August 2020

MUNIWATCH
FIXED INCOME RESEARCH

After remaining unchanged for much of June, Municipals rallied in July, with yields falling to new record lows across most of the curve. Munis outperformed Treasuries and Corporates and the Muni to Treasury ratio, a common valuation metric that has been essentially meaningless since the market dislocation in March, has returned to more normal levels. Muni Mutual Fund inflows have continued for 11 consecutive weeks and cash from coupon and maturity payments led to strong demand, as we have expected. While rates are at historic lows, the curve remains steep, which offers an opportunity in the longer end of the curve. We continue to recommend higher quality sectors and credits, especially if taking added duration risk.

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Munis Rally to Record Low Yields

Muni yields were sharply lower in July, falling by roughly 15-25 bps across the curve (graph, top-right), to fresh record lows in 1 to 20 years. Munis outperformed Treasuries and Corporates as cash from continued Mutual Fund inflows ($11.5 billion in July, according to Lipper) combined with seasonally elevated coupon and maturity payments ($39 billion in July and $36 billion in August, according to Bloomberg) led to strong demand against the limited supply typical of the summer season.

Muni to Treasury Ratio Returns to Normal Levels

A widely used Muni valuation metric, the AAA Muni to Treasury Ratio, lost most of its relevance at the onset of the market dislocation in March as Muni yields reached over 1000% of Treasury yields in some parts of the curve. As the market continues to stabilize, this ratio has returned to more normal levels, falling closer to 100% on the short end as of July 31 (graph, middle-right), and below 70% through the first week of August.

Curve Steepness

Although yields have fallen to historic lows, the curve remains steep (graph, bottom-right).

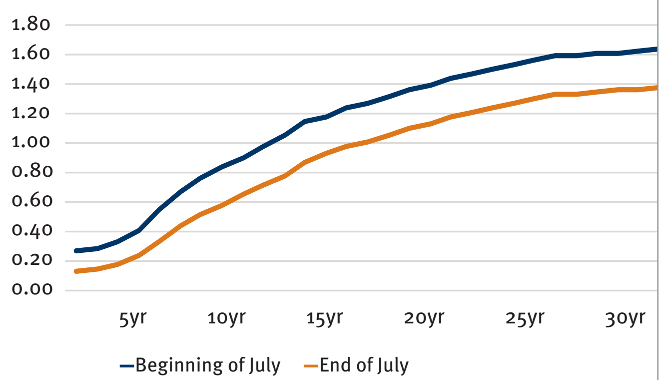
As of July 31, the yield pickup between:

- 1 and 5 years is 14 bps vs. 6 bps 2019 average
- 1 and 10 years is 55 bps vs. 37 bps 2019 average
- 1 and 30 years 127 bps vs. 107 bps 2019 average

With the curve this steep, we are finding opportunities to pick up extra yield in the longer end of the maturity range for our strategies. We continue to recommend higher quality essential service revenue sectors and credits, especially if taking additional duration risk.

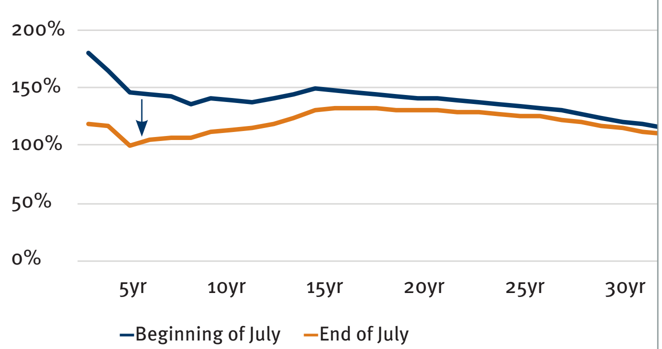
AAA MUNI YIELD CURVE

Source: Refinitiv TM3. Data as of July 31, 2020.



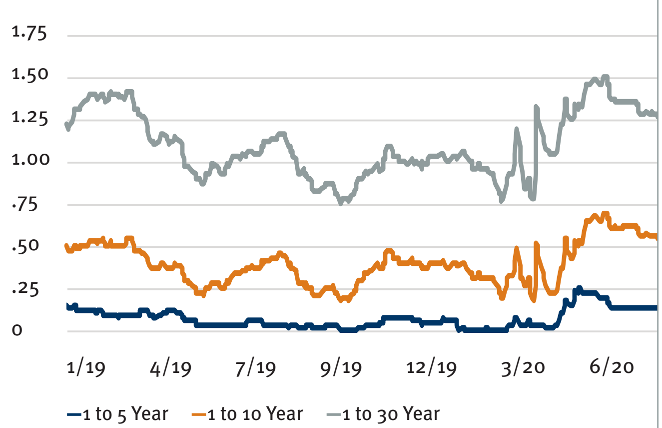
PERCENT AAA MUNI YIELD OF US TREASURY YIELD

Source: Refinitiv TM3, Bloomberg. Data as of July 31, 2020.



AAA MUNI SLOPE

Source: Refinitiv TM3. Data as of July 31, 2020.



SEPARATELY MANAGED ACCOUNTS
PROFESSIONAL PORTFOLIO MANAGEMENT

Washington Crossing Advisors' separately managed account programs provide investors with access to the management team who for the past 20 years have worked together as market strategists and portfolio managers.

In addition, since these programs are offered only through investment professionals, financial advisors can provide individualized monitoring of portfolio manager performance.

Portfolio Customization

Separate accounts can be tailored to address individual investors' needs — focusing on risk tolerance and long-term investment objectives. Investors can specify certain parameters to customize their accounts, such as excluding certain securities or sectors, due to social, political or environmental concerns, and managing the portfolio to help reduce tax liabilities.

Individual Security Ownership

Ownership has its privileges: investors own each individual security held in a separate account. Sell decisions are made by portfolio management based on the investment portfolio and are not affected by the redemption needs of anyone except the individual account owner.

Tax Advantages

When investing through a separately managed account, investors pay taxes only on the capital gains that they actually realize. Individual securities in the account are owned directly, allowing investors to work with their tax advisor and financial advisor to implement tax-efficient investing strategies.

FEATURED STRATEGY

1-10 Year Municipal Ladder (BPGCMT)

The Washington Crossing Advisors' Laddered Municipal Bond SMA Portfolio offers investors better control over exposure to interest rate risk, predictable cash flow, and the opportunity to help manage an everchanging interest rate environment.

Philosophy

We believe that stable long-term returns are achieved through bottom-up credit research and issuer diversification.

Process

The securities chosen for the Washington Crossing Advisors' Laddered Municipal Bond SMA Portfolio undergo a thorough selection process. The portfolio management team emphasizes fundamental analysis and employs a disciplined review process that focuses on a comprehensive analysis of the issuer's creditworthiness, valuation, liquidity, and each bond's unique factor footprint.

Buy/Sell Discipline

Positions are sold if our evaluation of credit quality deteriorates and/or the risk of a potential rating downgrade increases.

Construction

The Washington Crossing Advisors' Laddered Municipal Bond SMA Portfolio will invest in investment grade municipal fixed-income securities laddered across consecutive maturities from one to ten years. When a bond matures, it will be replaced with a bond having the longest maturity in the strategy's range. The portfolio may invest in callable bonds, which if called prior to maturity, will generate a need to reinvest in a manner that will maintain the composition and risk profile of the portfolio.

About Washington Crossing Advisors | Washington Crossing Advisors is a registered investment advisor and wholly-owned subsidiary of Stifel Financial Corp. WCA helps supervise and manage over $5 billion in discretionary assets for individuals and institutions. Proprietary strategies include equity, fixed income, balanced, and asset allocation.

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