IR+M INCOME RESEARCH + MANAGEMENT

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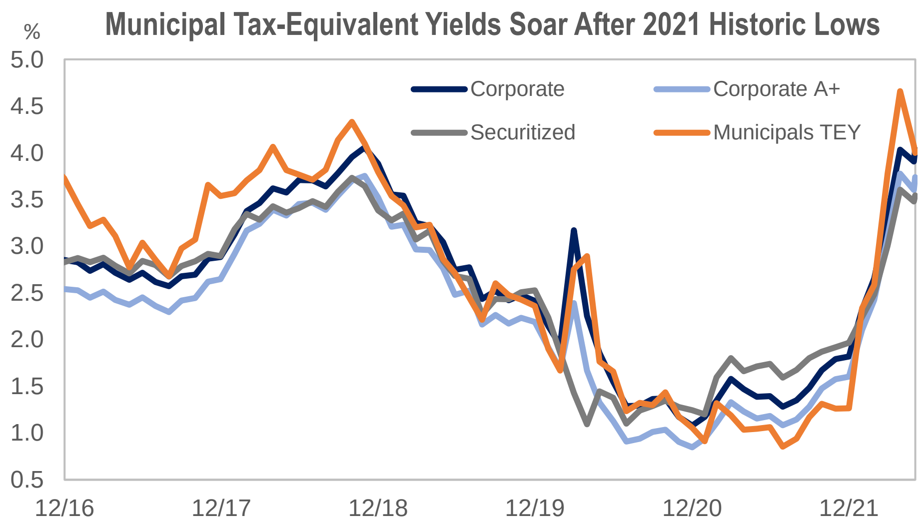
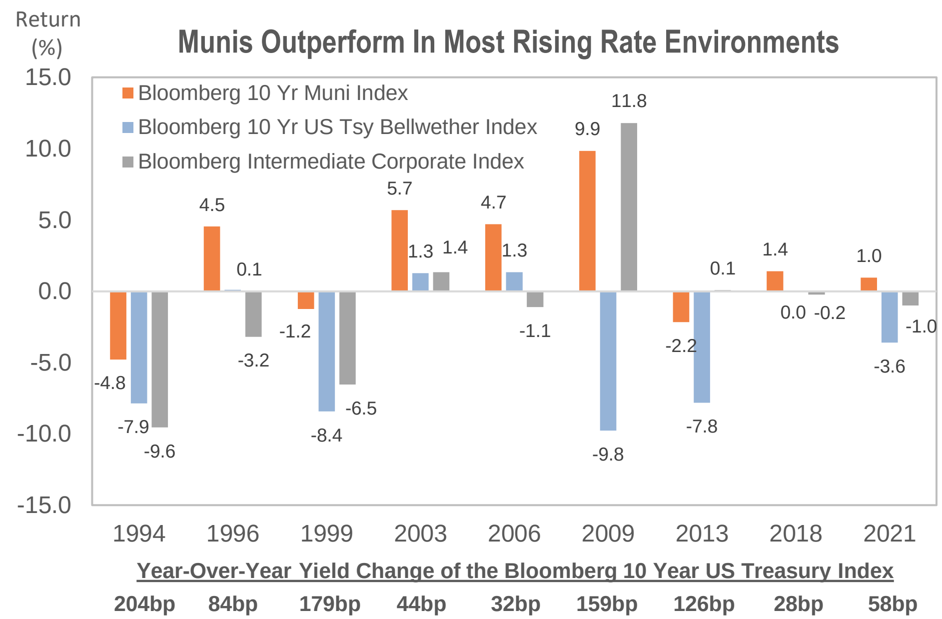
The Rising Value of Tax Exemption





- In 2021, muni/Treasury ratios declined to historic lows, and municipal bonds looked expensive relative to many taxable options. In 2022, the narrative has changed. Year-to-date, muni/Treasury ratios have reversed course and risen significantly, presenting an attractive relative value opportunity to add to the municipal sector. Investors are taking notice, with municipal fund flows recently turning positive for the first time in 2022.

- Municipal credit remains fundamentally sound, now more than pre-pandemic, with tax collections and federal stimulus buttressing state and local governments' balance sheets. Default rates continue to be low, and the prospects for elevated individual tax rates are high – both of which are positives for municipal bonds. This summer, investor demand is expected to exceed supply, given that June, July, and August are typically the municipal market's largest redemption months.

- As Treasury rates continue to march higher, so does the value of municipal bonds' tax exemption. Looking back as far as 1994, in all but two of 12 rising rate environments, municipal bonds have outperformed relative to Treasuries and corporates. Historically, munis have tended to perform well after large outflow cycles, which in recent years have been driven by a myriad of factors – Meredith Whitney, the 2020 election, and the pandemic, to name a few. The signs suggest that now could be a good time to come back to the municipal market.

Source: Bloomberg as of 6/3/22 and 12/31/21. Chart on left as of 6/3/22: Securitized shows the Bloomberg US Securitized Index, Corporates A+ and Corporates show the Bloomberg Intermediate Corporate Ex Baa Index and Bloomberg Intermediate Corporate Index, respectively, and the Municipals Tax Equivalent Yield (TEY) shows the Bloomberg Municipal 1-10 Year Blend Index taxable equivalent yields at the historical individual tax rates (40.8% from 2018 – present, 43.4% before 2018). Chart on right as of 12/31/21.The views contained in this report are those of IR+M and are based on information obtained by IR+M from sources that are believed to be reliable but IR+M makes no guarantee as to the accuracy or completeness of the underlying third-party data used to form IR+M's views and opinions. This report is for informational purposes only and is not intended to provide specific advice, recommendations, or projected returns for any particular IR+M product.