Aquila Tax-Free Trust of Oregon

PORTFOLIO MANAGER COMMENTARY

Q1 2024

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Municipal Bond Market Overview

At the end of December 2023, the Bloomberg 10-year AAA municipal yield was 2.28%. On that date, the relationship between the U.S. Treasury and AAA municipal curve for one-year was 55.80%, for 10 years 59.10%, and for 30 years was 85.80%. Over the course of the calendar quarter ending 3/31/24, the 10-year AAA municipal yield rose from 2.28% to 2.51%. The one-year U.S. Treasury/AAA municipal ratio increased from 55.80% to 64.50%, while the 10-year relationship moved up slightly from 59.10% to 59.80%, and the 30-year decreased from 85.80% to 84.80%. In general, from a historical perspective, and taking into consideration the "ladle" shape of the municipal yield curve, shorter bond maturities are currently considered to be expensive by the market, while the 30-year U.S. Treasury/AAA municipal relationship of 84.80% is closer to the five-year average of approximately 92%.

This municipal yield curve ladle shape expanded in the past quarter. Increased selling in one-year maturities, a common occurrence during first quarter tax season as investors raise cash for potential tax bills, led to a sharp rise in rates on the front-end of the municipal yield curve. Continued inflation worries led to greater selling in long maturities, which underperformed the intermediate portion of the curve. This "barbell" selling activity moved one-year and 17-year yields above 3% at the end of the first quarter, while yields on most intermediate maturities in-between 2 and 16 years remained below 3%.

Coinciding with the rise in market yields, municipal issuance increased nationally. Issuers seemed confident coming to market, as demand for municipal bonds continued to be strong. In the first three months of 2024, national issuance totaled $95 billion—a robust 19.5% year-over-year increase according to Bloomberg. Issuance in 2023 ultimately totaled $391.3 billion, a modest 1.1% increase from the $387.1 billion issued in 2022. Issuers have started to refund Build America Bonds ("BABs") through extraordinary redemption provisions, even in the face of investor challenges. Issuance is projected to eclipse $400 billion in 2024.

Despite the Federal Reserve's interest rate increases in 2022 and 2023, the labor market continues to charge forward. Although the labor market rebalanced last year, March payroll data from the Bureau of Labor Statistics indicate U.S. payrolls rose by the most in nearly a year, with employers adding 303,000 workers to their payrolls. Furthermore, the labor force participation rate rose from 62.5% to 62.7%, while the unemployment rate dropped from 3.9% to 3.8%. The March payroll report strengthens the argument being made that interest rates may remain higher for longer. Although the Federal Reserve previously indicated its plan to cut interest rates later this year, there doesn't appear to be a real hurry given recent economic strength. Furthermore, strong economic data in terms of consumer spending and real GDP growth raise the possibility of inflation rebounding in the quarters ahead.

Oregon Municipal Bond Market and Economy

With personal and corporate tax collections are tracking closely to the State's expectations, Oregon's revenue outlook appears to have stabilized. State economists disclosed in their March 2024 Economic and Revenue Forecast that the State has accumulated larger reserve fund balances than it has been able to accumulate in past cycles, which should help stabilize the budget should a recession occur. The Oregon Rainy Day Fund, and the Education Stability Fund, currently total a combined $2.1 billion. At the end of the 2023-25 biennium, the two reserves are projected to total $2.9 billion, which is equal to 11.2% of current revenues. Including the currently projected $1.7 billion ending balance in the State's general fund, the total effective reserves at the end of the current 2023-25 biennium are projected to be 17.6% of the State's current revenues.

Although the labor market remains healthy, it has eased from the overheating witnessed during the pandemic. For the past two years, Oregon's unemployment rate has remained in a historically low range, between 3.4% and 4.2%. The State's unemployment rate increased to 4.2% in February, from 4.1% in January. For comparison, the U.S. unemployment rate was lower, at 3.9% in February, and 3.7% in January. As of February 2024, the State reported seasonally adjusted nonfarm payroll employment rose by 4,400 jobs. Oregon's private sector cut 11,300 jobs, or -0.7%, over the most recent 12-month period. Job losses were greatest in the following sectors: Information, Professional and Business Services, Manufacturing, and Retail Trade—each down by between 3,400 and 9,300 jobs.

Rising mortgage rates, due to the Federal Reserve's continued moves to curb inflation, have made home financing more expensive. The purpose of the rate increases is to cool prices off, and Oregon markets are responding with declining home sale prices and less activity. The Willamette Valley Multiple Listings Service ("WVMLS"), which covers Benton, Linn, Marion and Polk counties, reported that the number of closed sales declined 14.9% for the 12-month period ended 3/31/24 versus 2023. However, the median sales price reported by the WVMLS increased for March 2024 was $431,000, a 1.8% increase from February 2023. According to data reported by Standard & Poor's for the S&P CoreLogic Case-Shiller Index, national home prices increased 6.0% year-over-year in January, the fastest annual rate since 2022. San Diego (+11.2%) and Los Angeles (+8.6%) showed the largest gains, while Portland (+0.9%) lagged behind.

Higher interest rates have also impacted municipal bond issuance. The pace of Oregon issuance has slowed significantly over the first three months of 2024, with only six news deals, compared to 10 new deals during the first quarter of 2023. Issuance of tax-exempt non-AMT municipal bonds for the first quarter of 2024 was 93% below the first quarter of 2023 issuance. As a result, it has become increasingly more challenging to source new Oregon bonds. Over the past quarter, new issues have included general obligation bonds from the City of Molalla, City of Hermiston, City of Portland and St. Paul School District. The City of Beaverton also sold water revenue bonds. However, there were no refunding issues.

Historically, the November election has been an important source of municipal bond issuance in Oregon and an indication of the level of issuance for the following year. At Oregon's November 2023 Special Election, Oregon residents only approved two issues with a combined par amount of $19 million across the State. These results are very anemic compared to previous elections. Last November, Oregon voters approved a more typical $1.45 billion in new bond measures. However, the upcoming Primary Election on 5/21/24 has $1.23 billion in new money measures from school districts, cities and special districts throughout Oregon. There are 22 local governments on the May ballot requesting from $2.5 million to $380 million. The largest measure is from Metro for Improvements to the Oregon Zoo. Depending upon election results, Oregon issuance could be dramatically different for the second half of 2024.

Fund Strategy and Outlook

Given the current shape of the yield curve and current market volatility, we remain cautious in our selection of municipal bonds. Our portfolio positioning of shorter duration, higher credit quality and higher average coupons has been relatively advantageous during current dynamic market conditions with volatile daily changes. Furthermore, in recent months, proceeds have been reinvested primarily in the 15-year maturity range to take advantage of the steeper slope and greater percentage of Treasury yields in that portion of the municipal yield curve.

Credit research remains the cornerstone of our strategy, with vigilant monitoring of both issuers and sectors. Under our overall defensive portfolio strategy, credit quality remains high, with approximately 91% of the portfolio rated AA or higher (as of 3/31/24). Although we have observed wider spreads for certain credits, we are only selectively taking risk where we find risk rewarded. Furthermore, we have expanded our effort to evaluate currently under-represented sectors, and bonds with attractive structures or relative spreads. We believe these under-represented sectors present an opportunity to increase exposure to holdings with yields commensurate to, or exceeding, potential volatility. We see these as an opportunity to capture incremental yield while helping to diversifying associated risk.

For specific information about fund characteristics, holdings and performance, please see the Fund Fact Sheet on our website at www.aquilafunds.com.

Fund Facts as of 3/31/2024

LEAD PORTFOLIO MANAGER	INCEPTION DATE	TOTAL INVESTMENTS	NUMBER OF HOLDINGS
TIMOTHY ILTZ	6/16/1986	$404.7M	206

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Information regarding holdings is subject to change and is not necessarily representative of the entire portfolio. A complete list of the Fund's current holdings, including percentage allocation, is available on our website and by contacting Aquila Group of Funds.

Independent rating services (such as S&P Global Ratings, Moody's Investors Service and Fitch Ratings) assign ratings, which generally range from AAA (highest) to D (lowest), to indicate the credit worthiness of the underlying bonds in the portfolio. Where the independent rating services differ in the rating they assign to an issue, or do not provide a rating for an issue, the highest available rating is used in calculating allocations by rating. Municipal/Treasury Ratio compares the rates of municipal bonds with those of U.S. Treasury bonds in percentage terms.

Municipal-to-Treasury Ratio compares the rates of municipal bonds with those of U.S. Treasury bonds in percentage terms.

A credit spread or a yield spread is the difference between the quoted rates of return on two different investments, usually of different credit qualities but similar maturities.

Modified and effective duration both measure the value of a security in response to a change in interest rates. Effective duration also takes into account the effect of embedded options.

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Before investing in the Fund, carefully read about and consider the investment objectives, risks, charges, expenses and other information found in the Fund's prospectus. The prospectus is available from your financial professional, and when you call 800-437-1020 or visit www.aquilafunds.com.