producers are struggling to keep pace, resulting in rising inflationary pressures on goods from building materials to grocery items. The question now is whether these price increases are indeed transitory or more permanent in nature. The Fed’s inflation projections increased meaningfully between their March and June meetings, now forecasting headline inflation to rise to 3.4% in ‘21, but moderate to around 2.0% over the next several years. Intermediate- and longer-term UST yields rallied approximately 30bps over the course of Q2 as market participants seemed to agree with this assessment.

- The Fed’s June Dot Plot shows most FOMC participants expect two Fed Funds rate hikes by the end of 2023, with nearly half the governors seeing a single hike in 2022.
- The Fed is confident the recent inflation surge is transitory, though participants are “keeping an eye on” long-term inflation expectations in case they become unanchored.
- Employment recovery continues to lag as job openings hover near record highs. Some are questioning whether Federal supplemental unemployment benefits may be keeping a large percentage of the workforce at home.
- GDP estimates for 2021 are now approximately 6.5%, with the biggest increase in Q2 at nearly 13% yoy. Growth is expected to steadily decline to 4% in 2022 and 2.5% in 2023.

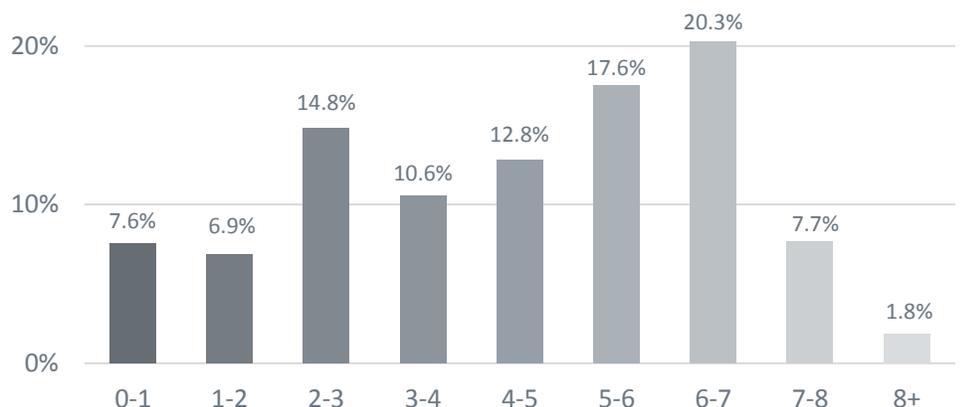
### MARKET DYNAMICS

The improving US vaccination rate during Q2 was a catalyst for a healthier municipal credit landscape. Even those sectors hit hardest by covid-related shutdowns such as Airport and Transportation have shown marked improvement as passenger traffic moves closer to pre-pandemic levels. Investor demand has also remained robust while primary supply has come in below expectations. Year-to-date fund inflows of \$58 billion would be among the highest full-year inflows since inception of the data in 1992. Demand has been driven largely by the anticipation of higher individual and corporate tax rates under the Biden administration. These strong technicals have compelled further credit spread compression, keeping Muni-to-UST ratios rich on a historical basis. Attention now turns to President Biden’s infrastructure plan and whether the proposed \$1.9 trillion spending initiative will generate much needed new issue supply in the market.

### DURATION PROFILE

#### COMPOSITE CHARACTERISTICS

Duration: 4.47 yrs  
 Yield-to-Worst: 0.88%  
 Yield-to-Maturity: 1.35%  
 Maturity: 7.07 yrs





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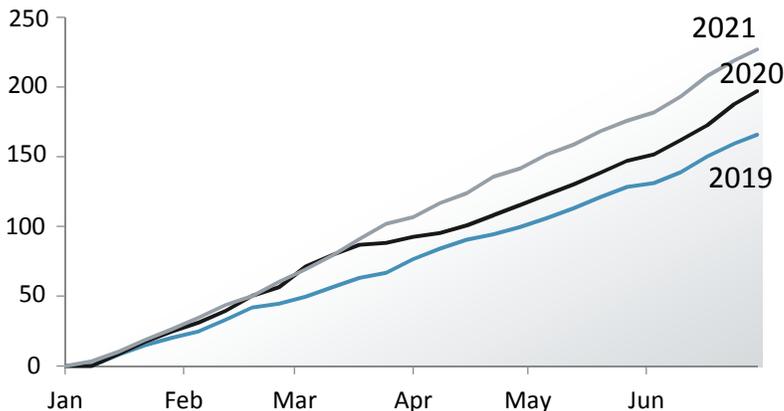
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### PERFORMANCE NOTES

The Bloomberg Barclays 1-15 Year Municipal Index posted positive returns in each month during Q2, bringing total return for the quarter to 0.90%. After drifting higher in Q1, muni yields rallied across the curve, with longer-dated tenors seeing the largest moves. 20 and 30 year Munis were lower by 23bps and 25bps, respectively. The Intermediate Maturity Municipal strategy performed in-line with the benchmark over the quarter. Our overweight to higher-quality credits within fiscally sound states detracted modestly as the reach for yield continued to force spreads tighter on lower-rated names. However, our slightly longer duration relative to the benchmark proved to be additive as longer maturity bonds moderately outperformed over the quarter.

#### TOTAL MUNICIPAL ISSUANCE YOY (\$BLN)

SOURCE: BLOOMBERG

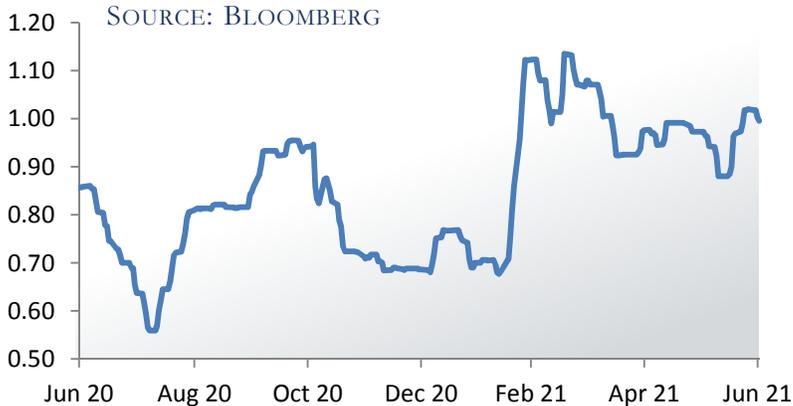


“Despite the lower Muni-to-UST ratio environment, we find it hard to identify any triggers that could lead to material spread widening over the near-term.

We expect credit spreads to remain tight through the end of the year as demand will continue to outpace supply.”

#### 10 YR MMD YIELD (%)

SOURCE: BLOOMBERG



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