



INTERMEDIATE MATURITY MUNI



COMMENTARY – THIRD QUARTER 2021

MACRO OVERVIEW

Eighteen months into the rapid economic recovery off pandemic-related lows, the US economy continued to improve over the quarter, although at a moderating pace. The spread of the Delta variant prompted a slowdown in hiring and consumer spending, while some inflationary pressures persisted for longer than anticipated. At its September meeting, the Fed reiterated its intent to begin tapering asset purchases in Q4 '21, and conclude by mid '22. Fed median forecasts now imply one rate hike in '22, however eight governors still forecast no increases in '22, suggesting uncertainty on the appropriate path for monetary policy. Although there was a quick uptick late in the period, UST yields were largely unchanged for the quarter while the S&P ended effectively flat driven by a ~5% selloff during September.

- GDP estimates for full year '21 have softened recently, now forecasted around 5.9%. Growth is then expected to steadily decline from there to 4% in '22 and 2.5% in '23.
- Inflation pressures have intensified as the Fed-preferred Core PCE reached 3.6% in August. However, these elevated readings are being disproportionately driven by several sectors still experiencing covid-related supply bottlenecks.
- Meaningfully higher front-end yields are still unlikely in the near-term as the Fed remains committed to employment recovery, is comfortable with higher short-term inflation readings, and has well-telegraphed the upcoming tapering.
- The administration continues to have trouble gathering support for a large infrastructure spending and tax package. It appears a smaller plan will be a more likely outcome, however, a larger social spending agenda could still be passed through the budget reconciliation process.

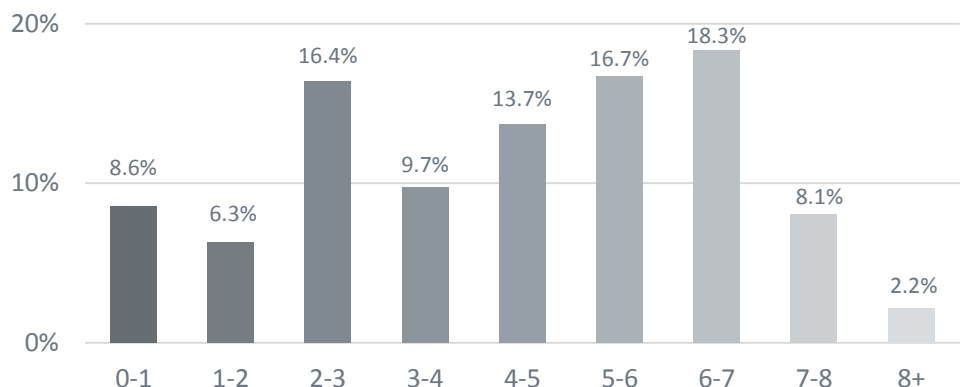
MARKET DYNAMICS

Municipal yields were steady over the quarter before intermediate and longer-term rates rose over the last few trading sessions. The quick move higher was a result of heightened US Treasury volatility after what many perceived to be a more hawkish statement from the Fed following their September meeting. For the period, yields on the front end of the muni curve remained reasonably flat, while yields on the 10YR and 30YR portions of the curve were higher by 14 bps and 17 bps, respectively. Looking forward, we maintain a slightly more defensive posture amid tight credit spreads and moderating near-term demand trends. However, we view any cheapening as an opportunistic buying scenario, as longer-term demand for tax-exempt income will likely continue, driven in large part by proposed tax increases.

DURATION PROFILE

COMPOSITE CHARACTERISTICS

Duration: 4.39 yrs
 Yield-to-Worst: 0.93%
 Yield-to-Maturity: 1.40%
 Maturity: 6.96 yrs





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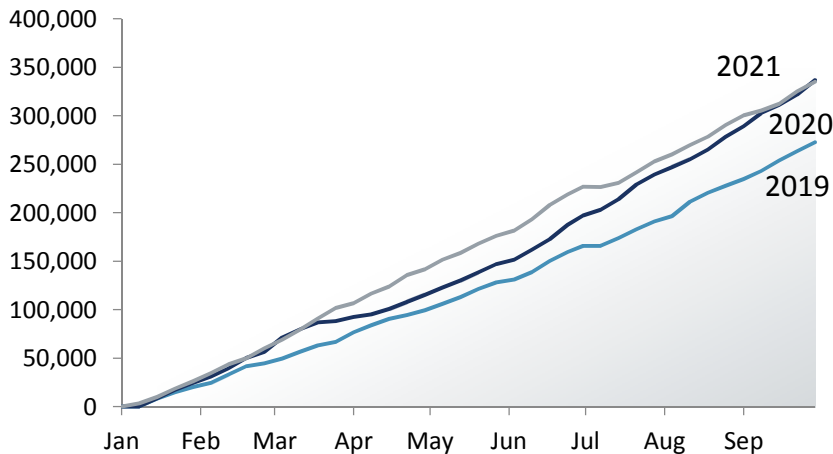
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PERFORMANCE NOTES

The Bloomberg Barclays 1-15 Year Municipal Index posted negative returns in August and September, bringing total return for the quarter to -0.09%. The Intermediate Maturity Municipal strategy slightly underperformed the benchmark over the course of the quarter. Our overweight to higher-quality credits within fiscally sound states served as a mild detractor as lower-rated credits realized further spread compression throughout much of the quarter. However, headwinds are starting to appear that could cause some spread normalization to occur. Of note is a moderation of mutual fund inflows as investors more fully evaluate the current political, fiscal and monetary landscapes. Our consistent and deliberate approach to managing risk should help client portfolios navigate these uncertain times.

TOTAL MUNICIPAL ISSUANCE YOY (\$BLN)

SOURCE: BLOOMBERG



“Record inflows into munis have driven credit spreads to historically tight levels.

Recently, we believe investors have become lackadaisical on credit selection and are overlooking the lack of yield pick up on the down-in-credit trade.

We continue to favor higher quality, more liquid names.”

10 YR MMD YIELD (%)

SOURCE: BLOOMBERG



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