

Update on Municipal Market Liquidity



As of March 12, 2020

There is considerably less liquidity in the municipal bond market today. Municipal/Treasury ratios are above 200%. As we assess the scope of the panic-selling due to COVID-19 concerns, some of our initial observations are included below:

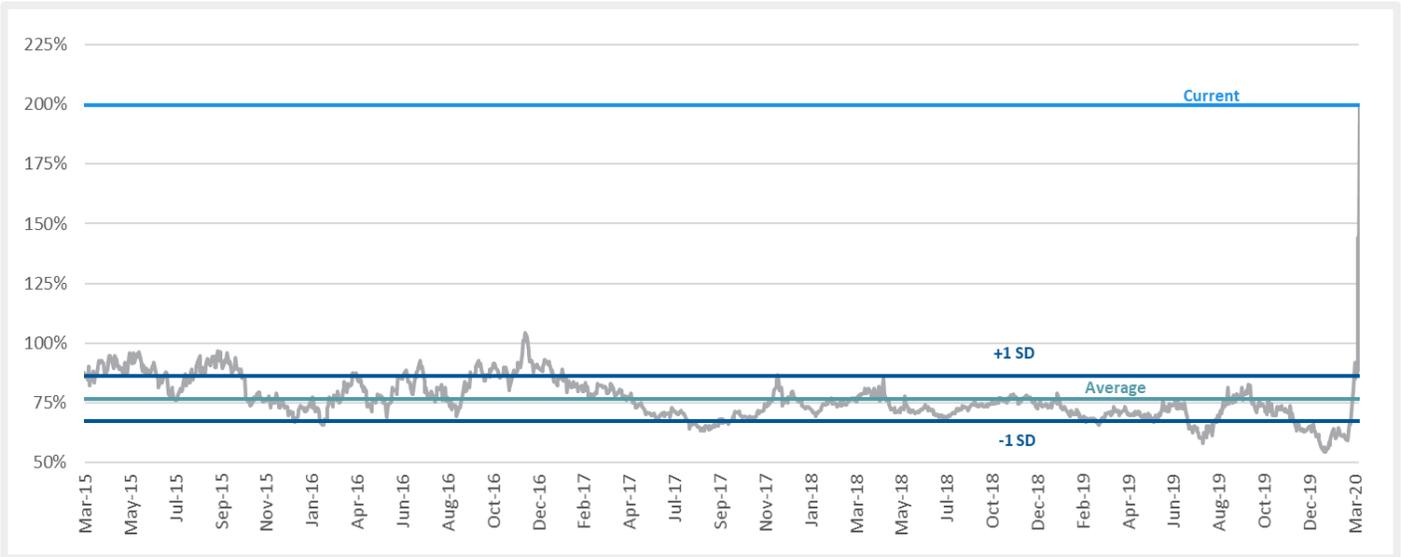
- Most dealers are currently not bidding on municipals. The market volatility has left them unable to hedge their positions. Their risk departments are tapping them on the shoulder to sell positions and lighten up.
- We hear that other buy side managers are frozen. Absolute yields and market volatility have put them on the sidelines. “Deer in the headlights” has been used by some of our trading partners.
- There are multiple large bid lists but very few items appear to be trading.
- Fund flows were a bit negative last week, and from the bid lists we are seeing from others such as large mutual fund complexes we believe they are experiencing redemptions. They are selling some of their higher quality names. This is reminiscent of other times when there were large redemptions and the funds tried to sell their most liquid, high quality names in an effort to raise cash and not take the hit as all credit spreads widened. We have seen large blocks of high-quality names such as Delaware GO and Maryland GO out for the bid.
- Although the fund flows we track from Lipper don’t publish daily flows, one other reporting service (EPFR) is showing about \$1.3bn in outflows the past 2 days.

Kenneth Potts
Senior Vice President, Portfolio Manager

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Senior Vice President and Portfolio Manager, Head of Trading

As always, we will do our best to provide liquidity as needed. However, we would recommend holding off on selling municipals if liquidity is not needed at the moment. We also believe this is an opportunity to buy municipals, given the significant cheapening.

5 Year AAA Muni / Treasury Ratio



AAA Muni / Treasury Ratio By Maturity

	1 YR		3 YR		5 YR		10 YR
Current	411%	Current	222%	Current	200%	Current	247%
Average	73%	Average	76%	Average	77%	Average	88%
Std Dev	18%	Std Dev	12%	Std Dev	9%	Std Dev	10%
Minimum	42%	Minimum	56%	Minimum	55%	Minimum	69%
Maximum	411%	Maximum	222%	Maximum	200%	Maximum	247%

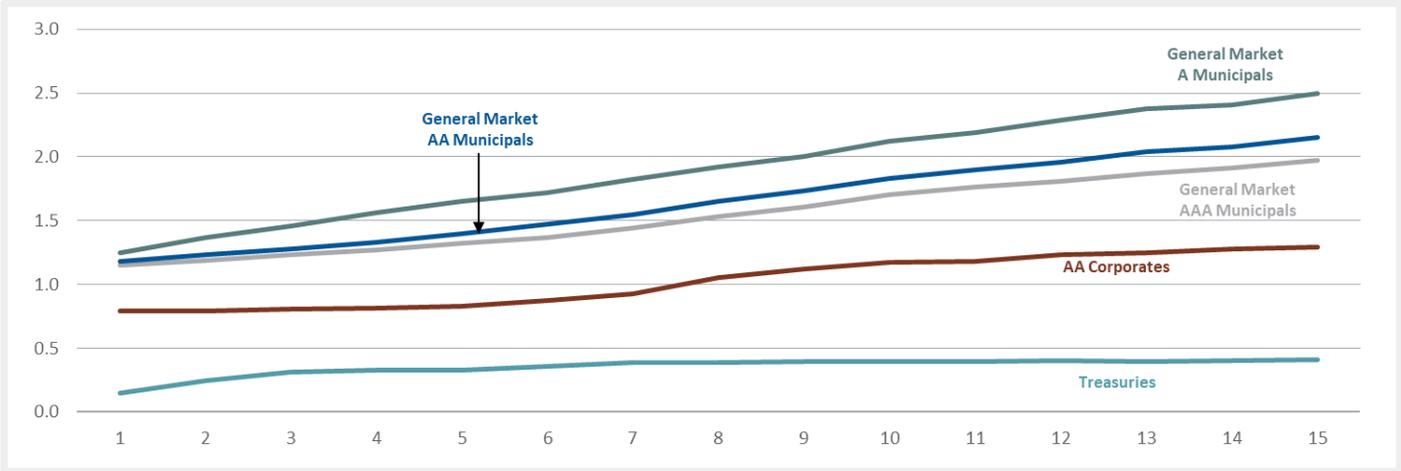
Source: Thomson and JP Morgan as of March 12, 2020.

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As of March 12, 2020

After-Tax Yield Curves at Max Federal Tax Rate (40.8%*)



	1 YEAR	3 YEAR	5 YEAR	7 YEAR	10 YEAR	15 YEAR
Treasuries Taxed @ 40.8%*	0.15%	0.31%	0.33%	0.39%	0.40%	0.41%
GM AAA Municipals	1.15%	1.23%	1.32%	1.44%	1.70%	1.97%
GM AA Municipals	1.18%	1.28%	1.40%	1.55%	1.83%	2.15%
GM A Municipals	1.25%	1.46%	1.65%	1.82%	2.12%	2.50%
AA Corporates @ 40.8%	0.79%	0.80%	0.83%	0.92%	1.17%	1.29%

*Tax rate includes 37% maximum federal tax rate plus a 3.8% health care surtax.
 Sources: Bloomberg, Thomson, Merrill Lync as of March 12, 2020. It should not be assumed that the securities identified were or will be profitable.

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