Municipal Bond Investor Weekly

High Net Worth Wealth Solutions and Market Strategies // Fixed Income Solutions

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THE WEEK AHEAD

1. Markets will be watching the Fed favorite inflation measures, Personal Consumption Expenditures, due out on Friday. Expectation is 2.8%, with general indications of weakness as reported in various Beige Book reports recently. Any significant deviation will move markets.
2. Consumer confidence is also due this week --- expecting signs of weakness even as consumers keep spending for the holidays.
3. This is effectively the last week to get things done in muni-land for 2023. Trading next week will be extremely thin.

MONDAY'S COMMENTARY

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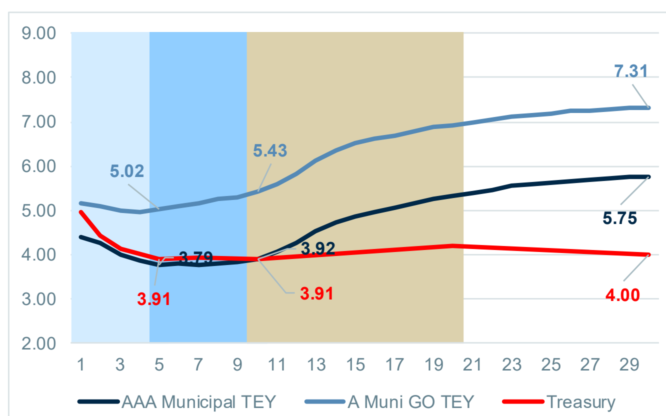
THE NUMBERS THIS WEEK

Bonds rallied last week taking yields sharply lower. The Treasury curve finished 18 to 33 basis points lower with both the 5- and 10-year Treasuries falling below the 4.00% threshold and the 30-year closing right at 4.00%. Municipal bonds rallied as well with the benchmark AAA curve dropping in yield by 19 to 20 basis points across the curve.

Year		Treasury	Municipal (AAA)	Municipal (A)	Municipal TEY* (AAA)	Municipal TEY* (A)	Muni (AAA)/Tsy Ratio	Muni TEY* (AAA)/Tsy Ratio
1	2024	4.95	2.60	3.06	4.39	5.16	53%	89%
2	2025	4.44	2.52	3.02	4.26	5.10	57%	96%
5	2028	3.91	2.24	2.97	3.79	5.02	57%	97%
10	2033	3.91	2.32	3.21	3.92	5.43	59%	100%
20	2043	4.19	3.15	4.10	5.32	6.92	75%	127%
30	2053	4.00	3.41	4.33	5.75	7.31	85%	144%

*Taxable equivalent yield @ 40.8% tax rate



DON'T LET THE GRINCH ANCHOR YOUR EXPECTATIONS

It was only a fortnight ago in our Grinch-filled December 4th MBIW that I invoked the spirit of the holiday misanthrope to highlight how dramatic November was for bond investors. In case you didn't notice, yields have gone from the "top of Mount Crumpit" on a 100+ basis point slide to, and through, 4%. We were hoping for some joy in Muni-ville (yields stabilizing or moving higher), but the Grinch apparently has some tricks left up his red-coat sleeves!

The Treasury market extended its rally: the yield on the 10-year Treasury moved 29 basis points lower, from 4.20% thru 4% --- ending the week at 3.91%. The move lower followed the FOMC meeting last week, where a cautiously optimistic Chair Powell --- while denying any claim of victory over inflation --- suggested the committee actually uttered the word, "rate cuts," or at a minimum indicated such through the lower dot plots for 2024. The market took that to mean the die is cast. We know the Fed will cut rates, the question is when. Time will tell --- we've seen markets reverse course before!

As the Treasury market rallied, so did munis, with yields lower by a similar ~30 basis points across the curve. The 10 year AAA muni yield reached 2.34%. That brought the relative value of 10 year munis to 10 year Treasuries to just a fraction below 60% --- three percentage points lower than on December 4th. With all the market dynamics we've been discussing in recent MBIWs, its hard to see muni yields move appreciably higher into year end or early January 2024.

We've probably banged the drum too many times warning clients not to try and "time the top" on interest rates. **What's equally important is that clients don't get anchored to recent market levels.**

We've heard too many stories from investors saying, "I only buy 5s at par." Well, over the last 20 years --- we're talking about more than 5,000 trading days --- the 10 year Treasury closed over 5% on fewer than 100 trading days. That's just 2% of the time over the last 20 years. **The average yield over 20 years is 2.90% --- today we are more than 100 basis point above the 20 year average (see chart below.) As an investor, if you choose to anchor your expectations for attractive bond yields on events that happen only 2% of the time, you are bound to miss great investing opportunities.**

Even though rates are off the peak of this year, there's still plenty of opportunity in the current market. As highlighted in the chart, over the last 20 years, the 10 year Treasury has only been over 4.00% fewer than 1 in 4 trading days --- 75% of the time rates are lower than current levels. In the muni market, **tax exempt muni yields of 3% are**

equal to taxable equivalent yields of 5%+ for clients in the top Federal tax bracket and subject to the net investment income tax. For clients in states with income taxes, the benefits are even greater.

Don't get anchored on what was, and miss out on what can be! ***That would be a good theme for 2024 investing!!***

This is our final MBIW for 2023. We'll publish our Annual Outlook on January 2, 2024. As we prepare our comments, observations and outlooks, we'll be digesting our fair share of humble pie having now completed a tumultuous 2023. We'll still maintain our commitment to providing you with simple, thoughtful, timely analysis to help you make better investment decisions to preserve your hard-earned wealth. We'll always focus on what lies ahead, not backward-looking benchmarks. As we like to say, ***Our Only Benchmark is Yours.***

For now, we want to extend our very best wishes this holiday season to our financial advisors and clients. We couldn't do our jobs every day without you. It is our privilege to work with you to develop customized investment solutions, to meet your life goals, and for future generations to come. Enjoy this holiday season and may 2024 be filled with happiness, good health and continued success! **Happy Holidays, Merry Christmas and a Joyful New Year!**

ILLUSTRATIVE PORTFOLIOS

Our illustrative proposals reflect three opportunities along the yield curve with bonds maturing from 1 to 20 years. Municipal bonds rallied last week, moving yields lower by roughly 10 to 15 basis points across the curve. Strategically, for investors looking to lock in long-term, reliable tax-efficient cash flow, our duration focused 10–20-year maturity illustration continues to offer an excellent tax efficient solution. The average yield to worst is ~3.14%, which equates to a **taxable equivalent yield to worst of ~5.30%** for an investor in the top federal tax bracket and subject to the net investment income tax. If the callable bonds are not called, the yield to maturity increases to ~3.66%, which equates to a **taxable equivalent yield to maturity of ~6.18%**. This is a solution with 4-5% coupon bonds with an average coupon of 4.45% and a market price of ~$108.20. The **current yield is ~4.11%**. An investment with $1 million par value ($1.09 million market value) will generate a federally tax-exempt annual coupon cash flow of ~$44,500.

National Municipal Bond Illustrative Portfolios

Week of December 18, 2023

1 – 10 Years

Totals & Averages @ Market	
Summary Totals	
Original Face	$1,000,000
Current Face (Par)	$1,000,000
Market Principal	$1,057,640
Accrued Interest	$10,758
Cash & Cash Alternatives	$0
-	-
-	-
Total Portfolio Value	$1,068,398
Next 12mo Cpn Cash Flow	$41,000
Generic Annual Cpn Cash Flow	$42,000
Weighted Averages	
Coupon*	4.200%
Maturity**	5.07 yrs
Duration	3.38
Yield to Worst	2.688%
Yield to Maturity	2.936%
Market Price*	105.764
Tax Lots Holdings Included	20 of 20

5 – 15 Years

Totals & Averages @ Market	
Summary Totals	
Original Face	$1,000,000
Current Face (Par)	$1,000,000
Market Principal	$1,092,920
Accrued Interest	$11,607
Cash & Cash Alternatives	$0
-	-
-	-
Total Portfolio Value	$1,104,526
Next 12mo Cpn Cash Flow	$44,500
Generic Annual Cpn Cash Flow	$44,500
Weighted Averages	
Coupon*	4.450%
Maturity**	8.99 yrs
Duration	5.16
Yield to Worst	2.729%
Yield to Maturity	3.147%
Market Price*	109.292
Tax Lots Holdings Included	20 of 20

10 – 20 Years

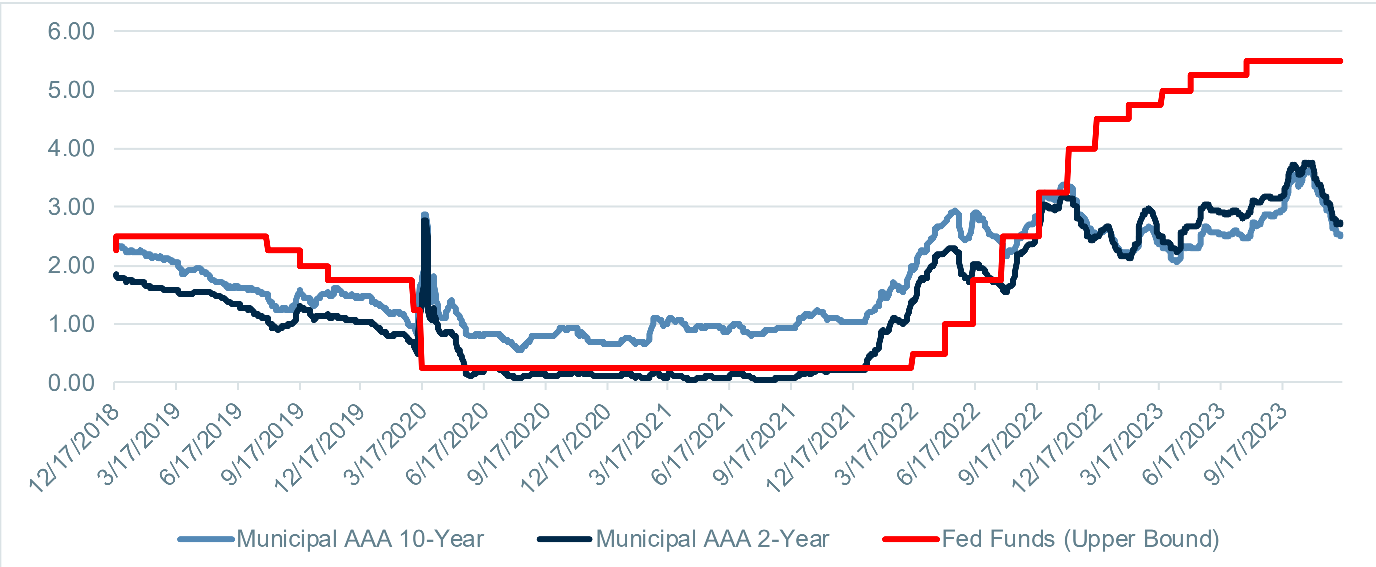
Totals & Averages @ Market	
Summary Totals	
Original Face	$1,000,000
Current Face (Par)	$1,000,000
Market Principal	$1,081,980
Accrued Interest	$11,632
Cash & Cash Alternatives	$0
-	-
-	-
Total Portfolio Value	$1,093,612
Next 12mo Cpn Cash Flow	$44,500
Generic Annual Cpn Cash Flow	$44,500
Weighted Averages	
Coupon*	4.450%
Maturity**	14.02 yrs
Duration	5.81
Yield to Worst	3.139%
Yield to Maturity	3.661%
Market Price*	108.198
Tax Lots Holdings Included	20 of 20

*Par-Wtd, all else Mkt-Wtd.

NAVIGATING TODAY'S MARKET

New issuance is expected to be light this week according to The Bond Buyer, with just $1.6 billion expected. There are only two deals larger than $100 million on the calendar this week: Connecticut (Aa3/AA-/AA-) is selling $840 million in general obligation bonds and the California Public Finance Authority (Aa3/AA) is bringing a $351 million revenue refunding deal for Sharp Healthcare. See table below for additional new issuance.

HISTORICAL YIELDS



Date	Amount	Issuer	ST	Description	Moody's/S&P/Fitch	Maturity
12/18	$176MM	State of Connecticut	CT	General Obligation Refunding Bonds	Aa3 /AA- /AA-	3/1/25-34
12/18	$250MM	State of Connecticut	CT	General Obligation Bonds (2024 Series B)	Aa3 /AA- /AA-	1/15/37-44
12/18	$400MM	State of Connecticut	CT	General Obligation Bonds (2024 Series A)	Aa3 /AA- /AA-	1/15/25-37
12/19	$3MM	Housing Finance Authority of Lee	FL	Multifamily Housing Revenue Bonds	Aaa / /	12/1/2027
12/19	$17MM	Housing Finance Authority of Lee	FL	Multifamily Tax-Exempt Mortgage-Backed		1/1/2040
12/19	$17MM	Housing Finance Authority of Lee	FL	Multifamily Housing Revenue Bonds (Aria	Aaa / /	8/1/2025

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Sourced from Bloomberg: Treasuries: US Fed H15 CMT Curve - The H15 curve is comprised of the constant maturity treasury rates as published daily by the Federal Reserve in the H15 report. Municipal (AAA): BVAL Municipal AAA Yield Curve (Callable) - The curve is populated with high quality US municipal bonds with an average rating of AAA from Moody's and S&P. The yield curve is built using non-parametric fit of market data obtained from the Municipal Securities Rulemaking Board, new issues, and other proprietary contributed prices. The curve represents 5% couponing. The 3 month to 10 year points are bullet yields, and the 11 year to 30 year points are yields to worst for a 10-year call. Municipal (AA): US General Obligation AA Muni BVAL Yield Curve - The BVAL curve is populated with pricing from uninsured AA General Obligation bonds. Municipal (A): US General Obligation A+ A A- Muni BVAL Yield Curve - The BVAL curve is populated with pricing from uninsured A+, A, and A-rated General Obligation bonds. Fed Funds (Upper Bound): The federal funds rate is the short-term interest rate targeted by the Federal Reserve's Federal Open Market Committee as part of its monetary policy. US Treasury securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance.

The illustrative portfolios are intended as a starting point for a conversation on individual bonds. They are not intended as specific recommendations and bonds are shown for illustration purposes only. The bonds listed in the illustrative portfolios are rated A or better, with average ratings from Moody’s and Standard and Poor’s of Aa2 / AA. The yields shown in the proposals are based on pricing models, not current market offers. Yields shown are indicative of general market levels but are not a guaranteed result. Prices and yields are not inclusive of any fees or commissions.

US Treasury securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value. The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ. The NASDAQ Composite is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance.

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