September 2020

MUNIWATCH
FIXED INCOME RESEARCH

Municipal yields drifted higher in August after falling in July, with the curve steepening in concert with U.S. Treasuries. Muni Mutual Fund inflows have continued for 15 consecutive weeks, taking in another $11 billion in August. The curve remains steep, especially in the six- to 10-year area, where we're finding opportunities to pick up additional yield while not adding significant additional duration risk. Credit spreads remain elevated but have narrowed from their peak, signifying a "reach" for yield.

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Muni Yields Drift Higher

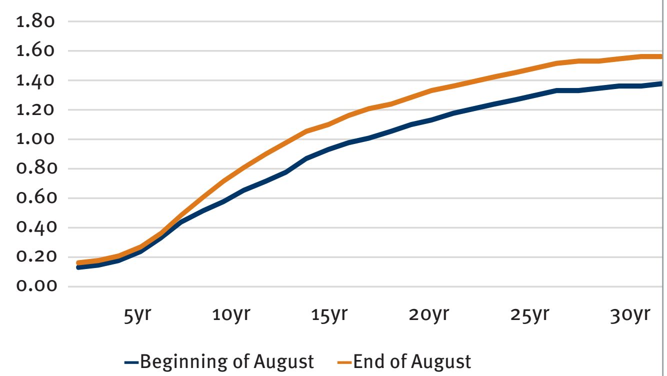
Muni yields rose in August and the curve steepened, rising 3 bps in five years, 16 bps in 10 years and 19 bps in 30 years (graph, top-right). Although yields rose, Munis outperformed Treasuries and Corporates as Mutual Fund inflows continued ($11 billion in August, according to Lipper). The steepest part of the curve is between six and 12 years, where yields rise by an average of 10 bps per year. We're finding opportunities in this "sweet spot," where we're able to achieve 67% of the 30-year yield while taking only 61% of the duration risk (graph, middle right).

Credit Spreads Begin to Narrow

While still elevated, credit spreads have narrowed in recent weeks from their peak in June, signifying increased demand for these lower-rated credits, even though fundamental weakness still exists as a result of the coronavirus. A good example of this is the New York City MTA, which became the second issuer behind the State of Illinois to utilize the Federal Reserve's Muni Liquidity Facility due to its deteriorating credit profile. As we've mentioned in previous reports, investors may be tempted to "reach" for yield by taking excess credit risk. In this uncertain market, we continue to emphasize careful sector and individual credit selection and remain focused on credits backed by essential service revenues.

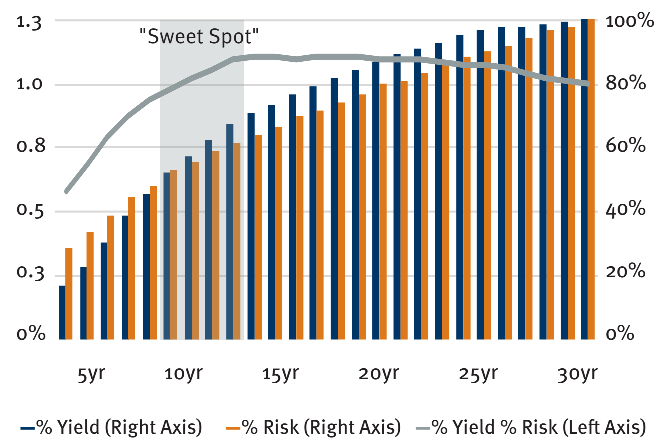
AAA MUNI YIELD CURVE

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



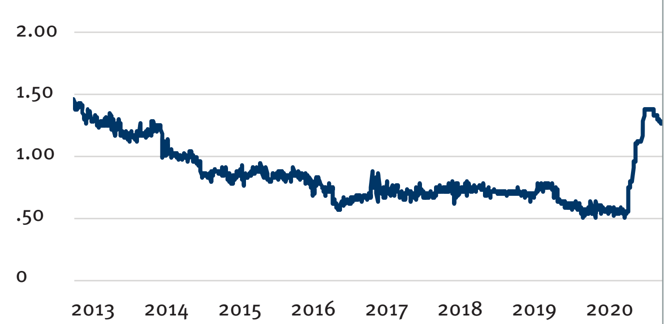
AAA MUNI % YIELD AND % RISK OF 30-YEAR BENCHMARK

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



5-YEAR BBB MUNI SPREAD 2013-PRESENT

Source: Refinitiv TM3. Data as of August 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.

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Bond laddering does not assure a profit or protect against loss in a declining market. Yields and market values will fluctuate, and if sold prior to maturity, bonds may be worth more or less than the original investment. Asset allocation and diversification do not ensure a profit and may not protect against loss. There are special considerations associated with international investing, including the risk of currency fluctuations and political and economic events. Investing in emerging markets may involve greater risk and volatility than investing in more developed countries. Due to their narrow focus, sector-based investments typically exhibit greater volatility. Small company stocks are typically more volatile and carry additional risks, since smaller companies generally are not as well established as larger companies. Property values can fall due to environmental, economic, or other reasons, and changes in interest rates can negatively impact the performance of real estate companies. When investing in bonds, it is important to note that as interest rates rise, bond prices will fall. High-yield bonds have greater credit risk than higher-quality bonds. The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage that is often obtainable in commodity trading can work against you as well as for you. The use of leverage can lead to large losses as well as gains.

All investments involve risk, including loss of principal, and there is no guarantee that investment objectives will be met. It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager. Equity investments are subject generally to market, market sector, market liquidity, issuer, and investment style risks, among other factors to varying degrees. Fixed Income investments are subject to market, market liquidity, issuer, investment style, interest rate, credit quality, and call risks, among other factors to varying degrees.

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